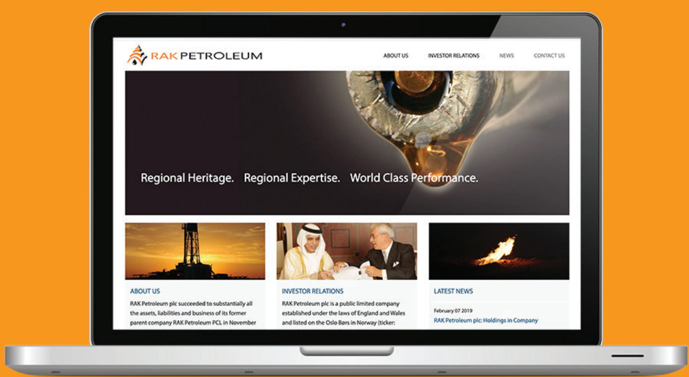
Annual Report and Accounts
RAK Petroleum plc

31 December 2018

RAK PETROLEUM



For further information on RAK Petroleum plc
please visit our website at www.rakpetroleum.uk

Contents

Chairman's Letter

Dear Shareholders:

On behalf of the Board of Directors of RAK Petroleum plc ("RAK Petroleum" or the "Company"), I am pleased to present the Annual Report of the Company's business activities together with the Consolidated and Parent Financial Statements for the year ended 31 December 2018 and the Auditors' report thereon.

The Company currently holds interests in two oil and gas companies (the "Investment Entities"): DNO ASA ("DNO") and Foxtrot International LDC ("Foxtrot International"). At 31 December 2018, the Company indirectly owned 40.45 percent of the total outstanding shares of DNO (including treasury shares) and indirectly owned 33.33 percent of Foxtrot International.

DNO

DNO's year was transformative -- in April 2018 it acquired 28.23 percent of the share capital of Faroe Petroleum plc ("Faroe"), a company focussed on exploration and development on the Norwegian Continental Shelf ("NCS") and listed on the London Stock Exchange's Alternative Investment Market ("AIM"). In December 2018, DNO offered to acquire the entire outstanding share capital of Faroe which culminated in successfully acquiring the company in early 2019. Faroe has now been de-listed and the companies are working towards combining their operations. Following this successful acquisition, DNO now holds 90 licenses on the NCS making it the fifth largest holder of NCS licenses, with plans to participate in the drilling of up to ten exploration wells in 2019. Production from Faroe's producing licenses totalled 14,349 barrels of oil per day ("bopd") in 2017 and is expected to increase with near-term field developments, providing DNO with a second significant revenue stream. DNO's cash resources at year-end 2018 were sufficient to fund the entire USD 780 million acquisition of Faroe.

In the Kurdistan region of Iraq ("Kurdistan"), home to DNO's largest operations, DNO's licenses continued to provide strong operational cash flow of USD 472.0 million during 2018. Revenue was a record USD 829.3 million with net operating profit of USD 376.8 million. Total comprehensive income, net of tax, was USD 367.7 million for the year.

DNO drilled nine wells across the Peshkabir and Tawke fields (both in the Tawke license in Kurdistan) in 2018 which enabled DNO to maintain its position as the largest independent foreign producer operating in Kurdistan with gross operated production of 113,041 bopd from its Kurdistan licenses in 2018. DNO plans to drill a further 20 wells in Kurdistan in 2019 to stabilise production and add reserves through exploration, including a deep Tawke well and two exploration wells on the Baeshiqa license.

The combined assets of the DNO and Faroe licenses now place DNO among the top three European-listed independent oil and gas companies in terms of reserves and production.

I am excited to enter a phase of dividend receipts from DNO after several years of building the business to the strong financial and operational position it holds today. Thus far, the Company has received two dividend payments from DNO, the first in September 2018 of USD 10.5 million and the second in March 2019 of USD 10.2 million. DNO has declared that it intends to continue payment of the dividend amount of NOK 0.4 per share per year in two tranches subject to DNO shareholder approval at its annual general meetings.

Foxtrot International

Foxtrot International continued to supply almost three-quarters of Côte d'Ivoire's total gas production from its offshore CI-27 license. With net cash flow from Foxtrot International of USD 20.0 million during the year, the Company's cash position was further boosted in 2018. Since acquisition, the Company has received a cumulative net cash flow of USD 48.6 million from Foxtrot International, mostly in the past two years following a period of intensive investment to install a new platform and drill additional wells. Cash flow from Foxtrot International is expected to be positive going forward with any future capital investments funded by operating revenue.

RAK Petroleum

Cash flow from Foxtrot International and the dividend receipt from DNO enabled the Company to return capital to our shareholders by launching an offer to buy back USD 15 million of the Company's Class A Shares in January 2019. A total of 8,450,000 Class A Shares were purchased at a price of NOK 15 per share. Further share buybacks may be launched in 2019 depending on the cash position of the Company and prevailing market conditions.

The Company retains a small team of experienced operational, legal, commercial and financial professionals responsible for managing investments, screening new ventures, compliance with regulatory and listing requirements and shareholder relations. In addition, the Company supports DNO and Foxtrot International through board positions and services agreements. I am privileged to serve as the Chairman of both Investment Entities while Shelley Watson, the Company's Chief Operating Officer and Chief Financial Officer, serves as a member of the DNO Board of Directors and its Audit Committee.

In the third quarter of 2018, Ambassador Zalmay Khalilzad resigned his position as a member of the Company's Board of Directors as a result of his appointment as the Special Representative of the United States of America for Afghanistan Reconciliation. On behalf of the Board of Directors, I thank him for his dedicated service and insightful counsel to the Company over the past seven years and wish him success in his new position.

Additionally, the Company has expanded its executive management team with the appointment of Lisa McPhillips as Chief of Staff and Deputy General Counsel. Ms. McPhillips previously worked for DNO as Senior Legal Counsel and as Deputy General Manager of DNO's Yemen subsidiary, giving her a thorough understanding of DNO's business. Ms. McPhillips will be involved across all activities of the Company.

On behalf of the Board of Directors, I gratefully acknowledge executive management's and staff's diligence and commitment to the Company.

Finally, the members of the Board of Directors are grateful to our fellow RAK Petroleum shareholders for your continued support and confidence and invite you to visit our website (www.rakpetroleum.uk) for updates on our activities.

BIJAN MOSSAVAR-RAHMANI

Bijan Mossavar-Rahmani
Executive Chairman of the Board of Directors

14 April 2019

I. Strategic Report

The Company

RAK Petroleum plc ("RAK Petroleum" or the "Company") is a public limited company by shares incorporated on 17 June 2013 under the laws of England and Wales and pursuant to the Companies Act 2006 ("UK Companies Act") with company number 08572925 and registered office at Elder House, St Georges Business Park, Brooklands Road, Weybridge, Surrey KT 13 OTS, United Kingdom. On 7 November 2014, the Company's Class A Shares were listed on the Oslo Børs.

The Company acts as a holding company and currently holds interests in two oil and gas companies (the "Investment Entities"): DNO ASA ("DNO") and Foxtrot International LDC ("Foxtrot International"). At 31 December 2018, the Company indirectly owned 40.45 percent of the total outstanding shares of DNO (including treasury shares) and indirectly owned 33.33 percent of Foxtrot International.

The Company's interests in the Investment Entities are held through RAK Petroleum Holdings B.V. ("RAKP BV"), an entity established under the laws of the Netherlands. RAKP BV holds the Company's 40.45 percent interest in DNO as well as its 100 percent interest in Mondoil Enterprises, LLC ("Mondoil Enterprises"). Mondoil Enterprises owns 50 percent of Mondoil Côte d'Ivoire LLC ("Mondoil Côte d'Ivoire"), which, in turn, owns 66.66 percent of Foxtrot International, resulting in the Company's indirect 33.33 percent interest in Foxtrot International.

The Company's indirect net percentage ownership of DNO, adjusted for DNO's treasury share ownership of 35 million own shares, remained at 41.80 percent throughout 2018.

Our Company's Strategy, Objectives and Business Model

The Company's fundamental objective is to generate significant total shareholder returns from investments in the oil and gas industry, with a focus on the Middle East, West Africa and North Sea regions.

The Company seeks to pursue this objective by:

- Improving liquidity and realisable value in the Company's equity shares;
- Continuing to help enhance the operating and financial performance of its Investment Entities;
- Focusing on growth in the Middle East, West Africa and North Sea regions, both through its Investment Entities and by seeking to identify other attractive acquisition opportunities in oil and gas exploration and production when perceived geopolitical and other risks are manageable; and
- Continuing to enhance relationships with governments and other stakeholders in support of its Investment Entities.

The Company can generate significant shareholder returns by growth in the market value of its shares, through dividends or through other distributions to shareholders.

Although influenced by many factors, the market value of the Company's shares can grow principally through growth in the net asset values ("NAV Growth") of the Investment Entities or through a lower discount of those net asset values ("NAV Discount") to the market value of the Company's shares. One strategy of the Company is to seek to reduce that NAV Discount over time, or even reverse it, so that the Company's shareholders can realise the underlying market values of the Company's investments.

The Company's indirect shareholding in DNO is its largest asset by far and has the greatest impact upon the overall value of the Company. DNO paid a dividend to its shareholders in September 2018 and March 2019. Although DNO has announced its intention to continue this dividend there is no assurance that it can or will continue to do so on a regular basis.

Distributions from Foxtrot International have provided the Company with regular cash flow for several years and these distributions may not only provide for all the Company's working capital needs, but may also be available for future investments, reduction of debt, share buybacks or for dividends or other cash distributions to the Company's shareholders.

Dividends or other cash distributions can be made available either through dividends to the Company from the Investment Entities or through an extraordinary transaction involving the Company and/or the Investment Entities.

Development and Performance of the Business During the Year and its Position at Year-End

The Company's and the Group's key performance indicators are the financial performance indicators of its Investment Entities.

Until year-end 2017, the Group had accounted for its interest in DNO using the equity method of accounting and reported its results in prior years on that basis. Upon re-examination of the factors that influence that decision following discussion with a Review Group of the United Kingdom's ("UK") Financial Reporting Council ("FRC") during 2017, the Group determined to account for DNO on a consolidated basis for the year ended 31 December 2017 and has continued to do so for the year ended 31 December 2018. Further detail regarding this judgement can be found in the Notes to the Consolidated and Parent Financial Statements. The share of profit attributable to the Company's shareholders is not materially affected by this change in accounting treatment; however, the presentation and statement of financial position of the Group is affected. Throughout this Annual Report, references to the Group now include DNO on a gross consolidated basis.

The Company and its wholly-owned subsidiaries have no direct production or expenditure in oil and gas assets. All production and expenditure in oil and gas assets is carried out through the Investment Entities, DNO and Foxtrot International, which are discussed separately below. Due to the nuances of the financial reporting rules which require DNO but not Foxtrot International to be included in the Group non-financial performance figures, it is more meaningful to discuss the business for the year ended 31 December 2018 of the Company and each Investment Entity separately.

As a consequence of the results of its Investment Entities, the Group recorded a consolidated net comprehensive income of USD 166.4 million for the year 2018 (net comprehensive income of USD 54.6 million in 2017). At 31 December 2018, total cash and cash equivalents of the Company stood at USD 2.8 million and including its wholly-owned subsidiaries stood at USD 38.9 million. The Company's bank debt was USD 22.5 million (USD 30.6 million at 31 December 2017), drawn from a lending arrangement with a leading bank in the United Arab Emirates.

At 31 December 2018, the Company's stake in DNO had a market value of USD 633.2 million based on DNO's quoted share price and year-end exchange rate and represented approximately 87 percent of the net asset value of the Company, using DNO's quoted share price and the book value of Mondoil Enterprises.

Net equity at 31 December 2018 stood at USD 835.5 million compared with USD 669.1 million at 31 December 2017.

DNO

DNO is a Norwegian exploration and production company listed on the Oslo Børs (Oslo Stock Exchange) and focused on the Middle East and North Sea regions. It has interests in oil and gas blocks in various stages of exploration, development and production, both onshore and offshore. DNO's growth comes through smart exploration, cost effective and fast track development, efficient operating techniques and strategic acquisitions.

Founded in 1971 and listed on the Oslo Børs since 1981, DNO is headquartered in Oslo, with offices in Stavanger, Dubai and Erbil with a total of 1,073 employees at year-end 2018. The Executive Chairman of the Board of Directors of the Company, Bijan Mossavar-Rahmani, is also the Executive Chairman of the DNO Board of Directors.

At 31 December 2018, DNO held interests in 28 licenses in five countries on two continents in the Middle East and North Sea regions and has one of the largest market capitalisations among oil and gas companies listed on the Oslo Børs. DNO's principal producing assets and reserves are in the Kurdistan region of Iraq ("Kurdistan"); the company also held oil and gas licenses in Norway, the United Kingdom, Oman and Yemen at year-end 2018.

DNO continues to develop a pipeline of new business opportunities with a focus on its core Middle East and North Sea regions. It is actively pursuing opportunities including exploration, development and production assets as well as corporate acquisitions.

DNO achieved average oil and gas output of 117,607 barrels of oil equivalent per day ("boepd") in 2018 (113,533 boepd in 2017) on a gross operated basis, maintaining its position as the largest oil producer among the international operators in Kurdistan.

Overall production in Kurdistan was held stable by additional appraisal and development drilling in the Peshkabir field and infill drilling in the Tawke field, both located in the Tawke license. Peshkabir production increased in the fourth quarter to more than 50,000 barrels of oil per day ("bopd") following the drilling of six additional Peshkabir wells during the year. Information obtained from these wells also resulted in an increase in the reported proven and probable reserves estimates for Peshkabir. Drilling of three wells in the Cretaceous and

Jeribe formations at the Tawke field during the fourth quarter of 2018 helped to reduce the natural decline in production levels in that field. DNO also began installation of facilities to use Peshkabir gas for enhanced oil recovery at Tawke. Gross production from the Tawke license averaged 113,041 bopd.

DNO also began an extensive three-well drilling campaign in the Baeshiqa license in Kurdistan in September 2018. DNO acts as operator of the Baeshiqa license with a 32 percent interest, along with ExxonMobil, the Turkish Energy Company and the Kurdistan Regional Government ("KRG"). The first well, Baeshiqa-1, targeting the Cretaceous reservoir, was drilled to 1,488 metres and well testing recently commenced. The Baeshiqa-2 well, targeting the deeper Jurassic and Triassic reservoirs on the same structure, spud in February 2019 and is drilling ahead. In the Erbil license, testing of the Hawler-1A well at the Benenan heavy oil field continues as DNO works to unlock the heavy oil potential of this license with estimates of oil-in-place of some two billion barrels.

At the Tawke field, year-end 2018 gross proven and probable ("2P") reserves and gross contingent resources ("2C") are estimated at 450.3 million barrels of oil equivalent ("MMboe"), down from 528.9 MMboe at year-end 2017 after adjusting for production during the year of 31.2 MMboe and technical revisions. The Tawke field's gross 2P reserves at year-end 2018 dropped to 375.8 MMboe from 437.5 MMboe at year-end 2017. The field's gross proven ("1P") oil reserves stood at 293.8 MMboe at year-end 2018, down from 335.3 MMboe at year-end 2017. Tawke field production since inception totalled 255 million barrels at year-end 2018.

Following drilling of development wells and analysis of production data from the Peshkabir field during 2018, gross 2P reserves are estimated at 126.1 MMboe, up from 75.1 MMboe at year-end 2017, with 2018 production of 10.1 million barrels and 11.3 million barrels of cumulative production since field startup less than 18 months earlier.

Looking ahead to 2019, DNO plans to increase Kurdistan operational spend to an estimated USD 420 million with plans to drill up to 15 wells at the Tawke field including a deep exporation well, four wells at the Peshkabir field and another Baeshiqa license exploration well.

In Yemen, political instability has meant the Block 47 license remains in force majeure with the development of the Yaalen field on hold.

In Oman Block 8, containing the producing offshore fields, Bukha and West Bukha, gross production during 2018 averaged 4,459 boepd.

DNO continued to progress the divestment of non-core assets in 2018 with the relinquishment or sale of a total of four licenses as part of an ongoing high-grading of the company's portfolio. DNO exited Somaliland with the relinquishment of license SL 18 (effective 6 July 2018) and exited Tunisia with the sale (effective 30 July 2018) of DNO Tunisia AS to Oslo Børs-listed Panoro Energy ASA ("Panoro"). Panoro has assumed all existing interests, rights and remaining work obligations at the Sfax Offshore Exploration Permit, Ras Al Besh Concession and Hammamet Offshore Exploration Permit with DNO taking a 5.65 percent shareholding in Panoro, accounted for by DNO as a financial investment. DNO has also exited one licence in the United Kingdom and Oman Block 8 since year-end 2018.

At year-end 2018 DNO's Norwegian subsidiary, DNO Norge AS ("DNO Norge"), held 21 exploration licenses in the Norwegian Continental Shelf ("NCS") and two in the United Kingdom Continental Shelf ("UKCS"). During 2018, DNO participated in the drilling of the PL825 prospect in the NCS with Faroe Petroleum plc ("Faroe"), as operator. However, the well encountered no hydrocarbons in the primary target and non-commercial volumes in the secondary target and has been plugged and abandoned. In January 2019, DNO was awarded 18 additional licenses in Norway's Awards in Predefined Areas ("APA") licensing round, five as operator. DNO plans to participate in at least five NCS wells in 2019.

In April 2018, DNO acquired 28.23 percent of the shares of Faroe, a North Sea focused company listed on the London Stock Exchange's Alternative Investment Market ("AIM"), accounted for by DNO in 2018 as a financial investment. Faroe holds interests in Norway, the United Kingdom, the Netherlands and Ireland with a mix of exploration, appraisal, development and production activities. In December 2018, DNO launched a public offer to acquire all of the outstanding shares of Faroe which culminated in the successful acquisition of over 99 percent of its shares, allowing for the compulsory acquisition of the remaining shares. Faroe has been de-listed from AIM and the companies are working towards a combination of their operations. The combined entities have 90 licenses on the NCS with average production from Faroe's producing licenses in 2017 of 14,349 bopd, which is expected to increase with anticipated field developments. Another five wells are planned to be drilled in the Faroe licenses in 2019.

At 31 December 2018, DNO's overall Company Working Interest ("CWI") 2P reserves were estimated at 371.6 MMboe, down from 384.1 MMboe at year-end 2017 after adjusting for production during the year and technical revisions. CWI 2C contingent resources were estimated at 76.8 MMboe, down from 98.9 MMboe at year-end 2017, following reclassification of certain contingent resources to reserves. The CWI 1P reserves were estimated at 239.7 MMboe, unchanged from 239.8 MMboe at year-end 2017. International petroleum consultants DeGolyer and MacNaughton carried out the annual independent assessment of the Tawke and Peshkabir fields in accordance with the Petroleum Resource Management System ("PMRS") framework approved by the Society of Petroleum Engineers ("SPE") using the classification criteria of the Norwegian Petroleum Directorate. DNO internally evaluated its remaining assets.

DNO's year-end 2018 Reserve Life Index (reserves divided by current period production rate) stood at 12.9 years on a 2P reserves basis and 18.5 years on a 3P reserves basis. DNO's 1P reserves replacement ratio (reserves added in the current period compared to production in the current period) has reached or exceeded 100 percent in eight of the past ten years.

On 31 May 2018, DNO completed the placement of USD 400 million of five-year senior unsecured bonds issued at 100 percent on par with a fixed coupon rate of 8.75 percent. In connection with the bond placement, DNO rolled over USD 200 million in nominal value of the DNO01 bond into the new bond. The rolled over bonds were cancelled and USD 200 million of outstanding DNO01 bond remains. The new bond is listed on the Oslo Børs under ticker DNO02. The principal amount at 31 December 2018 is USD 400 million and falls due on 31 May 2023.

DNO's financial results remained positive with continued regular payments for exports from Kurdistan. A change by DNO to accounting for Kurdistan revenue on an accrual basis rather than a cash basis resulted in increased revenues of USD 182.8 million with total revenues of USD 829.3 million for 2018 (USD 347.4 million in 2017). DNO reported a 2018 net operating profit of USD 376.8 million (operating profit of USD 521.2 million in 2017), reflecting revenues of USD 829.3 million as well as cost of goods sold of USD 350.6 million (USD 202.2 million in 2017), exploration costs expensed of USD 64.7 million (USD 33.0 million in 2017) and impairment charges of USD 1.9 million (USD 108.4 million in 2017). In 2017, operating profit included USD 556.0 million of other income past oil sales as a result of the settlement agreement signed with the KRG in August 2017 ("Kurdistan Receivables Settlement Agreement").

DNO's comprehensive net profit after accounting for financial income, expenses and taxes was USD 367.7 million (USD 498.0 million in 2017). DNO's 2018 capital expenditures amounted to USD 138.0 million, up from USD 130.4 million in 2017. The majority of expenditures covered drilling activities in Kurdistan. DNO ended the year with USD 729.1 million in cash and an additional USD 281.0 million in treasury shares and marketable securities. This was up from USD 430.2 million in cash and USD 58.0 million in treasury shares and marketable securities at year-end 2017.

At its interim results presentation on 16 August 2018, DNO announced its intention to pay an annual dividend of NOK 0.4 per share – a total distribution of approximately USD 50 million per year – in two tranches, which was approved by its shareholders at an extraordinary general meeting held on 13 September 2018. Based on this approval, the Company's shareholding in DNO is expected to receive a dividend totalling approximately USD 20 million at current exchange rates. Payment of the first tranche of USD 10.5 million was made on 24 September 2018 and payment of the second tranche of USD 10.2 million was made on 27 March 2019.

DNO's closing share price on the Oslo Børs was NOK 9.50 on 29 December 2017 and NOK 12.55 on 31 December 2018; the shares traded in a range between NOK 8.70 and NOK 19.85 during 2018.

Further details concerning DNO's financial results, operations and reserves may be found in DNO's 2018 Annual Report and Accounts and its 2018 Annual Statement of Reserves and Resources, prepared in accordance with Oslo Børs listing and disclosure requirements (Circular No. 1/2013) utilising the Norwegian Petroleum Directorate classification system. Both reports are available on DNO's website, www.dno.no.

Foxtrot International

Foxtrot International is a privately-held exploration and production company active in West Africa and headquartered in Abidjan, with approximately 150 employees. The Company's Executive Chairman, Bijan Mossavar-Rahmani, is the Chairman of the Board and co-founder of Foxtrot International.

Foxtrot International holds a 27.27 percent stake in and operates Block CI-27 offshore Côte d'Ivoire, containing the country's largest reserves of gas in four producing gas fields with associated oil and condensates. In addition to the Foxtrot gas field, which began production in 1999, the block contains the Mahi gas field, developed in 2012, as well as the Marlin oil and gas field and the Manta gas field which began production in 2016, following a four-year, USD 1 billion development campaign covering the installation of a second offshore platform and drilling of additional wells. Gas produced by Block CI-27 is transported via pipeline to fuel power stations in Abidjan pursuant to a gas sale and purchase (take-or-pay) agreement put into force in June 1999 and subsequently amended and extended to 2024. The new platform has doubled Block CI-27's hydrocarbons treatment capacity and increased the supply and reliability of gas deliveries.

In 2018, Foxtrot International produced a gross average of 126 million standard cubic feet per day ("mmscfd") (down 10 percent from a year earlier due to the increased use of hydroelectric power) together with another 1,856 barrels per day of oil and condensates.

Foxtrot International's business is much less affected by the volatility in world oil prices than is DNO's, as the predominant portion of the former's revenues derives from gas sales under a long-term contract at agreed prices with an indexation formula that is only indirectly and partially tied to world oil prices.

In 2016, Foxtrot International signed an agreement with buyers to fix the gas price at USD 6.0 per million British thermal units for two years. The gas price has now reverted to the indexation formula and the take-or-pay volume to 140 mmscfd. Foxtrot International's sales of oil and condensates take place at arm's length market prices and move up or down with changes in international prices for these products.

Foxtrot International's 2018 net profit prior to accounting for depletion was USD 39.1 million (net profit of USD 20.7 million in 2017) or USD 13.1 million to the Company's interest. After accounting for the Company's share of depletion, the Company's profit from Foxtrot International in 2018 was USD 11.2 million (USD 5.9 million in 2017). In 2018 the Company received USD 22.0 million in cash distributions from Foxtrot International (USD 28.7 million in 2017), USD 2.0 million of which were reinvested. An impairment reversal of USD 8.7 million was taken after comparing the Company's carrying amount to the value-in-use. Combined with the 2018 net dividend movement, impairment reversal and other adjustments for depletion, the book value of the Company's investment in Foxtrot International stood at USD 94.2 million at 31 December 2018 (USD 94.2 million at 31 December 2017).

During 2018, Foxtrot International signed agreements for a 24 percent stake in and operatorship of two exploration blocks offshore Côte d'Ivoire, Block CI-502 and Block CI-12.

Principal Risks and Uncertainties Facing the Company

The Company's Investment Entities face the risks and uncertainties associated with oil and gas operations in very challenging parts of the world. This section seeks to highlight those risks that are most material and most likely to impact the Company in the next reporting period until 31 December 2019. While successful navigation of these risks provides the opportunity for substantial returns, there can be no assurance that these risks will be successfully mitigated.

Risk Management

As the principal foreseeable risks to the Company's Investment Entities are external forces, there is little that Company management or management of the Investment Entities can do to avert those risks directly or fully. However, risk management is integral to all of the activities of the Investment Entities and the Company. Each member of executive management of the Company and the Investment Entities is responsible for continuously monitoring and managing risk within the relevant business areas. Every material decision is preceded by an evaluation of applicable business risks.

Political Risk

Several of the licenses and operations of the Investment Entities are in areas subject to war, terrorism and/or civil strife.

DNO has interests in three licenses in Kurdistan through Production Sharing Contracts ("PSCs") and has based its entitlement calculations on the terms of these PSCs. Although DNO has good title to its licenses, including the right to explore for and produce oil and gas from these licenses, the Federal Government of Iraq (the "FGI") has in the past challenged the validity of certain PSCs signed by the KRG.

As a result of continuing disagreements between the FGI and the KRG, economic conditions in Kurdistan and limited available export channels, DNO has at times faced constraints in fully monetising its oil produced in Kurdistan. There is no guarantee that oil and gas can be exported in sufficient quantities or at prices required to sustain its operations and investment plans, or that DNO will promptly receive its full entitlement payments for the oil and gas it delivers for export. In the past, export sales have not followed the PSC terms and there has historically been uncertainty related to both timing of revenue and receipt of payments. However, DNO has received regular export monthly payments from the KRG since late 2015 and revenues from Tawke license production are now in line with the terms of the PSC.

The threat of the so-called Islamic State to Kurdistan has diminished significantly since its peak in mid-2014. DNO's operations continued without interruption, although enhanced security arrangements remain in place as a precautionary measure.

In Yemen, continuing hostilities make it unlikely that DNO will soon revive the operations it conducted there.

Although there has been civil unrest from time to time in Côte d'Ivoire, there has never been a meaningful disruption of Foxtrot International's operations.

Liquidity Risk

If Foxtrot International's production is disrupted, or the Company is faced with unanticipated cash calls resulting from any cost overruns or the Company's receipt of cash distributions from Foxtrot International is otherwise delayed for an extended period of time, there would be a significant adverse effect on the Company and its operations. Nevertheless, the Company believes it has resources and alternatives sufficient to ameliorate any such disruptions in the short term.

Foxtrot International is a joint venturer in Block CI-27 with SECI SA, PETROCI and Energie de Côte d'Ivoire ("ENERCI"), jointly owned by the three other co-venturers. If a partner's payment of a cash call from the joint venture is delayed or defaulted, the non-defaulting partners may under certain circumstances be called upon to cover the deficit in the cash call in proportion to their interests, with rights to recover the shortfall from the joint venture interest of the defaulter. In one instance in the first quarter of 2016, one partner's cash call payment was delayed for 41 days. During 2017, one partner of license CI-502 failed to pay its share of a cash call. Legal processes to recover these latter funds are being pursued.

Similarly, although there are in place certain limited payment guarantees from the Government of Côte d'Ivoire for gas purchases by the electricity sector, if any buyer fails to pay for its gas, oil or condensate purchases from Foxtrot International for extended periods of time, the payment delay or default may have a material adverse impact on Foxtrot International and the Company's cash flow. During 2016, 2017 and 2018, payments for gas purchases by the electricity sector were delayed from time to time, due in part to the buyers' difficulty in obtaining US Dollars. Foxtrot International has agreed to accept payments from one buyer of oil and condensate (approximately 10 percent of total revenue) in local currency, to be used to cover local currency expenditures, in the event US Dollars cannot be obtained.

As discussed above under Political Risk, DNO's ability to sell its Kurdistan oil production and receive prompt payment could substantially affect the performance of DNO, including its liquidity.

Operational Risk

The Company's Investment Entities, DNO and Foxtrot International, are exposed to operational risks across their portfolios. Operational risk applies to all stages of upstream operations, including exploration, development and production. Failure to manage operations efficiently can manifest itself in project delays, cost overruns, higher-than-estimated operating costs and lower-than-expected oil and gas production and/or reserves. Exploration activities are capital intensive and involve a high degree of geological risk. Sustained exploration failure can affect the future growth and upside potential of the Investment Entities and ultimately the Company. Inefficiency or interruption to the supply chain or the unwillingness of service contractors to engage in the Investment Entities' areas of operation may also negatively affect the Investment Entities' operations, and consequently the results of the Company.

Commodity Price Risk

World oil markets have been characterised by substantial volatility over extended periods of time. After a precipitous decline in the second half of 2014, world oil prices climbed more than 35 percent from mid-January to mid-May 2015, but then began a downward spiral through mid-February 2016, with prices reaching levels 75 percent below June 2014 prices. Following a rise in prices of over 100 percent back to mid-2015 levels by mid-2016, prices stabilised somewhat in the latter half of 2016 and traded throughout the remainder of 2016 to mid-2017 within a relatively narrow band. From mid-2017 to third quarter 2018, oil prices rose steadily increasing 60 percent before a rapid decline also of 60 percent in the last three months of 2018.

The Company cannot predict whether or when a further recovery or decline in oil prices will take place.

A further substantial decline in world oil prices would likely have a substantial adverse impact on the financial results of DNO and on its asset values, as it did in 2014 and 2015. In 2014 the market price of DNO shares on the Oslo Børs declined 54 percent and then declined a further 62 percent in 2015. A significant part of that decline was due to the fall in world oil prices that impacted the share prices and operations of oil companies across the sector.

Conversely, higher oil prices will have a positive impact on DNO. In 2016 an increase in world oil prices saw DNO's share price increase 40 percent.

Foxtrot International's business was much less affected by the volatility in world oil prices than was DNO's, as the predominant portion of the former's revenues derives from gas sales under a long-term contract at agreed prices with an indexation formula that is only indirectly and partially tied to world oil prices.

Compliance Risk – Anti-Corruption Policy

The Company and its Investment Entities and other subsidiaries have a policy of zero tolerance for corruption, bribery and other illegal or inappropriate business conduct. Violations of compliance laws and contractual obligations can result in fines and a deterioration in the Company's and its Investment Entities' ability to effectively execute their business plans. The Company and its Investment Entities and other subsidiaries adhere to a strict and comprehensive conflict of interest policy, trade sanctions and other policies focused around a Code of Conduct to ensure regulatory and Company expectations are met. The Company specifically does not permit or tolerate engaging in any form of corruption or bribery and on 24 September 2014 adopted an Anti-Corruption Policy and an Anti-Corruption Manual that explains and elaborates the content and implications of the Company's policies in relation to anti-corruption and anti-bribery matters.

Stakeholder Risk

In order to operate effectively, it is necessary for the Company, its Investment Entities and other subsidiaries to maintain productive and proactive relationships with stakeholders, host governments, business partners and the communities in which they operate. Failure to do so can result in difficulties in progressing initiatives as well as delays to ongoing operations.

Risks from Transition to a Lower Carbon Economy/Climate Change

Global concern over greenhouse gas ("GHG") emissions and climate change, transition to a lower carbon economy, the potential physical effects of climate change, potential new laws and regulations related thereto, and potentially growing concerns of stakeholders may adversely affect the business and financial condition of the Company and its Investment Entities.

The transition to a low-carbon energy future poses fundamental strategic challenges for the oil and gas industry with political, regulatory, market and physical risks as well as potential reputational impact.

Regulatory and climate policy risk: Regulatory changes and policy measures targeted at reducing greenhouse gas emission are likely. Stricter climate regulations and climate policies could impact the Group's financial outlook, whether directly through changes in taxation and regulation, or indirectly through changes in consumer behavior both of which could adversely affect the Group's businesses and financial condition, including its operating income and cash flow. In particular, any regulations designed to gradually limit fossil fuel use may, depending on the

GHG emission limits and time horizons set, negatively and significantly affect the economic value of certain of the Group's assets.

Market-related risk: There is continuing uncertainty over long term demand for oil and gas due to factors such as technology development, climate policies, changing consumer behaviour and demographic changes. Technology development to use non-fossil-based fuels and increase energy efficiencies and the increased cost-competitiveness of renewable energy and low-carbon technologies present potential risks to the value of oil reserves and growth opportunities for the Company and its Investment Entities, particularly DNO. As such, there is significant uncertainty regarding the long-term implications to the Group arising from the transition to a lower-carbon economy.

Reputational impact: Increased concern over climate change could lead to increased litigation against fossil fuel producers, as well as a more negative perception of the oil and gas industry. The latter could impact talent attraction and retention.

Physical climate risk factors: Changes in climate could impact the operations of the Investment Entities, rising sea level, changes in sea currents and increasing frequency of extreme weather events. Although the Investment Entities' facilities are designed to withstand extreme weather events, there is significant uncertainty regarding the magnitude, impact and duration of any such events.

Impact of British Exit from the European Union ("Brexit")

Although the United Kingdom remains a member of the European Union ("EU"), the United Kingdom voted to leave the EU in a June 23, 2016 referendum ("Brexit"). The timing and terms of Brexit are uncertain as of the writing of this Annual Report.

While the Company cannot determine all the potential impacts of Brexit if, when and how it occurs, the Board of Directors will continue to assess the impact of any resulting changes and the extent to which these might affect the Group.

Although the Company is incorporated and has its registered office in the United Kingdom, its Class A Shares are listed only on the Oslo Børs. While both Norway and the United Kingdom are currently members of the European Economic Area ("EEA"):

(i) Norway is considered the Company's host state, cf Section 5-4 (5) of the Norwegian Securities Trading Act (the "STA"), while the United Kingdom is its home state. Consequently, the Company's notification and periodic information requirements are governed by the UK Disclosure Guidance and Transparency Rules ("DTRs"), rather than the STA; and

(ii) takeover offers for the Company's Class A Shares are subject to a shared jurisdiction regime, governed partly by the STA and partly by the UK City Code on Takeovers and Mergers (the "Takeover Code"), whereby issues relating to the offer procedure and consideration are regulated by the STA and issues relating to company law aspects of the offer are regulated by the Takeover Code.

DTR 5, covering disclosure obligations for large shareholdings, only applies to holders of listed securities. Because the Company also has unlisted classes of shares (i.e., Restricted Class A shares and their associated Class B shares), the Company's Articles of Association extend the provisions of DTR 5 relating to the disclosure of voting rights to both of these additional classes of shares in the Company, as well as those that convey the right to attend or vote at any general meeting (Art. 69.1).

In the event of a "no-deal" Brexit the United Kingdom would cease to be an EEA state. Consequently, the United Kingdom will no longer be the Company's home state and the basis for the shared jurisdiction regime in relation to takeover offers would cease to apply.

The fact that the United Kingdom would not be an EEA state following a "no-deal" Brexit would have the following consequences:

(i) Norway would become the Company's home state and the notification and periodic information requirements of the STA would replace the requirements of the DTRs, with the exception of DTR 5 which would continue to apply as long as it is incorporated in the Company's Articles of Association; and

(ii) the Takeover Code would cease to apply, and the STA would apply to its full extent in the event of takeover offers for the Company.

As a result, certain rights and obligations of the Company and its shareholders would change.

Consequences of Norway Becoming the Home State

Based on the Company's analysis of the applicable DTRs compared to the disclosure notification and periodic information requirements of the STA, the main changes for the shareholders would be:

- Primary insiders and their close associates are required to report all trades of shares to the Oslo Børs immediately and no later than market opening the day after the trade (in contrast to within three working days under United Kingdom rules); and
- The disclosure thresholds for large shareholdings are 5, 10, 15, 20, 25, 1/3, 50, 2/3 and 90 percent and the notification must be made to the Company and the Oslo Børs immediately (in contrast to within two trading days under United Kingdom rules).

In addition, because DTR 5 would no longer apply to the Company and its shareholders in the event of a "no-deal" Brexit other than through its application in Article 69.1 of the Company's Articles of Association, the Company will propose an amendment to Article 69.1 providing that DTR 5 shall not apply to any class of the Company's shares in the event that its application to Class A Shares is no longer applicable by reason of a Brexit or other change in law. However, based on an analysis by the Company and its counsel, the main difference between the Norwegian takeover rules compared to the UK Takeover Code is that the percentage of "control" required to trigger a mandatory bid would change from 30 percent to one-third, and is again triggered at 40 percent and 50 percent, rather than by any subsequent increases.

Consequences of the STA Applying in Full in the Event of Take-over Offers
Upon a "no-deal" Brexit, a number of regulations in chapter 6 of the STA that differ slightly from the Takeover Code would apply. However, based on an analysis by the Company and its counsel, the main difference between the Norwegian takeover rules compared to the UK Takeover Code is that the percentage of "control" required to trigger a mandatory bid would change from 30 percent to one-third, and is again triggered at 40 percent and 50 percent, rather than by any subsequent increases.

The Company intends to make a further reminder announcement to shareholders and other stakeholders regarding their disclosure obligations if and when the timetable and terms of Brexit become clear.

Environmental, Social, Community and Human Rights Issues and Risks

As the Company's business involves the management of its investments in the Investment Entities with a small staff and minimal footprint, the potential environmental, social and community policies and impacts of its own or any of its wholly-owned subsidiaries' business activities are not material and the Company is not aware of any material social, community or human rights impacts or issues regarding its business activities. Accordingly, a formal environmental, human rights, social and community policy at the Company level is immaterial and impractical and has therefore not been adopted.

Environmental/HSSE

Both of the Company's Investment Entities have robust environmental compliance policies. To the Company's knowledge, after enquiry, neither DNO nor Foxtrot International have been accused of material violations of any applicable environmental regulations or rules.

Oil and gas exploration and production inherently involves exposure to potentially hazardous materials. The loss of containment of hydrocarbons or other dangerous substances could represent material risks to the environment. Through operational controls, environmental impact assessments, asset integrity protocols and management systems related to health, safety and the environment, the Company's Investment Entities aim to mitigate hazards with a potentially adverse impact on people, the environment, assets and reputation.

DNO
DNO has in place its own robust Health, Safety, Security and Environment ("HSSE") policies and standards which are based on the following principles:

- Avoid harm to all personnel involved in, or affected by, operations;
- Prevent pollution and minimise the impact of operations on the environment;
- Comply with all applicable legal and regulatory requirements; and
- Achieve continuous improvement in HSSE performance.

During 2018, the following were DNO's key HSSE highlights:

- Three Serious Vehicle Accidents took place with over three million kilometres driven;
- Greenhouse gas emissions stood at 417,000 tonnes of CO_2 equivalent, up from 178,000 tonnes in 2017 due largely to the flaring of gas at the Peshkabir field which will be reduced in 2020 through a project to inject Peshkabir gas into the Tawke field for enhanced oil recovery;
- Spills/leaks increased to five in 2018 from two in 2017, with total volumes spilled of 35 barrels, up from six barrels;
- Security incidents stood at four, equal to 2017.

DNO's Total Recordable Injury Frequency ("TRIF") during 2018 was 1.04, up from 1.00 in 2017. A comprehensive improvement plan to further reduce the number of injuries and high potential incidents has been established.

Foxtrot International
Protection of the environment is a core concern for Foxtrot International. It has adopted an environmental risk control policy and every new project is the object of an environmental impact study and a specific analysis of technological risks. Foxtrot International focuses on eliminating the risks of accidental emissions through preventive maintenance and periodic controls. Foxtrot International's dedication to principled environmental management resulted in it receiving the ISO 14001 Certification in 2014 and being recognised for environmental excellence for the third consecutive year as the "Eco-Citizen Company 2018," awarded by the Ministry of Environment and Sustainable Development of Côte d'Ivoire.

Employee/Social/Human Rights

The Company has adopted a Human Trafficking Policy that prohibits engaging in human trafficking and seeks to ensure that its stakeholders adhere to that policy. It is not aware of any breaches of those policies or risks within its own organisation or its Investment Entities.

DNO and Foxtrot International have both implemented policies recognising their responsibility to their employees, communities and to human rights generally.

Foxtrot International recognises human capital is an invaluable asset for its business and has made the physical safety of staff and contractors a priority. It maintains an active policy for hygiene/health, safety and prevention of labor-related accidents for all of its activities. To this end, its activities are conducted in compliance with the following principles:

- All injuries and illnesses caused by work are avoidable;
- There are no circumstances or situations which may justify undue exposure to risk and hazardous situations;
- Each employee has a responsibility to himself or herself and vis-à-vis fellow employees regarding safety and prevention of work-related accidents.

Foxtrot International's occupational health and safety management system has been certified in accordance with the OHSAS-18001 version 2007, demonstrating the implementation of best practices and the prioritisation of employee health and safety.

Foxtrot International supports and contributes to the efforts of its local communities to improve living conditions, with particular focus on education. These range from building classrooms and equipping school canteens to drilling fresh water wells and installing storage towers.

DNO, too, has had a longstanding commitment to contributing to the development of local communities in which it operates. It creates jobs, hires and trains local staff and partners with local businesses that provide such services as inspections, maintenance support, civil engineering, transportation, remediation, catering, security, consumables, equipment and waste disposal. It works to ensure that its service providers are compliant with internationally recognised human rights protocols and in particular do not engage in child labor practices.

In Kurdistan, DNO uses its operational presence and capabilities to provide services to nearby communities and help develop infrastructure. DNO has supplied electric power and fresh water to villages, improved roads, distributed winter clothes to children of displaced families in refugee camps, built an intermediate school and provided classroom supplies for several primary schools across the region.

Anti-Bribery/Anti-Corruption

In addition to the Company's Anti-Bribery and Anti-Corruption Policy described above, both of the Investment Entities have adopted policies prohibiting bribery and corruption.

DNO has adopted its own code of conduct and anti-corruption policy of zero tolerance for bribery, corruption, fraud and other illegal business conduct. The policies set out standards and contain strict adherence guidelines with respect to anti-corruption and it provides training, monitoring and implementation to prevent anyone working for DNO, or acting on DNO's behalf, from engaging in any form of illegal, unethical or other disallowed corporate and personal conduct.

Foxtrot International has made ethical behaviour rooted in honesty, integrity and loyalty one of its core values in every aspect of its activities and expects the same criteria of probity from its business relationships.

Workforce Diversity

Although the Company has not adopted a formal diversity policy owing to the limited number of officers and employees appointed to or employed by the Company's administrative, management and supervisory bodies, as of the date of this Annual Report five of seven of the employees of the Company are female. All five members of the Board of Directors are male. Two of the four executive managers of the Company are female. The Company has four nationalities represented.

At year-end 2018, DNO had a workforce of 1,073 employees, of which 10 percent were women. One of the seven members in the senior management team of DNO is female. Two of the five members of the DNO Board of Directors are female. The DNO workforce is characterised by strong cultural, religious and national diversity, with approximately 40 nationalities and ten religious affiliations represented.

At year-end 2018, Foxtrot International had a workforce of 154 employees, of which 16 percent were women. Nationals from Côte d'Ivoire make up the majority of the workforce.

Important Events and Developments Since the End of the Financial Year

DNO's Acquisition of Faroe

DNO announced its final cash offer for the entire issued and to be issued share capital of Faroe at 160 pence in cash for each Faroe share on 8 January 2019 and published the final offer document on the same day. On 9 January 2019, Faroe announced the Faroe directors' recommendation of the final offer.

On 4 February 2019, DNO announced that it had settled valid acceptances of the final offer in respect of a total of 128,595,577 Faroe shares representing approximately 32.48 percent of the issued share capital of Faroe. Combined with shares already held as a result of earlier market purchases, DNO held 380,538,003 Faroe shares on that date, representing 96.11 percent of Faroe's issued share capital.

On 21 March 2019, DNO announced that it had completed the compulsory acquisition procedure for the remaining shares in Faroe that was announced on 4 February 2019. DNO now owns 100 percent of the entire issued share capital of Faroe (subject to stamping and registration).

The Company's Buyback of its Own Class A Shares/Changes in Share Capital

On 16 January 2019 as a result of shareholders' requests to release the restrictions on their Restricted Class A Shares, 9,180,000 Restricted Class A Shares were re-designated as Class A Shares and 9,180,000 Class B Shares representing 18,360,000 votes were transferred to the Company and cancelled.

Pursuant to authority granted by the Company's shareholders at the 2018 Annual General Meeting, on 21 January 2019 the Company offered to buy back up to USD 15 million in value of its Class A Shares (the "Buyback Offer"). The Buyback Offer expired on 31 January 2019 and as a result the Company purchased from Sparebank 1 Markets AS and cancelled 8,450,000 Class A Shares representing 8,540,000 votes. In addition, to maintain their voting levels in the Company to pre-buyback levels, Mr. Mossavar-Rahmani and DNO requested that the Company re-designate a total of 3,399,032 Restricted Class A Shares to Class A Shares. As a result, 3,399,032 Class B Shares, representing 6,798,064 votes, were transferred to the Company and cancelled.

Other

On 3 January 2019, DNO announced that its subsidiary DNO Oman Block 8 Limited has relinquished operatorship and participation in Oman Block 8 to Oman's Ministry of Oil and Gas ("MOG") due to the expiration of the 30-year commercial term of the Exploration and Production Sharing Agreement ("EPSA"). Effective 4 January 2019, Oman Block 8 has been operated by the Musandam Oil and Gas Company, wholly-owned by the state-owned Oman Oil Company Exploration and Production LLC (OOCEP). DNO held a 50 percent interest in the license alongside LG International Corp. which held the remaining 50 percent interest. Both parties relinquished their interest upon expiry of the EPSA.

On 15 January 2019, DNO announced that its wholly-owned subsidiary DNO Norge AS has been awarded participation in 18 exploration licenses, of which five are operatorships, under Norway's APA 2018 licensing round. Of the licenses, nine are in the North Sea, two in the Norwegian Sea and seven in the Barents Sea. Prior to the announcement, DNO held interests in 21 Norway licenses. Another eight licenses were awarded to Faroe Petroleum Norge AS, prior to which the latter held 44 Norwegian licenses.

DNO's bond loan (ISIN NO0010823347) has been listed on the Oslo Børs with ticker DNO02. The USD 400 million, five-year senior unsecured bond, which settled on 31 May 2018, matures on 31 May 2023.

On 6 February 2019, DNO announced that, pursuant to the authorisation granted at the Extraordinary General Meeting held on 13 September 2018, the DNO Board of Directors has approved a dividend payment of NOK 0.2 per share to be made on or about 27 March 2019 to all shareholders of record at 18 March 2019. DNO shares were traded ex-dividend as of 15 March 2019. The Company's wholly-owned subsidiary received a dividend with a value of USD 10.2 million on 29 March 2019.

In January 2019, DNO entered into a USD 200 million short-term bank credit facility to strengthen liquidity subsequent to the acquisition of Faroe.

DNO's share price at end March 2019 of NOK 19.15 was up 52.6 percent from year-end 2018.

Notwithstanding continuing uncertainties in international oil and gas markets, the Company believes it is well positioned to navigate these challenges and create shareholder value.

For and on behalf of the Board of Directors

BIJAN MOSSAVAR-RAHMANI

Bijan Mossavar-Rahmani
Executive Chairman of the Board of Directors

14 April 2019

II. Report of the Directors

Introduction

Capital Structure

RAK Petroleum plc ("RAK Petroleum" or the "Company") is incorporated in the United Kingdom and is subject to the laws of England and Wales, including the UK Companies Act 2006 (as amended from time to time).

Currently, the share capital of the Company consists of:

- 198,771,749 Class A Shares that are listed and freely traded on the Oslo Børs and that carry one vote per share on any matters put to the shareholders at a general meeting, each with a par value of GBP 0.01 ("Class A Shares" or "Shares");
- 120,592,956 Restricted Class A Shares whose trading is restricted but which otherwise have the same voting and economic rights as Class A Shares, each with a par value of GBP 0.01 ("Restricted Class A Shares");
- 120,592,956 Class B Shares, whose trading is restricted and which have no material economic rights but two votes per share on any matters put to the shareholders at a general meeting, each with a par value of GBP 0.0000001 ("Class B Shares");
- 50,000 redeemable shares, each with a par value of GBP 1.00 (these non-voting shares were issued in connection with the formalities of founding the Company and the Company plans to redeem them);
- 87,488,693 Class C Shares, each with a par value of GBP 0.0000001. Class C Shares have no voting rights and no material economic rights;
- Accordingly, there are 560,550,617 votes eligible to vote on matters put to the shareholders at a general meeting;
- All shares are issued and fully paid;
- The Company's Board of Directors currently has authority to allot an additional 32,781,400 Class A Shares and will seek renewal of that authority from the shareholders at the 2019 Annual General Meeting.

Changes to the Capital Structure During the Reporting Period

On 30 January 2018 as a result of a shareholder's request to release the restrictions on its Restricted Class A Shares, 2,700,000 Restricted Class A Shares were re-designated as Class A Shares and 2,700,000 Class B Shares, representing 5,400,000 votes, were transferred to the Company and cancelled. On 24 September 2018 as a result of a shareholder's request to release the restrictions on its Restricted Class A Shares, 1,800,000 Restricted Class A Shares were re-designated as Class A Shares and 1,800,000 Class B Shares, representing 3,600,000 votes, were transferred to the Company and cancelled. On 16 January 2019 as a result of shareholders' requests to release the restrictions on their Restricted Class A Shares, 9,180,000 Restricted Class A Shares were re-designated as Class A Shares and 9,180,000 Class B Shares representing 18,360,000 votes, were transferred to the Company and cancelled.

Pursuant to authority granted by the shareholders at the Annual General Meeting held on 2 June 2018, the Company initiated a Class A Share buyback offer (the "Buyback Offer") pursuant to which it purchased 8,450,000 of its Class A Shares on 4 February 2019 which have been cancelled. To maintain their voting levels in the Company to pre-buyback levels, Bijan Mossavar-Rahmani and DNO ASA ("DNO") requested that the Company re-designate a total of 3,399,032 Restricted Class A Shares to Class A Shares. As a result, 3,399,032 Class B Shares, representing 6,798,064 votes, were transferred to the Company and cancelled, which resulted in the capital structure set forth immediately above.

Major Interests in the Company's Shares and Voting Rights

Information provided to the Company pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules ("DTR"s) is published on the Company's website and with the Oslo Børs.

Each Class A Share and Restricted Class A Share carries one vote per share on any matters put to the shareholders at a general meeting and is entitled to participate on a distribution of income or capital pari passu with all other Class A Shares and Restricted Class A Shares. Each Class B Share carries two votes per share on any matters put to the shareholders at a general meeting but does not carry any rights on a distribution of income or capital (other than entitlement to par value on a return of capital or redemption).

All Class A Shares are freely transferable. Restricted Class A Shares can only be transferred to certain permitted transferees set forth in the Company's Articles of Association – essentially related parties or charities. Transfers of Restricted Class A Shares to non-permitted transferees give rise to loss of Class B Share voting rights. No Class B Share may be transferred unless a corresponding number of Restricted Class A Shares held by such holder are at the same time transferred to the same permitted transferee. Holders of Restricted Class A Shares may request that the Company release the trading restrictions, which will give rise to cancellation of the associated Class B Shares.

All shareholders shall be treated on an equal basis unless there is just cause for treating them differently.

At 10 April 2019, the following information has been received or was available from holders of notifiable interests in the Company's share capital:

Shareholder's name	*Class A Shares*	*Restricted Class A Shares*	*Class B Shares*	*Total votes*	*Percent of total votes*	*Type of interest*
Bijan Mossavar-Rahmani	10,394,621	65,437,439	65,437,439	206,706,938	36.88	Indirect
RAK Gas LLC	2,070,207	18,631,871	18,631,871	57,965,820	10.34	Direct
Al Majid Investment Co (LLC)	30,000,000	-	-	30,000,000	5.35	Direct
TransAsia Gas International LLC	1,000,000	9,000,000	9,000,000	28,000,000	5.00	Direct
Massar Investments LLC	750,000	6,750,000	6,750,000	21,000,000	3.75	Direct
Treasury Shares (held by DNO)	2,172,591	13,677,146	13,677,146	43,204,029	7.71	Direct
Total Shares Outstanding	**198,771,749**	**120,592,956**	**120,592,956**	**560,550,617**	**100.0**	

Corporate Governance

The Company's Class A Shares have been subject to certain DTR's since listing and trading of the Company's Class A Shares on the Oslo Børs on 7 November 2014, including (in relation to corporate governance):

- DTR 4 (Period Financial Reporting);
- DTR 6 (Continuing obligations and access to information); and
- DTR 7 (Corporate Governance).

Moreover, the Company seeks to comply with the applicable legal framework for companies listed on the Oslo Børs, and endorses the Code of Practice for Corporate Governance (Norwegian: "Norsk anbefaling for eierstyring og selskapsledelse") issued by the Norwegian Corporate Governance Board, most recently revised on 17 October 2018 (the "Code"). The Code is available at www.nues.no.

The Board of Directors of the Company on 24 September 2014 adopted a corporate governance policy (the "Corporate Governance Policy") that is based on the Code and reflects the Company's commitment to sound corporate governance practices. Other than any deviations mentioned below in the overview of the Corporate Governance Policy, the Company believes its policy complies with the Code.

1. Implementation and Reporting on Corporate Governance in the Company

The Board of Directors considers the way the Company is managed to be vital to the development of the Company's value over time. The Corporate Governance Policy is based on the Code and establishes a basis for good corporate governance to help ensure the greatest possible value creation over time in the best interest of the Company and its shareholders, employees and other stakeholders.

The Corporate Governance Policy contains measures that are, and will be, implemented to ensure effective management and control over the Company's activities based on the Code. It should therefore be noted that there may be other legal requirements that apply to matters described in the Corporate Governance Policy. The primary objective is to have systems for communication, monitoring and allocation of responsibility, as well as appropriate incentives, which contribute to increasing and maximising the Company's financial results, long-term success and returns to shareholders on their investments in the Company. The Company aims to have control and governance procedures that ensure equal treatment of all shareholders, thereby providing a foundation for trust.

The Board of Directors, on an ongoing basis, monitors the governance of the Company and will develop and improve the Corporate Governance Policy, as and when required. Other than any deviations mentioned below in the overview of the Corporate Governance Policy, the Company believes its policy complies with the Code.

2. Business

The fundamental objectives, strategies and risk profiles of the Group are stated in the accompanying Strategic Report. The Board of Directors reviews the objectives, strategies and risk profiles included in the Strategic Report each year and will modify them if that becomes appropriate.

Pursuant to common practice for companies incorporated in England and Wales, the Articles of Association of the Company do not include a recitation of the specific business of the Company and the Company will therefore continue to set them forth in its annual Strategic Report or Directors' Report.

3. Equity and Dividends

The Board of Directors and executive management of the Company act at all times to keep the Company's equity capital at a level that is suitable in light of the Company's objectives, strategy and risk profile.

The Company's long-term objectives include making distributions of net income in the form of dividends. The payment and level of any dividends will depend on several factors, including market outlook, cash flow, capital expenditure plans and funding requirements. These factors will be measured against the Company's need to maintain adequate financial flexibility, relevant restrictions on the payment of dividends under the laws of England and Wales and such other factors as the Board of Directors may consider relevant.

The Board of Directors' current dividend policy is further specified below under the heading "Dividends and Dividend Policy."

If there is a proposal for the Board of Directors to be given a mandate to approve the distribution of dividends, then the background of the proposal will be explained. The Company had no such proposals in 2018.

Mandates granted to the Board of Directors to increase the Company's share capital are restricted to defined purposes. If a general meeting is asked to consider a mandate to the Board of Directors for the issue of shares for different purposes, each mandate shall be considered separately by the meeting. Mandates granted to the Board of Directors are limited in time to no later than the date of the next Annual General Meeting. This also applies to mandates granted to the Board of Directors for the Company to purchase its own shares.

At the Annual General Meeting held on 2 June 2018, the Board of Directors sought and the shareholders granted a mandate for the Company to purchase its own shares through a buyback mechanism consistent with the Companies Act in an amount up to, essentially, 10 percent of the issued Share Capital of the Company. Through the mechanism of a reverse Dutch auction treating all shareholders equally, the Company repurchased 8,450,000 of its Class A Shares at a cost of approximately USD 15 million (see section 4.3). The authority granted was limited to the time of the next Annual General Meeting. The Board of Directors intends to ask the shareholders at the 2019 Annual General Meeting to renew this authority.

As stated when it announced the Buyback Offer on 21 January 2019, the Company decided to launch the Buyback Offer because, among other things, (i) its available funds exceed the near-term cash needs of its business, (ii) relatively low liquidity in the market for its shares may be hindering the ability of some shareholders to sell their shares, and (iii) it believes its shares are undervalued relative to their intrinsic value. Thus, the Buyback Offer may be seen as having provided an opportunity for some shareholders to sell their Shares and for the Company to capture value for its continuing shareholders.

The Board of Directors or its delegates may make a similar determination in the future if the Company again has funds exceeding the near-term cash needs of its business.

The Board of Directors was generally authorised at the 2018 Annual General Meeting to allot new Class A Shares in the Company or to grant rights to subscribe for or to convert any security into new Class A Shares in the Company up to a maximum aggregate nominal amount of GBP 327,814, representing approximately 10 percent of the Company's share capital.

The Board of Directors intends to ask the shareholders at the 2019 Annual General Meeting to renew this allotment authority, as the Board of Directors wishes to retain financial flexibility to grow the business by executing on its strategy of opportunistic acquisitions. The Board of Directors will also propose that it be authorised to issue new shares in connection with the Long-Term Incentive Plan (the "LTIP") for the Company's Directors and executive management. It follows from the purposes of the proposed authorisation that the shareholders' preferential rights to subscribe to the new shares ("pre-emption rights") may be waived and that the authorisation can comprise a share capital increase against contribution in kind. The Board of Directors intends to ask the shareholders at the 2019 Annual General Meeting to renew this waiver authority as well.

4. Equal Treatment of Shareholders and Transactions with Close Associates

4.1 General Information

The rights attached to each class of the Company's Shares is described above. Apart from trading restrictions applicable to Restricted Class A Shares and Class B Shares, all shareholders are treated on an equal basis, unless there is just cause for treating them differently.

4.2 Share Issues without Pre-Emption Rights for Existing Shareholders

Any decision to waive the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase in the share capital shall be justified. If the Board of Directors resolves to carry out a share issue without pre-emption rights for existing shareholders, then the justification shall be publicly disclosed in a stock exchange announcement issued in connection with the share issue. Again, the Board of Directors will seek the dis-application of pre-emption rights as to its renewed limited authority to allot shares or options at the 2019 Annual General Meeting.

4.3 Transactions in Own Shares

Any transactions the Company carries out in its own shares shall be carried out either through the Oslo Børs or at prevailing stock exchange prices if carried out in another way. If there is limited liquidity in the Company's shares, the Company shall consider other ways to ensure equal treatment of all shareholders.

The Company launched an offer to purchase certain of its own Class A Shares on 21 January 2019 which expired on 31 January 2019 resulting in the acquisition of 8,450,000 Class A Shares at NOK 15 per share giving a total acquisition cost of approximately USD 15 million. In order to ensure that all shareholders were treated equally to the greatest extent possible, the Company used the mechanism of a reverse Dutch auction treating all shareholders equally and provided holders of Restricted Class A Shares the opportunity to re-designate their shares and participate.

4.4 Transactions with Shareholders and Other Closely-Related Parties

The Board of Directors shall arrange for a valuation to be obtained from an independent third party in the event of a not immaterial transaction between the Company and any of its shareholders, a shareholder's parent company, members of the Board of Directors, executive management or closely related parties of any such parties. An independent valuation shall also be carried out in the event of transactions between companies within the same group where any of the companies involved have minority shareholders.

Members of the Board of Directors and executive management must notify the Board of Directors if they have a significant, direct or indirect, interest in any transaction carried out by the Company other than by virtue of their position within the Company. The Company has had a services agreement with DNO since 2011 pursuant to which it was paid USD 1.3 million in 2018. Bjørn Dale, a member of the Company's Board of Directors, is the Managing Director of DNO. Mr. Mossavar-Rahmani, the Company's Executive Chairman of the Board of Directors and Shelley Watson, the Company's Chief Operating Officer and Chief Financial Officer, are members of the DNO Board of Directors. For further details, see Note 26 to the Consolidated and Parent Financial Statements.

5. Shares and Negotiability

The Company does not impose any limits on a party's ability to own, trade or vote the Company's Class A Shares, traded on the Oslo Børs. There are restrictions on trading and ownership of the Company's Restricted Class A Shares and Class B Shares as described above under "Share Capital." There are no limits on voting the Restricted Class A Shares and Class B Shares.

The trading restrictions on Restricted Class A Shares and Class B Shares arise from the original capital structure of the Company and rights granted to legacy shareholders who acquired Restricted Class A Shares in the reorganisation of RAK Petroleum PCL in 2014.

6. Annual General Meetings

The Board of Directors takes reasonable steps to ensure that the Company's shareholders can participate in all Annual General Meetings.

Among other things, the Board of Directors will ensure that:

- The notice and any supporting documents and information on the resolutions to be considered at the Annual General Meeting are available on the Company's website no later than 21 clear days prior to the date of the Annual General Meeting;
- The resolutions and supporting documentation, if any, are sufficiently detailed, comprehensive and specific to allow shareholders to understand and form a view on matters that are to be considered at the Annual General Meeting;
- The registration deadline, if any, for shareholders to participate at the Annual General Meeting is set as closely as practically possible to the date of the Annual General Meeting and pursuant to the provisions in the Company's Articles of Association; and
- Shareholders are able to vote on each individual matter, including on each individual candidate nominated for election. Shareholders who cannot attend the Annual General Meeting in person are given the opportunity to vote. The company designs

the form for the appointment of a proxy to make voting on each individual matter possible and nominates a person who can act as a proxy for shareholders, usually the Chairman of the Board of Directors.

Pursuant to common practice for companies incorporated in England and Wales, the Articles of Association of the Company stipulate that the Chairman of the Board of Directors shall chair any Annual General Meetings at which he or she is present. Therefore, there are no arrangements made for election of an independent chairman for the Annual General Meetings, nor are all Directors required to attend. This deviates from the Code. The Chairman of the Nomination Committee attends if matters within the scope of the Nomination Committee are being considered by the meeting.

7. Nomination Committee

As provided for in the Company's Articles of Association, at the 2015 Annual General Meeting, the shareholders voted to create a Nomination Committee with no more than three members to be appointed by shareholders at an Annual General Meeting for a period up to two years; the duties are to propose candidates for election to the Board of Directors and to the Nomination Committee and to propose the fees to be paid to such members. The members elected to the Nomination Committee at the 2017 Annual General Meeting were Arya Bolurfrushan, Dr. Øystein Noreng and Mr. Mossavar-Rahmani, who was elected as chairman. Mr. Mossavar-Rahmani is the Executive Chairman of the Board of Directors and a member of executive management, which deviates from the Code for reasons detailed below.

The members' remuneration (including the chairman) was set at USD 5,000 in 2017 for two years. Each of their terms of service will expire at the close of the 2019 Annual General Meeting. The Annual General Meeting will stipulate guidelines for the duties of the Nomination Committee, elect the chairperson and members of the Nomination Committee and determine the Committee's remuneration. The majority of the Nomination Committee should be independent of executive management and the Board of Directors and only one member should be a member of the Board of Directors.

Shareholders wishing to communicate with the Nomination Committee may initiate contact by email to kevin.toner@rakpetroleum.uk. Anyone proposing a candidate should communicate with the Nomination Committee no later than 45 days before the scheduled date of the Annual General Meeting. More detailed biographies of the Nomination Committee members may be found on the Company's website.

The Nomination Committee justifies to the Annual General Meeting separately why it is proposing any candidate.

8. Board of Directors Composition and Independence

The composition of the current Board of Directors ensures that it attends to the common interest of all shareholders and meets the Company's need for expertise, capacity and diversity. The Board of Directors functions effectively as a collegiate body independently of any special interests. Three of the five shareholder-elected members of the Board of Directors are independent of the Company's executive management and material business contacts and three of the five members of the Board of Directors are independent of the Company's major shareholder(s). For these purposes, a major shareholder means one that owns 10 percent or more of the Company's issued and outstanding shares or votes, and independence shall entail that there are no circumstances or relations that may be expected to be able to influence independent assessments by the person in question.

The Executive Chairman of the Board of Directors is a member of executive management, which deviates from the Code. The Board of Directors does not otherwise include executive management, although that is common in English companies. The reason for the deviation is set forth below.

The Annual General Meeting shall elect the Chairman of the Board of Directors so long as the applicable laws do not require that the Board of Directors must appoint the Chairman.

The terms of office for members of the Board of Directors are not longer than two years at a time and are set forth below, as is their background, qualifications and independence as well as their attendance record.

The members of the Board of Directors are encouraged to own shares in the Company. Their ownership is detailed in the accompanying Remuneration Report.

9. The Work of the Board of Directors

9.1 General

The Board of Directors provides details of its Committees in this Annual Report. It is not common for companies incorporated in the United Kingdom to issue instructions for the Board of Directors and executive management as such instructions would be governed by the articles of association of the companies. Therefore, there is no need for the Company to have separate instructions for the Board of Directors and executive management. The Board of Directors issues limits on the authorities of executive management to act on behalf of the Company. The Board of Directors ensures that members of the Board of Directors and executive management make the Company aware of any material interests that they may have in items to be considered by the Board of Directors.

9.2 Audit Committee

The Board of Directors has an Audit Committee as a preparatory and advisory committee. The duties and composition of the Audit Committee are as set out in DTR 7.1. The Board of Directors has adopted Terms of Reference for the Audit Committee that are available on the Company's website. The entire Board of Directors does not act as the Company's Audit Committee.

An Audit Committee Report that includes details of its members is set out on pages 29 to 31 of this Annual Report.

9.3 Remuneration Committee

The Board of Directors has appointed a Remuneration Committee as a preparatory and advisory committee for the Board of Directors to ensure a thorough and independent preparation of matters relating to the compensation of executive management. Members of the Remuneration Committee are restricted to members of the Board of Directors who are independent of the Company's executive management, other than the Executive Chairman of the Board of Directors. The reason for this deviation is detailed below. The activities and composition of the Company's Remuneration Committee are detailed in its report which is set out on pages 32 to 37 of this Annual Report.

9.4 Annual Evaluation

The Board of Directors annually evaluates its efforts in the previous year.

10. Risk Management and Internal Controls

The Board of Directors acts to ensure that the Company has in place sound internal controls and systems for risk management that are appropriate with respect to the extent and nature of the Company's and its wholly-owned subsidiaries' activities. Internal controls and the systems for risk management encompass the Company's corporate values and ethical guidelines, including guidelines for corporate social responsibility. The Company influences the internal controls and risk management for the Investment Entities and its wholly-owned subsidiaries through its positions on their boards of directors. DNO separately endorsed the Code of Practice for Corporate Governance issued by the Norwegian Corporate Governance Board.

The Board of Directors acknowledges its responsibility for establishing and maintaining adequate internal controls and risk management systems to safeguard shareholders' investments and the Company's assets and it reviews these areas annually. Such systems can be designed to manage, but not eliminate entirely, the risk of failure to achieve business objectives. They can provide reasonable, but not absolute, assurances that the Company's assets are safeguarded and that the financial information used within the business for external reporting is reliable.

The Company and its wholly-owned subsidiaries maintain a centralised financial reporting system where transactions and balances are recognised and recorded in accordance with prescribed accounting policies and procedures and all material and relevant information is reviewed and reconciled as part of the annual reporting process. The Investment Entities maintain their own separate centralised financial reporting systems. The Company to a great extent relies on audited financial reporting that it timely receives from the Investment Entities and reviews internally. In addition, Ms. Watson, the Company's Chief Operating Officer and Chief Financial Officer, is a member of the DNO Board of Directors and its audit committee, Mr. Mossavar-Rahmani is Executive Chairman of DNO and Chairman of the Foxtrot International Board of Directors, and Mr. Dale, a member of the Company's Board of Directors, is Managing Director of DNO. In conjunction with DNO, the Company has adopted procedures seeking to ensure that its Board of Directors has an adequate basis on which to fulfil its reporting responsibilities regarding DNO.

The Board of Directors' Audit Committee also assures that the Company's Auditors have received full cooperation from the financial reporting functions at both Investment Entities and from the Company's executive management.

The Company has in place policies which limit the authority and ability of any single member of executive management or member of the Board of Directors to dispose of or transfer Company assets and two approvals, including that of the General Counsel, are required to transfer or dispose of any of the Company's interest in DNO, thus limiting the risks of improper disposition.

The Board of Directors is regularly updated on the Company's financial situation, evaluates whether the Company's capital and liquidity are adequate in terms of the risk from, and scope of, the Company's activities and shall immediately take the necessary action if it is demonstrated at any time that the Company's capital or liquidity is inadequate.

11. Remuneration of the Board of Directors

The remuneration of the Board of Directors is to be decided by the shareholders at an Annual General Meeting of the Company at least every two years and shall reflect the duties, expertise and time commitment of the Board of Directors, including the level of activity on any committees, as well as the complexity of the Company's activities.

Other than the Executive Chairman, who is also compensated as a member of executive management, remuneration for members of the Board of Directors is not linked to the Company's performance and the Company does not grant share options to members of the Board of Directors.

Members of the Board of Directors and/or companies with which they are associated shall not take on specific assignments for the Company in addition to their appointment as a member of the Board of Directors. If they do nonetheless take on such assignments, this should be disclosed to the full Board of Directors. The remuneration for such additional duties shall be approved by the Board of Directors.

Any remuneration in addition to normal Board of Directors' fees will be specifically identified in the Annual Report.

12. Remuneration of Executive Management

The Board of Directors has established guidelines for the remuneration of executive management. These guidelines are contained in the accompanying Remuneration Policy, which includes the main principles applied in determining the salary and other remuneration of executive management. The Remuneration Policy was approved by the shareholders at the 2015 Annual General Meeting. Performance-related remuneration of executive management in the form of share options, bonus programmes or the like shall ensure convergence of the financial interests of executive management and the shareholders.

The Remuneration Policy provides that performance-related remuneration shall be subject to an absolute limit.

The Remuneration Policy will be a separate appendix to the agenda for the Annual General Meeting. The Remuneration Policy must be approved by a vote at an Annual General Meeting and is valid for three years. As a result, the Board of Directors obtained approval for the renewed policy at the 2018 Annual General Meeting and intends to propose to the shareholders that they approve of the renewed policy at the 2021 Annual General Meeting.

13. Information and Communications

13.1 General Information

The Company provides timely and precise information to its shareholders and the financial markets in general (through the Oslo Børs). Such information is provided in the form of annual reports, half-year reports and press releases and notices to the Oslo Børs in accordance with what is deemed necessary and suitable.

The Company publishes an annual financial calendar with an overview of the dates of important events such as the release of the Annual Report, the Annual General Meeting, release of Half-Year Report and payment of dividends, if applicable.

Unless exceptions apply and are invoked, the Company discloses inside information on an ongoing basis. In all circumstances, the Company shall provide information about decisions by the Board of Directors and the Annual General Meeting concerning dividends, amalgamations, mergers/demergers or changes to the share capital, the issuing of subscription rights and convertible loans and shall disclose all agreements of major importance that are entered into by the Company and closely-related parties in accordance with applicable laws and regulations.

13.2 Information to Shareholders

The Company has discussions with important shareholders to enable the Board of Directors to develop a balanced understanding of the circumstances and focus of its shareholders. Such discussions are conducted in compliance with the provisions of applicable laws and regulations and the principle of equal treatment of all shareholders regarding material information.

Information to the Company's shareholders is published on the Company's website at the same time that it is sent to the shareholders.

14. Take-Overs

14.1 General

In the event the Company becomes the subject of a take-over offer, the Board of Directors shall ensure that the Company's activities are not unnecessarily interrupted. The Board of Directors shall also ensure that the shareholders have sufficient information and time to assess the offer.

14.2 Main Principles for Action in the Event of a Take-Over Offer

In the event of a take-over offer, the Board of Directors shall abide by the principles of the Code, recognising the duty the Board of Directors carries for ensuring that the interests of the shareholders are safeguarded. In particular:

- The Board of Directors shall ensure that the take-over offer is made to all shareholders and on the same terms;
- The Board of Directors shall not undertake any actions intended to give certain shareholders or other parties an unreasonable advantage at the expense of other shareholders of the Company; and
- The Board of Directors shall not institute measures which have the intention of protecting the personal interests of its members.

The Board of Directors shall not attempt to prevent or impede the take-over offer unless this has been decided by a general meeting in accordance with applicable laws.

If a take-over offer is made for the Company's shares, the Board of Directors shall issue a statement evaluating the offer and making a recommendation as to whether the shareholders should accept such offer. If the Board of Directors finds itself unable to give a recommendation to the shareholders on whether to accept the offer, it shall explain the reasons for this. In the statement, the Board of Directors shall make it clear whether the views expressed are unanimous, and if this is not the case, explain the reasons why certain members of the Board of Directors have excluded themselves from the statement.

The Board of Directors shall consider whether to arrange for a valuation of a take-over offer from an independent expert. However, if any member of the Board of Directors, or close associates of such member, or anyone who has recently held a position but has ceased to hold such a position as a member of the Board of Directors, is either the bidder or has a particular personal interest in the offer, the Board of Directors must arrange for an independent valuation. This shall also apply if the bidder owns 10 percent or more of the Company's issued and outstanding shares or votes. Any such valuation shall either be enclosed with the Board of Directors' statement or reproduced or referred to in the statement.

14.3 The Group's Shareholding in DNO Could Delay, Defer or Prevent a Merger, Equity Offering, Takeover or Other Business Combination Involving the Company

With its 40.45 percent stake, the Company is currently DNO's largest shareholder. An acquisition by a Company shareholder or a third party, alone or together with its close associates, of shares in the Company representing more than 50 percent of the votes in the Company, will trigger on the acquirer an obligation to make a mandatory offer on the remaining shares in DNO. Such a mandatory offer obligation could delay, deter or prevent a merger, equity offering, takeover or other business combination involving the Company. Moreover, any person acting in concert with the Company to purchase additional shares directly in DNO will trigger an obligation to make a mandatory offer on the remaining shares in DNO.

15. Auditors

The Audit Committee's Report is included in this Annual Report and details the Board of Directors' activities regarding the Company's Auditors.

The Board of Directors ensures that the Company's Auditors submit the main features of the plan for the audit of the Company to the Audit Committee for approval each year.

The Auditors participate in at least one meeting of the Board of Directors and of the Audit Committee that deals with the annual accounts. The Auditors report on any material changes in the Company's accounting principles and key aspects of the audit, comment on any material estimated accounting figures and report all material matters on which there has been disagreement between the Auditors and the executive management of the Company.

The Auditors annually report to the Audit Committee any observations regarding the Company's internal control procedures, including any identified weaknesses and proposed improvements, which come to their attention during the audit.

The Board of Directors, through its Audit Committee, holds a meeting with the Auditors at least once a year at which no representative of executive management of the Company is present. If the Audit Committee deems it appropriate, or there is disagreement with the Audit Committee, the Board of Directors holds a meeting with the Auditors without the presence of executive management other than the Executive Chairman of the Board of Directors.

The Audit Committee has specified that executive management can use the Auditors for specific assignments other than auditing only with the approval of the Audit Committee.

The Audit Committee's Report contains the remuneration paid to the Auditors, including details of the fee paid for auditing work and any fees paid for other specific assignments.

Composition of the Board of Directors

The Company's Board of Directors has five members:

- Bijan Mossavar-Rahmani (Executive Chairman);
- Amir Ali Handjani;
- Ahmed Jamal Jawa;
- Bjørn Dale; and
- Sultan Al Ghurair

All the members of the Company's Board of Directors were elected for terms that will expire at the 2019 Annual General Meeting.

Bijan Mossavar-Rahmani
Executive Chairman

Mr. Mossavar-Rahmani has been Executive Chairman of the Board of Directors since the Company's founding in June 2013, having served as Executive Chairman of the Board of Directors and Chief Executive Officer of RAK Petroleum PCL since May 2010. His role as Executive Chairman of the Company encompasses the management responsibilities of the Chief Executive Officer, including oversight of the Company's strategy and operations.

Mr. Mossavar-Rahmani also holds the position of Executive Chairman of the DNO Board of Directors and Chairman of the Foxtrot International Board of Directors.

In addition to his industry positions, Mr. Mossavar-Rahmani is active in philanthropy, education and the arts. He is a member of Harvard University's Global Advisory Council and Trustee of the New York Metropolitan Museum of Art where he sits on the Finance and Audit Committees. He has published more than ten books on global energy markets and was decorated Commandeur de l'Ordre National de la Côte d'Ivoire for services to the energy sector of that country. He is a graduate of Princeton (AB) and Harvard Universities (MPA). Mr. Mossavar-Rahmani is a U.S. citizen and resides in the United States.

Amir Ali Handjani
Director

Mr. Handjani has been a member of the Board of Directors since 2013, having served as a member of the RAK Petroleum PCL Board of Directors since 2010 and also as its General Counsel from 2006 to 2010. Mr. Handjani holds a B.A. degree from Boston College and a Juris Doctor degree from the Northeastern University Law School. He is a member of the District of Columbia and New Jersey Bar Associations. Mr. Handjani is a U.S. citizen and resides in the United Arab Emirates.

Ahmed Jamal Jawa
Director

Mr. Jawa became a member of the Board of Directors at the time of listing, having served as a member of the RAK Petroleum PCL Board of Directors since 2009. He serves as Vice Chairman, Chief Executive Officer and President of Starling Holding Ltd, a family office and a global investment group that deals with private equity and direct investments worldwide.

Mr. Jawa serves on the Board of Emaar Properties and is the Chairman of its Investment Committee, Board of Emaar Turkey, Emaar Misr in Egypt, and Emaar; The Economic City in Saudi Arabia. He is a Member of the Nomination & Remuneration Committee of Emaar Properties and Chairman of the Nomination & Remuneration Committee Emaar; The Economic City. Mr. Jawa is also a Board Member of the newly spun off Emaar Development publicly traded on the Dubai Financial Market and he is also a member of the Investment and Nomination Committees.

He has been recognised as one of the 'Global Leaders of Tomorrow' by the World Economic Forum in Davos. Mr. Jawa is a Saudi Arabian citizen and resides in the United Arab Emirates.

Bjørn Dale
Director

Mr. Dale is the Managing Director of DNO. Mr. Dale holds a Master of Law degree from the University of Oslo and an Executive Master of Business Administration degree in financial management from the Stockholm School of Economics. Mr. Dale joined the Board of Directors in 2015. Mr. Dale is a citizen and resident of Norway.

Sultan Al Ghurair
Director

Mr. Al Ghurair became a member of the Board of Directors in June 2016. He is a Member of the board of directors of Al Ghurair Investment LLC, one of the largest diversified industrial enterprises in the Middle East. An experienced oil and gas and finance executive, he serves as Chief Executive Officer of Al Ghurair Energy DMCC, Vice Chairman of Libyan Emirates Refinery Company and a director of Pakistan-based TransAsia Refinery Ltd. Mr. Al Ghurair is also a Director of Abdulla Al Ghurair Holding and of Mashreq Bank, where he is a member of the audit committee. He holds a finance degree from Suffolk University in the United States. He is a citizen and resident of the United Arab Emirates.

The Company's registered office address at Elder House, St Georges Business Park, Brooklands Road, Weybridge, Surrey KT13 0TS, United Kingdom, serves as the business address (service address) for the members of the Board of Directors in relation to their directorships of the Company.

The Company believes that Messrs. Jawa, Handjani and Al Ghurair are independent of the Company's executive management and material business contacts and of the Company's major shareholders.

Directors' Indemnities

The Company entered into agreements with each of the members of the Board of Directors and each member of executive management identified below which provide them with broad indemnity, including defence costs, against third party claims. In addition, the Company maintains Directors and Officers Liability Insurance that provides broad protection to the members of the Board of Directors and executive management of the Company.

The Company has no pension scheme for which any of the Directors serve as trustee. As such, there are no agreements or arrangements indemnifying any Director of the Company against liability incurred in connection with the Director's activities as trustee of any such scheme.

Conduct of Business

Dividends and Dividend Policy

The Company's objective is to generate competitive total returns for its shareholders. The Company's dividend policy is balanced between adequate cash reserves, growth opportunities for the Company, financial flexibility, appropriate debt levels, capital appreciation in the Company's shares and cash returns for shareholders.

Declaration and payment of a dividend by the Company requires shareholder approval by ordinary resolution and cannot exceed any recommendation by the Board of Directors. The level of dividends, if any, recommended by the Board of Directors is guided by cash available, current earnings, market prospects, current and future capital expenditure commitments, financing obligations and availability and investment opportunities. In deciding whether to propose a dividend and in determining the dividend amount (or of any other distribution or share buyback), the Board of Directors considers legal restrictions regarding the distribution of dividends as governed by its Articles of Association and the Companies Act.

Since the Company was incorporated on 17 June 2013 no dividends have been distributed to the Company's shareholders and there is no assurance that a dividend will be proposed or declared in any year. At the date of this report, the Company has never declared any dividends and the Board of Directors has not proposed any dividend for 2018 or 2019.

However, the Company distributed to shareholders approximately USD 15 million by means of a Class A Share buyback that was completed on 4 February 2019. This buyback was conducted as a reverse Dutch auction treating all shareholders equally and resulted in the purchase and cancellation of 8,450,000 Class A Shares. The Company considers that there are various material considerations as to whether a distribution of capital by share buyback is preferable to payment of dividends and these considerations change over time.

The DNO Board of Directors assesses on an annual basis whether dividend payments to DNO shareholders should be proposed for approval at DNO's Annual General Meeting. This assessment is based on planned capital expenditure, cash flow projections and DNO's objective of maintaining a strong credit profile and robust capital ratios. The DNO Board of

Directors proposed a dividend that was approved by the DNO shareholders on 13 September 2018 -- the first in 13 years. Payment of the DNO dividend was proposed to be paid in two tranches. The first tranche was paid on 24 September 2018 and the second on 27 March 2019. The first tranche was paid on 24 September 2018 and the second on 27 March 2019 resulting in a total dividend of USD 20.7 million payable to the Company's wholly-owned subsidiary. There can be no guarantee as to whether DNO will issue any dividends in the future. Payment of a dividend by DNO is a material factor in the Board of Directors' consideration whether to recommend that the Company pay a dividend or otherwise distribute further capital to the shareholders.

Anti-Corruption Policy and Manual

The Board of Directors believes that it is essential that the Company uphold the highest standards of conduct. The Company is committed to operate in accordance with ethical, responsible and sound business principles and comply with all applicable laws and regulations. The Company specifically does not permit or tolerate engaging in any form of corruption or bribery. To this end, the Board of Directors on 24 September 2014 adopted an Anti-Corruption Policy and an Anti-Corruption Manual that explains and elaborates the content and implications of the Company's policies in relation to anti-corruption and anti-bribery matters. DNO enforces its own anti-corruption policy. DNO has a policy of zero tolerance for corruption, bribery and other illegal or inappropriate business conduct. DNO adheres to a strict and comprehensive conflict of interest policy, trade sanctions and other policies focused around a code of conduct to ensure regulatory and company expectations are met. A whistleblowing procedure is also in place.

Insider Trading Policy

The Company strictly prohibits trading of its shares while in possession of inside information and to that end the Board of Directors on 24 September 2014 adopted an Insider Trading Policy that establishes general rules and procedures to assist the Company and the insiders in complying with the applicable legislation regarding insider trading and to prevent acts or omissions which may expose the insiders or the Company to criticism or undermine the general trust in the Company or its shares. DNO enforces its own insider trading policy.

Audit Committee

The Company has, in line with the recommendations in the Code and Rule 7 of the DTRs, appointed, with effect from the first day of listing, an Audit Committee consisting today of three members: Messrs. Jawa (chairman), Handjani and Dale. The members of the Audit Committee will serve while they remain members of the Board of Directors, or until the Executive Chairman of the Board of Directors decides otherwise or they wish to retire.

The primary purpose of the Audit Committee is to assist the Board of Directors with the discharge of its responsibilities in relation to financial reporting, including reviewing the Company's annual Consolidated and Parent Financial Statements and half-year Consolidated Financial Statements and accounting policies, internal and external audits and controls, reviewing and monitoring the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the internal audit, internal controls and anti-fraud systems in place within the Company. The Audit Committee met in 2018 to review and approve the proposed audit plan and then to review the Company's Consolidated and Parent Financial Statements for the period ending 31 December 2017 and the processes and procedures involved with the Company's finances, met with the Company's Auditors independently of executive management and issued its report with regard to those Consolidated and Parent Financial Statements. It also reviewed the Company's unaudited half-year Consolidated Financial Statements. The Audit Committee also met in January 2019 to review and approve the proposed audit plan and in April 2019 to review the Company's proposed Consolidated and Parent Financial Statements for the period ending 31 December 2018 and the processes and procedures involved with the Company's finances, met with the Company's Auditors independently of executive management and issued its report with regard to those Consolidated and Parent Financial Statements.

The Audit Committee's Report for the period ending 31 December 2018 appears on pages 29 to 31 of this Annual Report.

Remuneration Committee

Pursuant to the Company's Articles of Association, the Board of Directors established a Remuneration Committee in 2014 with two members: Mr. Mossavar-Rahmani and Ambassador Khalilzad. Following the resignation of Ambassador Khalilzad in September 2018, Mr. Al Ghurair joined the Remuneration Committee. The Remuneration Committee met in 2018 to prepare the Remuneration Report for 2017, which was approved by vote of the shareholders at the 2018 Annual General Meeting of the Company. The Remuneration Committee also met in 2018 with regard to the salaries of executive management and the potential award of bonuses to executive management for 2018 and again in 2019 to prepare the 2018 Remuneration Report, which appears after this Directors' Report. Both members attended these meetings. The Remuneration Committee's report for 2018 appears on pages 32 to 37 of this Annual Report.

Compliance with the Corporate Governance Code

The Company's corporate governance regime follows the specific provisions of the Code with the following exceptions:

Deviation from section 5: "Shares and Negotiability". As described above, the Company has three classes of voting shares. The Class A Shares are listed on the Oslo Børs and are freely tradeable. There are restrictions on trading and ownership of the Company's Restricted Class A Shares and Class B Shares as described above under "Share Capital." There are no limits on voting the Restricted Class A Shares and Class B Shares. These limitations were adopted in connection with the Company's 2014 Initial Public Offering and the desire to implement trading restrictions on existing shareholders during a six-month period following the listing. Owners of Restricted Class A Shares may request release of the restrictions, which results in cancellation of the associated Class B Shares.

Deviation from section 8: "Corporate Assembly and Board of Directors' Composition and Independence". The Executive Chairman of the Board of Directors, Mr. Mossavar-Rahmani, has served actively in executive management of the Company since inception and is compensated accordingly, including with share awards under the LTIP. In addition, he is the chairman of the Remuneration Committee and will in that position influence the remuneration received by other members of executive management. It is customary United Kingdom practice for public limited companies such as the Company to have both non-executive and executive directors. Mr. Mossavar-Rahmani holds more than 23 percent of the shares and more than 36 percent of the voting interests in the Company. He is an experienced executive who has served as chairman or chief executive officer of multiple international oil and gas companies for the past 30 years. He was previously Chairman of the Board of Directors and Chief Executive Officer of RAK Petroleum PCL and intimately familiar with its activities and stakeholders, and as Executive Chairman of the Board of Directors of DNO and Chairman of Foxtrot International he is similarly intimately familiar with the operations of both principal assets of the Group. He is therefore uniquely qualified to lead the executive team managing these investments. It is also natural and appropriate -- even expected -- for him to chair the Board of Directors, as he has by far the largest financial stake in its considerations and decisions. Because of his shareholding, there is no danger that as a member of both executive management and the Board of Directors he will not protect and promote the interests of the shareholders. That is his primary interest.

Deviation from section 6: "General Meetings". As is common for public limited companies established under English law, the Articles of Association of the Company provide that the Chairman of the Board of Directors shall, as a general rule, chair the Annual General Meetings. Directors are not required to attend Annual General Meetings as there has never been an occasion justifying that expense.

Deviation from section 7: "Nomination Committee". The chairman of the Nomination Committee, Mr. Mossavar-Rahmani, is a member of the Board of Directors and of executive management and may offer himself for re-election to the Board of Directors. The reasons supporting this are set forth above.

Executive Management

The members of executive management and their shareholdings at the date of this report are:

Name and position	*Nature of interest*	*Shares held[1] at 10 April 2019*
Bijan Mossavar-Rahmani Executive Chairman Employed since 2008	Class A Shares Restricted Class A Shares B Shares	10,394,621 65,437,439 65,437,439 (36.88 percent of votes)
Kevin J. Toner Managing Director and General Counsel Employed since 2013	Class A Shares Restricted Class A Shares B Shares	29,500 265,500 265,500 (0.15 percent of votes)
Shelley M. Watson Chief Operating Officer and Chief Financial Officer Employed since 2017	Class A Shares Restricted Class A Shares B Shares	358,214 - - (0.06 percent of votes)
Lisa K. McPhillips Chief of Staff and Deputy General Counsel Employed since 2018	Class A Shares Restricted Class A Shares B Shares	- - - (0.00 percent of votes)

The Company's registered office address at Elder House, St Georges Business Park, Brooklands Road, Weybridge, Surrey KT13 0TS, United Kingdom, serves as the business address (service address) for the members of executive management in relation to their employment with the Company.

Brief Biographies of the Members of Executive Management

Bijan Mossavar-Rahmani
Executive Chairman

See information page 22

[1] Includes shares held by a Special Purpose Vehicle.

Kevin J. Toner
Managing Director and General Counsel

Mr. Toner became a senior strategic advisor to RAK Petroleum PCL before it began acquiring shares in DNO in October 2009. He joined RAK Petroleum PCL as General Counsel in August 2013. He previously practiced law in the United States for more than 25 years and was recognised as one of New York City's Super Lawyers from 2006-2011. Most recently he was a partner at the US law firm of Patton Boggs, where he was co-head of the antitrust practice. Prior to that, Mr. Toner was a co-founding partner of the New York office of Heller Ehrman LLP, where he served in various management roles including co-head of the litigation department. Mr. Toner's practice focused on representing boards, board committees, executive management and institutions in matters regarding corporate governance, complex commercial disputes, antitrust and securities litigation and internal investigations. He has been a member of the executive committee of the antitrust section of the New York State Bar Association. Mr. Toner earned a B.S.E. in mechanical and aerospace engineering from Princeton University (1974) and his law degree, magna cum laude, from Fordham University School of Law (1986), where he graduated first in his class.

Shelley M. Watson
Chief Operating Officer and Chief Financial Officer

Ms. Watson joined the Company as Chief Operating Officer as of 1 February 2017 and Chief Financial Officer as of 1 May 2017.

Ms. Watson has extensive experience in the oil and gas industry in the Middle East, most recently as the General Manager of the Company's predecessor, RAK Petroleum PCL, until the summer of 2014. She joined RAK Petroleum PCL as Group Commercial Director in 2007 and previously held commercial and operational management roles with Novus Petroleum and Indago Petroleum. Ms. Watson holds a First Class Honours degree in chemical engineering and a Bachelor of Commerce degree from the University of Melbourne.

Additional directorships or management positions during the last five years: Director and member of audit committee, DNO (2010-to date).

Lisa K. McPhillips
Chief of Staff and Deputy General Counsel

Ms. McPhillips joined the Company as Chief of Staff and Deputy General Counsel in November 2018.

Ms. McPhillips is a lawyer with extensive international experience in energy (oil and gas), and general commercial and corporate law. She has worked in the Middle East, Norway, the United Kingdom and Australia.

Ms. McPhillips was previously employed by DNO as Senior Legal Counsel and as Deputy General Manager Yemen AS. Prior to joining DNO Ms. McPhillips worked in London at various financial firms including BlackRock and the Bank of New York. She holds a Bachelor of Law/Bachelor of Business (International Business (Major), Accounting (extended)) from the Queensland University of Technology.

Attendance at Board and Committee Meetings

The Company's Board of Directors met twice during 2018. All Directors attended each of the Company's Board of Directors meetings in 2018. The Remuneration Committee met twice in 2018 and all members attended. The work of the Audit Committee is described in its accompanying report.

Charitable Donations

The Company made no charitable donations during 2018.

Political Donations

Although authorised to do so under certain circumstances, neither the Company nor any of its wholly-owned subsidiaries made any political donations during 2018. Neither of the Investment Entities made any political donations during 2018.

Important Events and Developments Since the End of the Financial Year

The events and developments since 31 December 2018 which the Board of Directors believes were important to the Company's business are detailed in the Strategic Report above in Section I.

Likely Future Developments Affecting the Company's Business

The likely future developments that may affect the Company's business are discussed in the Strategic Report above in Section I.

Financial Risk Management Objectives and Policies

The Company, and the Investment Entities, do not use hedging strategies and, as a general matter, do not regard their mandate as encompassing hedging out of the risks associated with oil and gas investments.

Exposure to Price Risk, Credit Risk, Liquidity Risk and Cash Flow Risk

The Company's activities and those of its Investment Entities expose it to a variety of financial risks. The Company's Board of Directors provides certain guidance in managing such risks, particularly as relates to credit and liquidity risk. All material borrowing arrangements require approval from the Board of Directors and the Company and its Investment Entities do not currently use any derivative financial instruments to manage financial risks. The key financial risks and the Group's major exposures are as detailed in Note 27 to the Consolidated and Parent Financial Statements.

Going Concern Treatment

Taking account of the Group's present position and principal risks, the Board of Directors has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for the period at least 12 months following approval of the Consolidated and Parent Financial Statements.

Among other things, executive management has prepared, and the Board of Directors have reviewed and approved, cash flow forecasts for a period of 36 months from the balance sheet date. These demonstrate the ability of the Group to pay its anticipated debts as they fall due for at least the next 36 months considering anticipated cash distributions from Foxtrot International and other sources of liquidity, if necessary.

Accordingly, the Consolidated and Parent Financial Statements have been prepared on a going concern basis, as the Board of Directors is satisfied that the Group has the resources to continue in business for at least 12 months from the date of approval of the Consolidated and Parent Financial Statements.

The Board of Directors conducted this review for the period up to January 2022, which was felt to be an appropriate period because forecasting beyond three years is likely to be inaccurate given oil price volatility and other uncertainties.

In making their determination, the Board of Directors considered (i) the approved budget for 2019 expenditures at Foxtrot International, (ii) forecasted cash flows from Foxtrot International, (iii) the timing and amount of the Company's existing and potential obligations to repay outstanding indebtedness, (iv) forecasted expenses and (v) proposed dividends to be paid by DNO. In this regard, the Company benefits from Foxtrot International cash flows that are not substantially dependent upon world oil prices.

Because of its asset value, the Board of Directors also considered an assessment of the value-in-use of its shareholding in DNO, based on an analysis of forecasted cash flows using a conservative oil price case. In that regard, the Board of Directors noted that the DNO Board of Directors concluded after their own analysis that going concern treatment was warranted for DNO and took note of (i) DNO's exceptionally low reported lifting costs, (ii) financing arrangements that DNO has put in place and (iii) DNO's substantial proven producing oil reserves under existing arrangements that permit cash flow generation covering the forecast period.

The underlying assumptions were stress tested and reviewed in the context of the Group's liquidity and the principal risks of the regions and industry in which it operates and with regard to the risks set out in the Principal Risks section above.

Based on their assessment of this analysis, the Board of Directors have a reasonable expectation that the Group will be able to continue in operation and manage its liabilities as these fall due over the three-year period to January 2022.

Research and Development Activities

The Company does not engage in meaningful research and development activities.

Existence of Branches Outside the United Kingdom

During 2018, the Company had no branches outside the United Kingdom within the meaning of the Companies Act.

Greenhouse Gas Emissions

The Company does not combust fuel or operate facilities that directly emit greenhouse gases, nor is it responsible for facilities that do so using the financial control approach to account for Greenhouse Gas Emissions ("GGE"). During 2018, the Company had no owned transport vehicles. During 2018 the Company rented office spaces in Dubai, New York and Ras Al Khaimah. It was responsible and billed separately for electricity consumption in Dubai, but not Ras Al Khaimah or New York. Thus, the Company's only GGE are indirect emissions based on its level of electricity consumption. Based on its consumption and emission data provided in its monthly bills by the Dubai Electricity & Water Authority, the Company's cumulative 2018 GGE in the Dubai office was 144 kg of CO_2.

In light of these circumstances, the Company cannot say with clarity or certainty the most meaningful intensity ratio to be used for assessment of its performance. Expressed as a function of the Number of Relevant Employees using the office with measured GGE, the Intensity ratio is:

2017: 6.04 tonnes/6.25 = 0.97T/Relevant Employee.

2018: 0.1 tonnes/1 = 0.1T/Relevant Employee.

Given the limited scope of GGE for which the Company is responsible, the Board of Directors does not believe that GGE disclosures are meaningful or material.

During 2018 DNO had greenhouse gas emissions of 417,000 tonnes of CO_2 equivalent, up from 178,000 tonnes in 2017. In 2018 Foxtrot International had greenhouse gas emissions of 38,909 tonnes of CO_2 equivalent.

Disclosure of Information to the Auditors

So far as each Director is aware, there is no relevant material information of which the Company's Auditors are unaware. Each Director has taken all steps that ought to have been taken as a Director to make himself aware of any relevant material audit information and to establish that Ernst & Young LLP are aware of that information.

Auditors

The Company anticipates that a resolution to reappoint Ernst & Young LLP as Auditors will be put to the shareholders at the 2019 Annual General Meeting. Various matters regarding the Auditors and their compensation are included in the accompanying Audit Committee Report.

For and on behalf of the Board of Directors

BIJAN MOSSAVAR-RAHMANI

Bijan Mossavar-Rahmani
Executive Chairman of the Board of Directors

14 April 2019

III. Audit Committee Report

The Audit Committee of RAK Petroleum plc ("RAK Petroleum" or the "Company") was established upon the listing of the Company and now includes three members: Ahmed Jawa, Amir Ali Handjani and Bjørn Dale. Mr. Jawa, the Audit Committee's chairman, has recent relevant financial experience, including service on the audit committees of other publicly listed corporate entities. None of the members are presently involved in the management of the Company, and at least two of the members are independent of the Company and its executive management.

The Board of Directors adopted detailed terms of reference in 2014 that set out the Audit Committee's areas of responsibility and authority. A copy of those terms of reference is available on the Company's website.

The Audit Committee monitors the integrity of the financial statements of the Company and the Group, including its annual and half-yearly reports and any other formal announcement relating to its financial performance. In particular, the Audit Committee reviews and challenges, if necessary:

- The consistency of, and any changes to, significant accounting policies both on a year-on-year basis and across the Company and the Group;
- The methods used to account for significant or unusual transactions where different approaches are possible;
- Whether the Company and the Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external Auditors;
- The clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
- All material information presented with the Consolidated and Parent Financial Statements, such as the business review and the corporate governance statements relating to the audit and to risk management.

If the Audit Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board of Directors and in appropriate cases, in the Annual Report.

The Audit Committee relies on information and support from the Company's executive management to enable it to carry out its responsibilities. In addition, its terms of reference authorise the Audit Committee to obtain information from any employee of the Company and to engage and obtain advice from independent advisers at the Company's expense, if the Audit Committee determines that is necessary or appropriate.

The Audit Committee met in February 2018 to review and approve the proposed audit plan and scope for the audit of the Consolidated and Parent Financial Statements for the year ended 31 December 2017 and in April 2018 to review, among other tasks, the adequacy of the proposed 2017 Consolidated and Parent Financial Statements, proposed disclosures in the Annual Report and the processes and procedures by which these were generated and audited and to review the reporting of the Auditors on their audit. All members attended both meetings. In September 2018 the Audit Committee also reviewed and approved the Consolidated Financial Statements included in the Company's Half-Year Report, along with the other members of the Board of Directors. All members attended. The Audit Committee met again in January 2019 to review and approve the proposed audit plan and scope and in April 2019 to review the adequacy of the proposed 2018 Consolidated and Parent Financial Statements, proposed disclosures in the 2018 Annual Report and the processes and procedures by which these were generated and audited and to review the reporting of the Auditors on their audit. All members attended both meetings, as did representatives of the Company's Auditors and executive management except that Mr. Jawa participated in the April 2019 meeting by proxy. In April 2018 and April 2019 the Audit Committee met with the Auditors both with and outside the presence of executive management.

Significant Issues in Relation to the Consolidated and Parent Financial Statements

The significant issues considered and addressed by the Audit Committee in relation to the 2018 Consolidated and Parent Financial Statements were:

- The Audit Committee reviewed the Company's treatment of DNO as a controlled subsidiary and its conclusion that based on all the facts and circumstances; the Company has de facto control over DNO, as defined by IFRS 10. As set forth in Notes 2 and 3 of the Consolidated and Parent Financial Statements for the year ended 31 December 2016, the decision to account for the Group's interest in DNO using the equity method was a matter of critical and significant judgement. Upon re-examination of the factors that influenced these decisions and following discussion with a Review Group of the Financial Reporting Council, the Company decided that DNO's financial results should be consolidated as a subsidiary in the Group's Annual Report for the year ended 31 December 2017. Following a further review, the Audit Committee was satisfied that this accounting treatment adopted by the Group was appropriate for 2018. As required by IFRS 10, the Audit Committee will continue to monitor the Company's judgement in this regard on a regular basis.

- With respect to impairment testing, the Audit Committee reviewed the reported value of the principal assets of the Group as part of the year-end process. The Audit Committee reviewed, assessed and tested executive management's judgements regarding the assessment of impairment of assets, including oil and gas assets and goodwill, and discussed and considered the Auditors' views on the issues.

  Following the review, the Audit Committee was satisfied that the Group has not made an impairment for its investment in DNO and has made a reversal of impairment for its investment in Mondoil Enterprises LLC and that the assets are otherwise appropriately reported.

- The Audit Committee also examined and reviewed the basis for the going concern treatment adopted in the Consolidated and Parent Financial Statements and the basis for the viability statement in the 2018 Directors' Report and concluded that the Company's going concern conclusion was well supported and appropriate.

- The Audit Committee reviewed the audited and published financial statements of DNO with particular reference to the impairment review of the principal assets as part of the year-end process, the revenue recognition criteria for revenue received from Kurdistan and the treatment of DNO's investment in Faroe as a financial investment. The Company performed its own impairment analysis of DNO's major asset, which was reviewed by the Audit Committee. Although the Audit Committee does not have access to internal DNO documents in its assessment of the DNO financial statements, it adopted procedures in conjunction with DNO seeking to ensure that it and the other Directors have an adequate basis on which to fulfil their reporting responsibilities regarding DNO. Shelley Watson, the Company's Chief Operating Officer and Chief Financial Officer, is a member of the DNO Board of Directors and its audit committee, Bijan Mossavar-Rahmani, the Company's Executive Chairman, is Executive Chairman of DNO and Mr. Dale, a member of the Audit Committee, is Managing Director of DNO. In that respect, the Audit Committee relies heavily on representations of Ms. Watson and Messrs. Mossavar-Rahmani and Dale and the work of the Company's Auditors (who have access to certain DNO internal financial information) to ensure that it has an adequate basis for reliance on the audited financial statements of DNO.

Internal Audit Function

As part of its year-end review process, the Audit Committee again assessed whether the Company should create a dedicated internal audit function. Because of the nature of its business, the principal financial results of the Company occur at the Investment Entity level. To a great extent, preparation of the Consolidated and Parent Financial Statements involves appropriate reporting of the results of the Investment Entities, which are subject to their own internal controls. The incorporation of those results into the Consolidated and Parent Financial Statements is subject to internal scrutiny as well as annual external audit and the Company's Auditors review practices and procedures at the Investment Entities to assess reliability. Executive management is personally involved in the appropriate treatment of any material transactions at the Company level and that treatment is also subject to annual external audit. Because there is annual external audit of all the matters most material to the Consolidated and Parent Financial Statements and given the small number of employees and the relatively small scale of operations at the Company level, the Audit Committee has concluded that the current arrangement is appropriate and a cost/benefit analysis does not support the need for a dedicated internal audit function at this time. During 2017, the Company updated its internal controls processes based on best practice which incorporates a level of independent monitoring of activities within the existing finance staff. During 2018, Lisa McPhillips joined the Company to provide additional support and monitoring of the Company's activities. The Audit Committee will regularly review this assessment. DNO has a full-time internal auditor monitoring the controls procedures and processes within DNO and carrying out internal audits as determined by DNO's audit committee and management.

Assessment of the External Audit Process

The Company's Auditors for 2018 were Ernst & Young LLP (London) assisted by Ernst & Young entities resident in other locations where the Investment Entities are headquartered. Ernst & Young LLP has audited the Company since 2014 and Ernst & Young Sharjah (Dubai) was the auditor for RAK Petroleum PCL from 2007 to 2016.

The Audit Committee met with Ernst & Young LLP both with executive management and outside the presence of executive management and sought to assure itself that:

- The audit plan was designed and adequate to assure there are no material misstatements in the Consolidated and Parent Financial Statements;
- Executive management has fully cooperated with Ernst & Young LLP in implementing the audit plan;
- Ernst & Young LLP had received adequate cooperation from the relevant financial reporting functions of each of the Investment Entities;
- Ernst & Young LLP has the requisite expertise, experience, qualifications and resources to complete the audit;
- All material accounting issues had been resolved to the satisfaction of Ernst & Young LLP;
- Ernst & Young LLP had the opportunity to advise of any deficiencies in the Company's internal processes;
- Ernst & Young LLP was objective and independent from executive management of the Company and any non-audit services provided by Ernst & Young LLP or its network of firms to the Company or the Investment Entities were not such as would compromise its independence.

The Company paid fees of USD 0.63 million to Ernst & Young LLP and its international affiliates in 2018. Of this total, USD 0.00 million was for services related to the audit of RAK Petroleum plc for the period ended 31 December 2018 and USD 0.63 million was for the audit for the period ended 31 December 2017, further details of which can be found in the Notes to the Consolidated and Parent Financial Statements in Section VII.

Generally, non-audit services have been limited to services closely connected to the external audit or to projects that require a detailed understanding of the Company's finances (e.g., half-year financial review, accounting matters for the listing prospectus, taxation, company structuring). The Audit Committee adopted a policy that any material non-audit services to be provided by Ernst & Young LLP or its network of firms require the approval of the Audit Committee. In addition, any non-audit service to be carried out by DNO's auditors for DNO requires DNO to notify the Company's Audit Committee in advance.

The Audit Committee also conferred separately with executive management regarding the effectiveness and cooperation of Ernst & Young LLP. The Audit Committee concluded that (i) Ernst & Young LLP is objective and independent and has the requisite expertise, experience, qualifications and resources, (ii) Ernst & Young LLP's audit plans and procedures were adequate to assure that there are no material misstatements in the Consolidated and Parent Financial Statements, and (iii) Ernst & Young LLP should be reappointed as the Company's Auditors for 2019.

"Speak Up" Arrangements

The Audit Committee has direct access to all the members of executive management and has assured executive management of their ability to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and the Audit Committee directed the General Counsel to assure other staff of that opportunity.

Other Compliance Issues

The Audit Committee inquired of the Company's General Counsel as to any reported matters involving wrongdoing or compliance or risk issues not otherwise addressed in the Consolidated and Parent Financial Statements and concluded these matters were adequately disclosed.

For and on behalf of the Audit Committee

AHMED JAMAL JAWA

Ahmed Jamal Jawa
Chairman of the Audit Committee

14 April 2019

IV. Directors' Remuneration Report

The Directors' Remuneration Policy of RAK Petroleum plc ("RAK Petroleum" or the "Company") was submitted to and approved by the shareholders for a three-year period in a binding vote at the 2015 Annual General Meeting held on 25 June 2015 and was effective from that date. It was resubmitted to shareholders and received their binding approval for an additional three-year period at the 2018 Annual General Meeting. The Director's Remuneration Report for 2017 was approved by the shareholders at the 2018 Annual General Meeting and this Report for 2018 will be submitted to the shareholders for an advisory vote at the 2019 Annual General Meeting.

The Remuneration Committee

The Board of Directors established the Remuneration Committee in December 2014 as a preparatory and advisory committee to ensure thorough and independent preparation for decisions to be taken on remuneration-related policies and decisions.

Remuneration Philosophy

The Company's approach is to have a remuneration philosophy that is sufficiently flexible to enable it to pay appropriate remuneration packages such that suitable high-calibre individuals can be attracted and retained. Given the international environment in which the Company operates, it is essential that the approach to remuneration enables the Company to compete within the global oil and gas investment business. It is a policy of the Company to offer executive management competitive remuneration based on current market standards. Both cash and share-based incentive arrangements are linked to delivery of the Company's key goals. This will give the Company the best opportunity of delivering on its business strategy.

Overview of the Year

The Remuneration Committee decided to continue to hold salaries of executive management at the 2015 levels for 2019. The Remuneration Committee awarded cash bonuses or other incentive compensation to executive management for the year 2018, as more fully described in the attached report.

Looking Forward

The following pages of this Remuneration Report contain the Company's remuneration policy and explain how that policy is implemented. The remuneration package is designed to incentivise executive management and the Company's employees to drive performance in line with the business strategy, and to align their interests with those of shareholders.

Directors' Remuneration Report

The yearly report on remuneration has been prepared in accordance with Part 3 of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended.

Items 2-3 and 5-8 of this Directors' Remuneration Report contain audited information.

In addition to the members of the Board of Directors, the Company has also included in this remuneration report the remuneration details of Kevin Toner, the Managing Director and General Counsel, Shelley Watson, the Chief Operating Officer and Chief Financial Officer and Lisa McPhillips, the Chief of Staff and Deputy General Counsel, to present a complete picture of the remuneration provided to executive management[2].

[2]Executive management for 2018 includes Messrs. Mossavar-Rahmani and Toner, and Mmes. Watson and McPhillips. Only Mr. Mossavar-Rahmani is on the Board of Directors and is therefore an executive Director. Mr. Toner and Ms. Watson are members of executive management but do not serve on the Board of Directors. As the Executive Chairman of the Board of Directors, Mr. Mossavar-Rahmani is the Company's Chief Executive Officer.

1. Remuneration Committee

The Remuneration Committee comprises Bijan Mossavar-Rahmani (chairman) and Sultan Al Ghurair following the resignation in September 2018 of Ambassador Zalmay Khalilzad.

The Remuneration Committee met in April 2018 to prepare and review the Remuneration Report for 2017, as published in the Annual Report and Accounts for 2017. Mr. Toner materially assisted the Remuneration Committee in preparation of that Remuneration Report but he did not participate in any discussions or deliberations concerning his own compensation.

The Remuneration Committee met in December 2018 and considered:

- The base salaries of executive management;
- Grants of cash bonuses or specific awards under the Long-Term Incentive Plan (the "LTIP"); and
- Remuneration policies and practices across the Company.

At that time, the Remuneration Committee decided to continue the freeze of base salaries at 2015 levels and to withhold the grant of any LTIP awards for 2018 in light of the Company's share price development.

The Remuneration Committee awarded cash bonuses to only one member of executive management, Ms. Watson, totalling USD 112,500 for 2018 performance.

The Remuneration Committee met in April 2019 to prepare and review this Remuneration Report for 2018. Mr. Toner materially assisted the Remuneration Committee in preparation of this Remuneration Report but he did not participate in any discussions or deliberations concerning his own compensation. All members attended all 2018 meetings of the Remuneration Committee.

2. Single Total Figure on Remuneration: Executive Management

The following table sets out the total remuneration for executive management for the years ended 31 December 2018 and 31 December 2017 expressed in USD.

Executive management	*Financial year*	*Base salary (including fees)*	*Taxable benefits*	*Annual bonus*	*Long-term incentive plan*	*Pension related benefits*	*Total*
Bijan Mossavar-Rahmani	2018	1,745,500[3]		-	-		1,745,500
	2017	1,692,100[4]		-	-		1,692,100
Kevin J. Toner	2018	650,000	-	-	-	-	650,000
	2017	650,000	-	-	-	-	650,000
Shelley M. Watson	2018	450,000	42,750	112,500	-	-	605,250
	2017	412,500	39,188	-	-	-	451,688
Lisa K. McPhillips	2018	39,936[5]	-	-	-	-	39,936
		-	-	-	-	-	-

Base salary (including fees) reflects total amount of salary and any fees paid to or receivable in the year in respect of qualifying services as a member of the Board of Directors or for other services (including service as Executive Chairman of DNO and member of its board committees in the case for Mr. Mossavar-Rahmani). Taxable benefits reflect the gross value of all taxable benefits (or benefits that would be taxable in the United Kingdom if the individual was resident in the United Kingdom). Annual bonus reflects total amount of bonuses so paid or receivable for the financial year. No awards under the LTIP were granted in the reporting period or through the date of this report and are therefore not reported here.

Additional disclosures in respect of the single figure are shown in the table below.

[3] Includes a base salary of USD 850,000 and Director's fees of USD 50,000 and Nomination Committee fees of USD 5,000 plus USD 840,500 in connection with Mr. Mossavar-Rahmani's service as the Executive Chairman of DNO and member of its board committees. The increase in DNO board member fees is due to exchange rate effects.

[4] Includes a base salary of USD 850,000 and Director's fees of USD 50,000 and Nomination Committee fees of USD 5,000 plus USD 787,100 in connection with Mr. Mossavar-Rahmani's service as the Executive Chairman of DNO and member of its board committees.

[5] Ms. McPhillips began her employment in late November 2018.

2.1 Benefits
The Company did not offer pension entitlements to executive management in 2017 or 2018 except as required by employment law in the country of location of the employee. Nor did it offer benefits such as health cover, car or fuel allowance, taxable travel or relocation costs, except as set out below expressed in USD.

	2018	2017
Kevin J. Toner		
Health cover:	32,287	30,429
Life insurance premiums:	-	-
Shelley M. Watson		
Health cover:	8,741	7,334
Life insurance premiums:	1,810	1,112
Lisa K. McPhillips		
Health cover:	1,409	-
Life insurance premiums:		-

2.2 Annual Bonus
Bonuses of USD 112,500 were awarded for 2018 with payment in 2018. No bonuses were awarded for 2017.

2.3 Details of Awards Made Under the LTIP
The Company made no awards under the LTIP in 2017 and 2018 or to date in 2019.

3. Single Total Figure Remuneration: Non-Executive Directors
The following table sets out the remuneration received by the non-executive members of the Board of Directors from the Company during the financial year expressed in USD.

Non-executive director	*Financial year*	*Board of Directors fee*	*Total*
Zalmay M Khalilzad	2018	37,500	37,500
	2017	50,000	50,000
Amir Ali Handjani	2018	50,000	50,000
	2017	50,000	50,000
Ahmed J. Jawa	2018	50,000	50,000
	2017	50,000	50,000
Bjørn K. Dale	2018	50,000	50,000
	2017	50,000	50,000
Sultan Al Ghurair	2018	50,000	50,000
	2017	50,000	50,000

As approved by shareholders at the 2018 Annual General Meeting, each member of the Board of Directors received USD 50,000 per annum. Ambassador Khalilzad was paid pro-rata for his service reflecting his resignation in September 2018.

Non-executive Directors were not paid any additional salary, bonus, LTIP, pension benefits or other taxable benefits during the financial year. Members of the Board of Directors are reimbursed, or the Company pays, for travel and overnight housing in respect of meetings when appropriate. The Company also reimburses appropriate business expenses incurred in carrying out the Company's business.

4. Remuneration of the Executive Chairman of the Board of Directors Compared to Employees Generally

The percentage change in the remuneration of Mr. Mossavar-Rahmani between 2017 and 2018 compared to that of all employees within the Company:

	Base salary (percent change from 2017)	*Annual cash bonus (percent change from 2017)*
Bijan Mossavar-Rahmani	0	0
Average for all employees	0	400

5. Payments Made to Past Directors

No payments were made during 2018 to past Directors.

6. Payments for Loss of Office

No payments were made to Directors for loss of office during the financial year.

7. Scheme Interests Awarded During the Financial Year

No Scheme Interests were awarded during 2018.

8. Statement of Executive Management's Shareholding and Share Interests

The Company does not currently operate formal shareholding guidelines.

8.1 Executive Management

	Nature of interest	*Shares held at 10 April 2019*
Bijan Mossavar-Rahmani[6]	Class A Shares Restricted Class A Shares Class B Shares	10,394,621 65,437,439 65,437,439 (36.88 percent of votes)
Kevin J. Toner[7]	Class A Shares Restricted Class A Shares Class B Shares	29,500 265,500 265,500 (0.15 percent of votes)
Shelley M. Watson[8]	Class A Shares Restricted Class A Shares Class B Shares	358,214 - - (0.06 percent of votes)

8.2 Non-Executive Directors

	Nature of interest	*As of 26 April 2017*
Amir Ali Handjani[9]	Class A Shares Restricted Class A Shares Class B Shares	2,500,000 - - (0.45 percent of votes)
Ahmed Jamal Jawa[10]	Class A Shares Restricted Class A Shares Class B Shares	5,000,000 - - (0.90 percent of votes)
Bjørn Dale[11]	Class A Shares Restricted Class A Shares Class B Shares	- - - -
Sultan Al Ghurair[12]	Class A Shares Restricted Class A Shares Class B Shares	- - - -

[6] Represents shares held by a Special Purpose Vehicle as to which Mr. Mossavar-Rahmani has a beneficial ownership interest.
[7] Represents shares held by a Special Purpose Vehicle as to which Mr. Toner has a beneficial ownership interest.
[8] Represents shares held by a Special Purpose Vehicle as to which Ms. Watson has a beneficial ownership interest.
[9] Represents shares held through AAH Holding Limited, wholly-owned by Mr. Handjani.
[10] Represents shares held by Starling Global Finance Ltd, of which Mr. Jawa is Chairman and CEO.
[11] Mr. Dale is the Managing Director of DNO. which holds 2,172,591 Class A Shares, 13,677,146 Restricted Class A Shares and 13,677,146 Class B Shares (7.71 percent of votes). Mr. Dale disclaims ownership or control of these shares.
[12] Mr. Al Ghurair is a director of the parent company of TransAsia Gas International LLC which holds 1,000,000 Class A Shares, 9,000,000 Restricted Class A Shares and 9,000,000 Class B Shares (5.00 percent of votes). Mr. Al Ghurair disclaims ownership or control of these shares.

9. Relative Importance of Spend on Pay

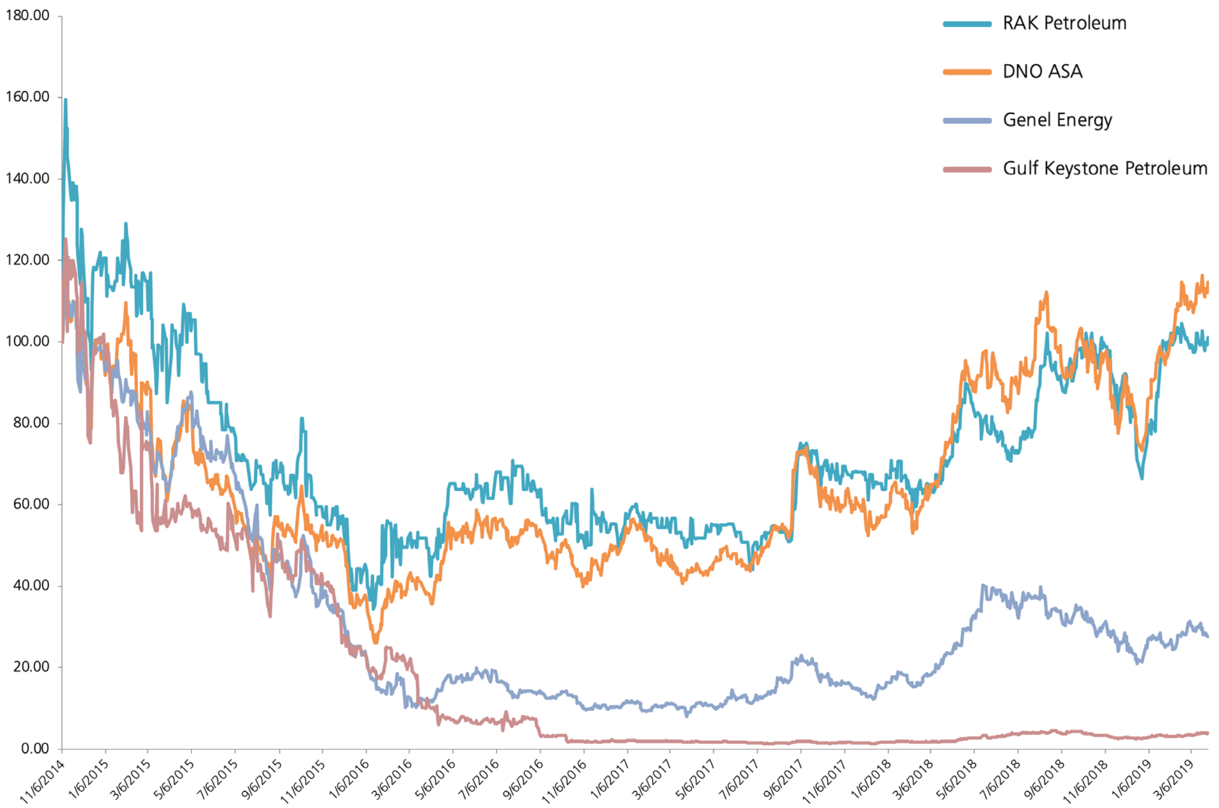
The following table sets out the total amounts spent in 2017 and 2018 on remuneration for all employees within the Company (including executive management), the attributable profit for each year and the distributions received by shareholders.

USD million	*2018*	*2017*	*Percent change*
Attributable profit	166.4	54.6	204.8
Dividends paid	-	-	N/A
Share buyback	-	-	N/A
Total Company spend on remuneration	2.4	2.4	0

Because the Company did not pay dividends or buy back shares in 2017 or 2018, there is no meaningful basis for the comparison. The total Company spend on remuneration represents total staff costs from continuing operations.

10. Performance Graph

This graph shows the cumulative Total Shareholder Return of the Company from listing until April 2019 relative to shares of DNO, Genel Energy plc and Gulf Keystone Petroleum Limited in the respective listing currencies. This group has been chosen because it provides a relevant peer group with comparable idiosyncratic geopolitical and commodity risk, notably in Kurdistan.



11. Historic Remuneration of the Executive Chairman of the Board of Directors

The following table details information about the remuneration of the Executive Chairman of the Board of Directors of the Company over the last three years. Amounts paid by DNO for Mr. Mossavar-Rahmani's service as the Executive Chairman of DNO and member of its board committees are included in full.

Year	*Executive Chairman of the Board of Directors*	*Single figure of total remuneration including LTIP award*	*Annual bonus payout against maximum (percent)*	*Awards vested long-term performance awards against maximum (percent)*
2018	Bijan Mossavar-Rahmani	USD 1,745,500	0	N/A
2017	Bijan Mossavar-Rahmani	USD 1,692,100	0	N/A
2016	Bijan Mossavar-Rahmani	USD 2,733,633	22	N/A

12. Implementation of Remuneration Policy in 2018

The Remuneration Committee's most recent proposed Remuneration Policy was approved by the Company's shareholders at the 2018 Annual General Meeting and therefore was effective from June 2018. Details of the policy are set forth in Section V of the Annual Report and Accounts.

13. Statement on Voting Regarding Remuneration at the Annual General Meeting

At the 2018 Annual General Meeting the Company's shareholders approved (i) the Directors' Remuneration Report by an advisory vote with 99.6 percent of the votes cast in favour of the Report and (ii) the Directors' Remuneration Policy by a binding vote with 99.6 percent of the votes cast in favour of the Policy.

Details of the shareholders' votes on these matters at the 2019 Annual General Meeting will be included in next year's Directors' Remuneration Report.

For and on behalf of the Board of Directors

BIJAN MOSSAVAR-RAHMANI

Bijan Mossavar-Rahmani
Executive Chairman of the Board of Directors

14 April 2019

V. Directors' Remuneration Policy

Introduction

The Directors' Remuneration Policy contains the information required to be set out as the Directors' remuneration policy for purposes of Part 4 of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013.

This Directors' Remuneration Policy was approved by the shareholders at the 2018 Annual General Meeting of RAK Petroleum plc ("RAK Petroleum" or the "Company") and therefore was effective from June 2018.

The Directors' Remuneration Policy applies in respect of all executive management appointed to the Board of Directors (executive Directors) and non-executive Directors.

The Remuneration Committee will keep the policy under review to ensure that it continues to promote the long-term success of the Company by giving the Company the best opportunity to deliver on its business strategy.

It is the Remuneration Committee's intention that the Directors' Remuneration Policy be put to shareholders for approval every three years, as required by applicable law, unless there is a need for proposed changes to the policy to be approved at an earlier date. Accordingly, the policy was put to the shareholders for approval at the 2018 Annual General Meeting and will next be put to the shareholders for approval at the 2021 Annual General Meeting.

The Company aims to provide sufficient flexibility in the Directors' Remuneration Policy for unanticipated changes in compensation practices and business conditions to ensure the Remuneration Committee has appropriate discretion to retain and incentivise its top executives and manage its business. The Remuneration Committee reserves the right to make any payments that may be outside the terms of this Directors' Remuneration Policy, where the terms of that payment were agreed before the policy came into effect, or before the individual became an executive or non-executive Director of the Company.

Maximum caps are provided to comply with the required legislation and should not be taken to indicate a present intention to make payments at that level. All monetary amounts are shown in USD, unless indicated otherwise.

1. Remuneration Policy: Board of Directors

1.1. Expenses

Expenses reasonably and wholly incurred in the performance of the role of Director of the Company are reimbursed or paid for directly by the Company, as appropriate, and may include any tax due on the expense. Directors are entitled to broad indemnification by the Company pursuant to an indemnification agreement entered into with each Director and are covered by the Company's Directors and Officers' Liability Insurance Policy. Directors may receive professional advice in respect of their duties with the Company that will be paid for by the Company. The non-executive Directors do not participate in the Company's annual bonus or Long-Term Incentive Plan (the "LTIP") awards. They do not receive pension benefits. Pursuant to the Corporate Governance Code, remuneration of the non-executive Directors cannot be linked to the Company's performance and the Company shall not grant options to members of the Board of Directors, other than to the Executive Chairman. If any non-executive Director takes on a specific assignment for the Company in addition to the Director's appointment as a member of the Board of Directors, the Board of Directors must approve the fees of such additional duties.

1. Remuneration Policy Table: Board of Directors

Component	*Purpose and link to strategy of the Company*	*Operation*	*Maximum opportunity*	*Performance measures*
Fees	To provide an appropriate reward to attract and retain high-calibre individuals with the relevant skills, knowledge and experience. Executive management who serve as members of the Board of Directors receive this fee for their service on the Board of Directors in addition to their base salary.	Directors receive a standard annual fee, which is paid on a quarterly basis. Additional fees may also be paid to recognise the work performed by members of any committees set up by the Board of Directors. Fees are reviewed on an annual basis but are not necessarily increased at each review. The remuneration of the Directors is a matter for the entire Board of Directors to consider and decide upon, subject to shareholder approval.	The maximum standard annual fee paid to any individual is USD 150,000. The current fee is USD 50,000. The maximum additional fees for committee or committee chair duty is USD 50,000. The Company pays a fee for the Nomination Committee members. Fees are set at a rate that takes into account: • market practice for comparable roles; • the time commitment and duties involved; and • the need to attract and retain the high quality of individuals sought by the Company.	None.
Travel fees	To compensate Directors for costs of attending Board of Directors meetings.	Directors receive payment for their travel and accommodation expenses when attending Board of Directors meetings. These payments are generally not considered to be taxable benefits.		None.

2. Remuneration Policy: Executive Management

2.1 Performance Measures

(a) Annual Bonus

The performance measures for executive management, including executive Directors, consists of financial measures and business goals linked to the Company's strategy, which include financial and operational performance measures. The business objectives are tailored to reflect each individual's role and responsibilities during the year. The performance measures were chosen to enable the Remuneration Committee to review the Company's performance against the Company's business strategy and appropriately incentivise and reward the executive Directors.

The Remuneration Committee sets annual bonus targets each year. These are stretching targets that reflect the most important areas of strategic focus for the Company. The factors taken into consideration include the individual's performance, accomplishments and dedication of effort, seniority and relevant experience in the field or industry and with the Company's particular assets, the Company's results measured by various indicators, including net income, NAV Discount and NAV Growth, the general level of compensation paid to peer executives and by peer companies, the Company's desire to retain, incentivise and reward its executive management, the individual's travel demands and time away from home on business and other relevant factors.

(b) LTIP

The Remuneration Committee may make the vesting of an LTIP award conditional upon the satisfaction of performance conditions. For the purposes of recruiting or retaining a key individual, an award may be granted without performance conditions.

If performance conditions are attached to an LTIP award, these are determined at the time of grant by the Remuneration Committee. The performance measures are chosen to align the performance of participants with the attainment of financial and/or operational performance targets over the vesting period of the award. The Remuneration Committee sets the targets by reference to the Company's strategy and business plan.

Under the LTIP rules, the Remuneration Committee retains the discretion to amend any performance conditions without prior shareholder approval, if:

- An event has occurred which causes the Remuneration Committee reasonably to consider that it would be appropriate to amend the performance conditions;
- The altered performance conditions will, in the reasonable opinion of the Remuneration Committee, be not materially less difficult to satisfy than the unaltered performance conditions would have been but for the event in question; and
- The Remuneration Committee shall act fairly and reasonably in making the alteration.

2.2 Malus and Clawback

(a) Annual Bonus

There are no malus or clawback provisions included in the operation of the annual bonus. The Remuneration Committee retains the flexibility to introduce this in the future.

(b) LTIP

Under the LTIP rules, the Remuneration Committee may determine, where appropriate, that all or part of an un-vested award may not vest in the event that any of the following matters are discovered:

- A material misstatement of the Company's audited financial results;
- A material breach of health and safety regulations;
- A material failure of risk management; and
- Serious reputational damage to the Company.

The Remuneration Committee retains the flexibility to introduce clawback provisions in the LTIP in the future.

2.3 Remuneration Throughout the Company

Differences in the Company's remuneration policy for executive management from the policy for other employees within the Company generally reflect appropriate market rates and practices for specific executive roles requiring individuals with the requisite training and experience.

2. Remuneration Policy Table: Executive Management

Component	*Purpose and link to strategy of the Company*	*Operation*	*Maximum opportunity*	*Performance measures*
Salary	To provide fixed remuneration at an attractive but balanced level, taking into account the complexity of the role and the skills and experience of the individual and sufficient to attract and retain executive management as part of the overall compensation package.	Salary is paid on a bi-weekly or monthly basis. The Remuneration Committee takes into account a number of factors when setting salaries including: • scope and difficulty of the role; • skills and experience of the individual; • salary levels for similar roles within the international industry; and • pay and conditions elsewhere in the Company or locale. Salaries are reviewed on an annual basis but are not necessarily increased at each review.	Salary increases are normally made with reference to the average increase for the Company's wider employee population and taking into account increases in the relevant cost of living and adequate career advancement. The maximum opportunity is 15 percent of base salary for each financial year. The Remuneration Committee retains discretion to make higher salary increases in certain circumstances, for example, following a change in the scope and/or the responsibility of the role or the development of the individual in the role. The Remuneration Committee will consider the factors set out under the "Operation" column when determining the appropriate level of base salary within the formal Policy maximum.	None.
Annual Bonus	To incentivise and reward the achievement of individual and business objectives which are key to the delivery of the Company's business strategy.	Annual bonus awards are based on individual and Company performance measured over one financial year and may include both a cash component and an equity component. Targets are reviewed annually. The Remuneration Committee sets targets that require appropriate levels of performance, taking into account internal and external expectations of performance. Shortly after year-end results are available, the Remuneration Committee will meet to review performance against objectives and determine payouts that will generally be made in cash. No part of the cash bonus is subject to deferral, but the Remuneration Committee reserves the flexibility to apply deferral if appropriate in the future. The Remuneration Committee will, of course, consider whether and to what extent an executive might be receiving an award under the LTIP and the tax consequences of such award in determining the appropriate annual bonus. There are currently no malus or clawback provisions in place, but the Company reserves the right to introduce such provisions in the future.	The maximum award opportunity is 150 percent of base salary for each financial year.	At least 50 percent of the award will be assessed against Company metrics including financial and operational performance. The remainder will be based on performance against individual objectives. A sliding scale of between 0 percent and 100 percent of the maximum award is paid dependent on the performance level.

2. Remuneration Policy Table: Executive Management (continued)

Component	*Purpose and link to strategy of the Company*	*Operation*	*Maximum opportunity*	*Performance measures*
Long Term Incentive Plan ("LTIP")	To incentivise, retain and reward eligible employees and align their interests with those of the shareholders of the Company.	Awards may be granted under the LTIP in the form of conditional share awards, nil-cost options and/or forfeitable shares. Awards will usually vest over a period of two years, subject to achievement of any performance conditions, unless determined otherwise by the Remuneration Committee. Options may only be exercised within five years of the date of grant. Awards can be reduced or cancelled in certain circumstances as set out in the "Malus" section above. There are currently no clawback provisions in place, but the Company reserves the right to introduce clawback provisions in the future. Operation is governed by the rules of the LTIP.	The maximum award permitted under the LTIP is an award over shares valued at 200 percent of base salary in respect of a financial year. This limit may be increased to 300 percent if the circumstances are deemed exceptional by the Remuneration Committee.	Generally as above for annual cash bonuses. However, the Company may, for the purposes of recruiting or retaining a key individual, grant an award without performance measures. Any performance conditions will be measured over the vesting period of the award.
Pension	To provide a retirement benefit that will foster loyalty and retain and incentivise experienced executive management.	Pursuant to agreements of employment with executive management, the Company has agreed to establish a suitable deferred compensation or pension type plan customary for comparable size companies and consistent with any applicable rules. Although the Company has yet to establish such a pension plan, the Remuneration Committee may in the future provide pension benefits commensurate with the market.	Any pension benefits will be set at an appropriate level in line with market practice, and in no event will the annual contributions paid by the Company exceed 15 percent of base salary.	None.
Benefits	To provide a market competitive level of benefits to executive management.	The Company presently provides group life insurance with a death benefit equal to two times salary. Pursuant to agreements of employment with executive management, the Company has agreed to provide group medical insurance to them and, if ineligible, to reimburse or pay for premiums for similar medical coverage. The Company may in the future make individual and Company-wide agreements providing health care and other benefits commensurate with the market. Executive management are reimbursed for all business travel and business expenses, which are generally not considered to be taxable benefits.	Any additional benefits will be set at an appropriate level in line with market practice, and in no event will the value of the benefits exceed 20 percent of base salary for each financial year. The Remuneration Committee will keep benefit policy under review and may adjust the benefit levels in line with market movements.	None.

3. Recruitment

The Company's policy on the recruitment of executive management is to pay a fair remuneration package for the role being undertaken and the experience of the individual being recruited. The Remuneration Committee will consider all relevant factors, which include the abilities of the individual, his or her existing remuneration package, market practice and the existing arrangements for the Company's current executive management.

The Remuneration Committee will determine that any arrangements offered are in the best interests of the Company and shareholders, and will endeavour to pay no more than is necessary.

3. Recruitment (continued)

The Remuneration Committee intends that the components of remuneration set out in the policy tables for executive management, and the approach to those components as set out in the policy tables, will be equally applicable to new recruits, i.e., salary, annual bonus, LTIP awards, pension and benefits. However, the Remuneration Committee acknowledges that additional flexibility may be required to ensure the Company is in the best position to recruit the best candidate for any vacant roles.

3.1 Flexibility

The salary and compensation package designed for a new recruit may be higher or lower than that earned by existing executive management.

Remuneration will normally not exceed that set out in the policy table above. However, the Remuneration Committee reserves discretion to provide a sign-on payment or benefits in addition to those set out in the policy table (or mentioned in this section) where the Remuneration Committee considers it reasonable and necessary to do so.

To ensure that the Company can compete with its peers, the Remuneration Committee considers it important that the recruitment policy has sufficient flexibility in order to attract and appropriately remunerate the high-performing individuals that the Company requires to achieve its strategy. Accordingly, the Remuneration Committee reserves the right to provide a one-off bonus of up to 200 percent of base salary if this is required to secure an external appointment (separate from the annual bonus described in the policy table) in addition to any buy-out of forfeited awards.

This flexibility will only be used when the Remuneration Committee believes it is essential to recruit and motivate a particular candidate.

3.2 Buy-out Arrangements

To facilitate recruitment, the Remuneration Committee retains the discretion to compensate new hires for incentive or other awards forfeited by the recruit in joining the Company. The Remuneration Committee will use its discretion in setting any such compensation, which will be decided on a case-by-case basis and likely on an estimated like-for-like basis.

Compensation for awards forfeited may take the form of a bonus payment or a share award. For the avoidance of doubt, the maximum amounts of compensation contained in the policy table will not apply to such awards.

The Company has not placed a maximum value on the compensation that can be paid under this section, as it does not believe it would be in shareholders' interests to set any expectations for prospective candidates regarding such awards.

In deciding the appropriate type and quantum of compensation to replace existing awards, the Remuneration Committee will take into account all relevant factors, including the type of award being forfeited, the likelihood of any performance measures attached to the forfeited award being met and the proportion of the vesting period remaining. The Remuneration Committee will appropriately discount the compensation payable to take account of any uncertainties over the likely vesting of the forfeited award to ensure that the Company does not, in the view of the Remuneration Committee, pay in excess of what is reasonable or necessary.

4. Payments for Loss of Office

Any compensation payable in the event that the employment of a member of executive management is terminated will be determined in accordance with the terms of the service contract between the Company and the individual, as well as the relevant rules of the LTIP and of this Remuneration Policy.

The Remuneration Committee will consider a variety of factors when considering leaving arrangements for a member of executive management and may exercise any discretions the Remuneration Committee has in this regard, including (but not limited to) individual and business performance during the office, the reason for leaving and any other relevant circumstances (e.g., ill health).

In addition to any payment that the Remuneration Committee may decide to make, the Remuneration Committee reserves discretion as it considers appropriate to:

- Pay an annual bonus for the year of departure;
- Continue providing any benefits for a period of time; and
- Provide outplacement services.

Non-executive members of the Board of Directors do not have any notice periods prior to termination of service and are not entitled to any compensation on termination.

4.1 LTIP Awards

The treatment of any outstanding LTIP award is governed by the LTIP rules. An award will lapse upon the termination of a participant's employment with the Company other than by reason of:

- Death;
- Ill-health or disability;
- The company by which an award holder is employed ceasing to be a Group company;
- The transfer of the undertaking or part of the undertaking in which the award holder is employed to a person other than a Group company; and
- Termination by a Group company without cause.

The Remuneration Committee may also decide following a termination of employment that the participant's awards shall not lapse. The Remuneration Committee will consider a variety of factors when deciding whether to exercise this discretion, including (but not limited to) individual and business performance during the vesting period, the reason for leaving and any other relevant circumstances.

4. Payments for Loss of Office (continued)

In the event that an award does not lapse, it will vest in the normal course unless the Remuneration Committee exercises its discretion to determine that the award shall vest on an earlier date. Such awards will vest pro-rata according to the period of service in relation to the vesting period, subject to the Remuneration Committee's discretion. In addition, an award which is subject to performance conditions will only vest if and to the extent that the Remuneration Committee determines that any performance conditions and any other terms imposed on the vesting of the award have been satisfied or should be deemed satisfied (in whole or in part).

5. Service Contracts and Letters of Appointment

The key employment terms and conditions of the service contracts and letters of appointment of executive management that could impact on their remuneration or loss of office payments are set out below.

The service contract of each of Mr. Toner, Ms. Watson and Ms. McPhillips provides:

- Six months' notice is required by either the Company or the individual to terminate the employment; and
- If the employment is terminated without cause as defined in the agreement, the individual is entitled to receive six months' base salary and accrued performance compensation.

The service contract of Mr. Toner further provides that if such termination occurs in connection with or within two years of a change of control as defined in the agreement, the individual is entitled to 24 months' compensation, including any accrued performance compensation.

Each service contract may also be terminated immediately and with no liability to make payment in certain circumstances, such as unremedied gross negligence, conviction of offenses involving moral turpitude or consistent unexcused absences from work.

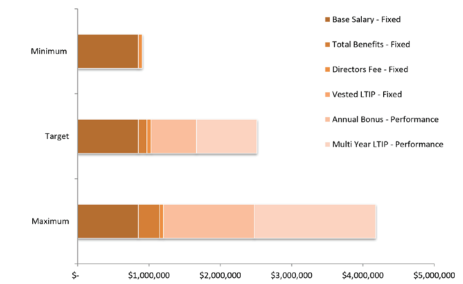
The Executive Chairman of the Board of Director's service contract requires six months' notice by either the Company or Mr. Mossavar-Rahmani to terminate the employment.

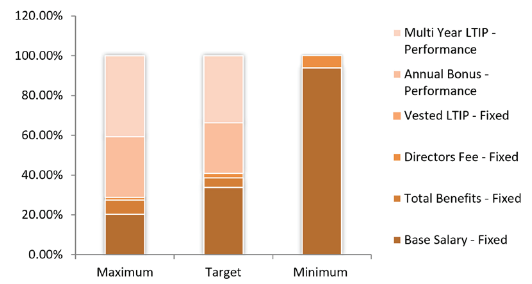
Executive management service contracts are available for inspection at the Company's registered office.

6. Illustration of the Remuneration Policy

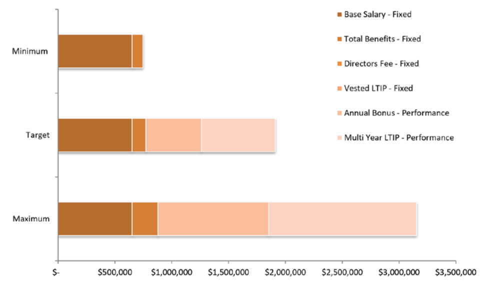
The bar charts below show the levels of remuneration that each member of executive management could earn over the coming year under the Remuneration Policy.

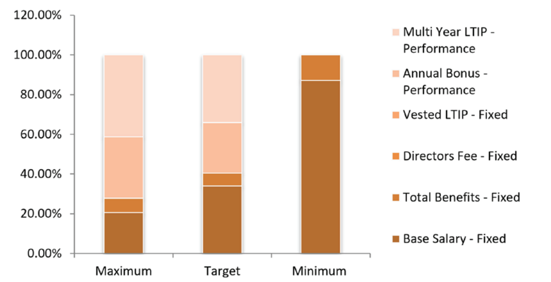
Bijan Mossavar-Rahmani (Executive Chairman of the Board of Directors)[13]





Kevin J. Toner (Managing Director and General Counsel)[14]



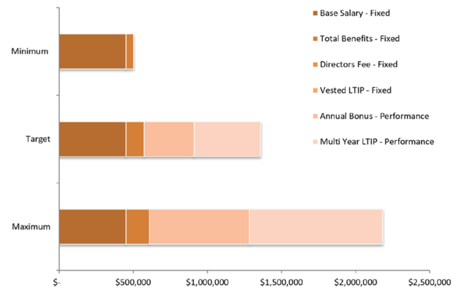


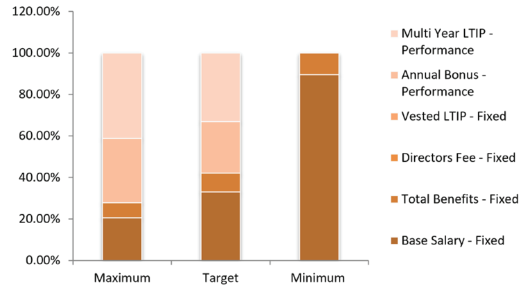
[13] The base salary of the Executive Chairman is USD 850,000, the illustrative LTIP awards are 200 percent of the base salary with two thirds vesting over the first year equalling USD 1.13 million, the Directors fees are USD 50,000 per year and the maximum and target total benefits are estimated at 35 percent of base salary. The maximum and target annual bonuses are at 150 percent and 75 percent of base salary respectively depending on performance. The multi-year LTIP performance related bonus could be granted in full at the time of award or vest over time.

[14] The base salary of the Managing Director and General Counsel is USD 650,000, the illustrative LTIP awards are 200 percent of the base salary with two thirds vesting over the first year equalling USD 867,000 and the maximum and target total benefits are estimated at 35 percent of base salary. The minimum total benefit is estimated based on the existing life insurance premium and health cover of the Managing Director and the 35 percent limit on potential benefits including pension. The maximum and target annual bonuses are at 150 percent and 75 percent of base salary respectively depending on performance. The multi-year LTIP performance related bonus could be granted in full at the time of award or vest over time.

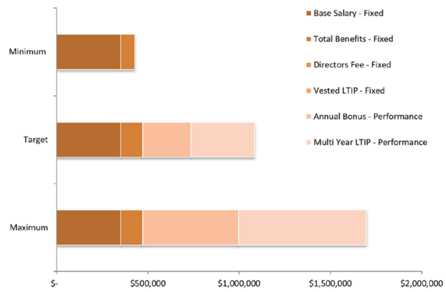
6. Illustration of the Remuneration Policy (continued)

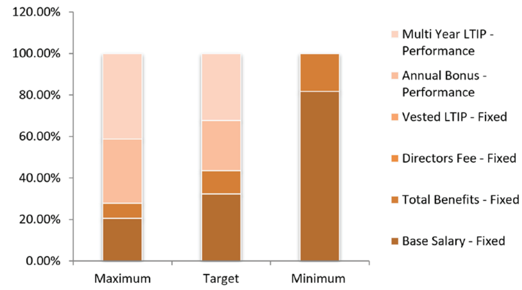
Shelley M. Watson (Chief Operating Officer and Chief Financial Officer)[15]





Lisa K. McPhillips (Chief of Staff and Deputy General Counsel)[16]





[15] The base salary of the Chief Operating Officer and Chief Financial Officer is USD 450,000, the illustrative LTIP awards are 200 percent of the base salary with two thirds vesting over the first year equalling USD 600,000 and the maximum and target total benefits are estimated at 35 percent of base salary. The minimum total benefit is based on the existing superannuation, life insurance and health cover premiums of the Chief Operating Officer and Chief Financial Officer. The maximum and target annual bonuses are at 150 percent and 75 percent of base salary respectively depending on performance. The multi-year LTIP performance related bonus could be granted in full at the time of award or vest over time.

[16] The base salary of the Chief of Staff and Deputy General Counsel is USD 350,000, the illustrative LTIP awards are 200 percent of the base salary with two thirds vesting over the first year equalling USD 467,000 and the maximum and target total benefits are estimated at 35 percent of base salary. The minimum total benefit is based on the existing life insurance and health cover premiums of the Chief of Staff and Deputy General Counsel. The maximum and target annual bonuses are at 150 percent and 75 percent of base salary respectively depending on performance. The multi-year LTIP performance related bonus could be granted in full at the time of award or vest over time.

7. Consideration of Shareholder Views

The Remuneration Committee will take into account the results of the shareholder vote on remuneration matters when making future remuneration decisions. The Remuneration Committee remains mindful of shareholder views when evaluating and setting ongoing remuneration strategy.

8. Consideration of Employment Conditions Within the Company

When determining remuneration levels for its executive Directors, the Board of Directors considers the pay and employment conditions of employees across the Company. The Remuneration Committee will be mindful of average salary increases awarded across the Company when reviewing the remuneration packages of the executive Directors. This remuneration is limited to remuneration to be received from the Company and its wholly-owned subsidiaries and is not intended to affect remuneration received from the Investment Entities. In making determinations under the policy, the Remuneration Committee may take into account remuneration received from Investment Entities.

The Company has not undertaken any specific consultation with employees relating to executive remuneration when preparing the Remuneration Policy. No remuneration comparison measurements were used.

9. Minor Changes

The Remuneration Committee may make, without the need for shareholder approval, minor amendments to the Remuneration Policy for regulatory, exchange control, tax or administrative purposes or to take account of changes in legislation.

For and on behalf of the Remuneration Committee

BIJAN MOSSAVAR-RAHMANI

Bijan Mossavar-Rahmani
Chairman of the Remuneration Committee

14 April 2019

VI. Statement of Directors' Responsibili-ties

The Board of Directors is responsible for preparing the Annual Report, the Directors' Remuneration Report and the Consolidated and Parent Financial Statements in accordance with applicable law and regulations.

The Board of Directors prepares Consolidated and Parent Financial Statements for each financial year. The Board of Directors is required by the International Accounting Standard ("IAS") Regulation to prepare the Consolidated and Parent Financial Statements under International Financial Reporting Standards ("IFRS") as adopted by the European Union. The Board of Directors must not approve the accounts unless they are satisfied that these give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing the Consolidated and Parent Financial Statements, IAS 1 requires that the Board of Directors:

- 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 is 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 Group's ability to continue as a going concern.

The Board of Directors is responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group.

The Board of Directors is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Board of Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- The Consolidated and Parent Financial Statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation as a whole;
- The Strategic Report, which is incorporated into the Report of the Directors, includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board of Directors

BIJAN MOSSAVAR-RAHMANI

Bijan Mossavar-Rahmani
Executive Chairman of the Board of Directors

14 April 2019

VII. Consolidated and Parent Financial Statements

At 31 December 2018

Independent Auditors' Report to the Members of RAK Petroleum plc

Opinion

In our opinion:

- RAK Petroleum plc's ("RAK Petroleum" or the "Company") group financial statements and parent company financial statements (the "Consolidated and Parent Financial Statements") give a true and fair view of the state of the Group's and of the Company's affairs at 31 December 2018 and of the Group's profit for the year then ended;
- the Consolidated Financial Statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Parent 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 Consolidated and Parent Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Consolidated Financial Statements, Article 4 of the IAS Regulation.

We have audited the Consolidated and Parent Financial Statements of RAK Petroleum which comprise:

Group	*Parent company*
Consolidated Statement of Financial Position at 31 December 2018	Company Statement of Financial Position at 31 December 2018
Consolidated Statement of Comprehensive Income for the year then ended	The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company profit and loss account.
Consolidated Statement of Changes in Equity for the year then ended	Company Statement of Changes in Equity for the year then ended
Consolidated Statement of Cash Flows for the year then ended	Company Statement of Cash Flows for the year then ended
Related notes 1 to 31 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 31 to the financial statements including a summary of significant accounting policies

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 to the Parent Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the Consolidated and Parent Financial Statements section of our Auditors' Report below. We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the Consolidated and Parent Financial Statements in the United Kingdom, including the Financial Reporting Council's ("FRC") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Going Concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Board of Directors' use of the going concern basis of accounting in the preparation of the Consolidated and Parent Financial Statements is not appropriate; or

- the Board of Directors have not disclosed in the Consolidated and Parent Financial Statements any identified material uncertainties that may cast significant doubt about the Group's or the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Consolidated and Parent Financial Statements are authorised for issue.

Overview of our audit approach

Key audit matters	• De-facto control over DNO ASA ("DNO") • Judgement on Kurdistan revenue recognition • Oil reserves estimates impacting Tawke unit of production ("UOP")-based depreciation expense • Judgement over rebutting the presumption of significant influence over Faroe Petroleum plc ("Faroe") • Subsequent event note disclosure relating to the acquisition of Faroe
Audit scope	• We performed an audit of the complete financial information of two components (RAK Petroleum sub-group, DNO sub-group) and audit procedures on specific balances for a further component (equity-accounted Foxtrot International LLC ("Foxtrot International")). • The components where we performed full or specific audit procedures accounted for 100 percent of normalised earnings before interest and tax (EBIT), revenue and total assets.
Materiality	• Overall Group materiality of USD 10.1 million which represents 5 percent of normalised EBIT (excluding the one-off effect of the change in recognition of Kurdistan revenue in 2018 and any impairment or reversal).

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated and Parent Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Consolidated and Parent Financial Statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our Auditors' Report.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
De-facto control over DNO *Refer to Accounting policies (page 71) of the Consolidated and Parent Financial Statements* Following two years of interactions with a Review Group of the FRC, which took place between 2015 and 2017, management determined during 2017 that RAK Petroleum does have the ability to exercise de-facto control over DNO as defined by IFRS 10: Consolidated financial statements. Accordingly, as a result, DNO has been consolidated since fiscal year 2017 rather than utilising the equity method of accounting that had been applied in prior years. As such, this judgement has a pervasive impact on the presentation of the Group's Consolidated Financial Statements as a whole. This remains an area of judgement in 2018 which requires ongoing assessment as minor changes in the fact pattern may result in a necessary change of the conclusion. The risk has remained unchanged from prior year.	We assessed management's updated current year analysis of this judgement. In the prior year we performed extensive analysis of the Company's and FRC's interpretation of indicators and contra-indicators of control, including involvement from EY technical accounting experts. We agreed that based on the Company's relative shareholding in DNO, DNO's other shareholder composition, DNO's annual general meeting attendance and voting pattern, DNO's BOD/ governance structure and the role of the DNO Executive Chairman, the Company has had the ability to control DNO. In 2018 we have reassessed these indicators and associated interpretations in order to assess whether these are still complete, unchanged and appropriate. We have reviewed the related judgement disclosures.	We agree with management that the Company continues to have the ability to exercise de-facto control over DNO. We assessed the disclosures relating to the judgements made and consider them to remain appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Judgement on Kurdistan revenue recognition *Accounting policies (pages 69, 72); and Note 5 (page 77) of the Consolidated and Parent Financial Statements* There is judgement as to the level of certainty of cash being realised following the physical sale of oil in the Kurdistan region of Iraq ("Kurdistan"), impacting the extent of revenue recognised in the year. Since 2011 DNO has recognised export revenue in Kurdistan only upon cash receipt rather than on an accruals basis. Following a reassessment in late 2018 management has concluded that recognising revenue for all physical deliveries on an accruals basis is appropriate as a result of a 3 year track record of cash receipts and reduced political and country risk. This resulted in a current year adjustment to account for accrued entitlement revenue of USD 182.8 million (total revenues in the year being USD 829.3 million). The risk is that this judgement is incorrect and revenues recognised are not recoverable. We consider that this risk has reduced compared to the prior year.	Audit procedures over this risk area covered 100 percent of the risk amount. We directed and supervised the work of the component auditor EY Oslo in relation to this risk and we have reviewed all detailed work papers. We obtained full scope reporting from EY Oslo. We have assessed the basis for the change, being a 3 year track record of cash collection and a reduction in political and country risk. We assessed this latter judgement by considering indicators of country risk including in the estimation of discount rates applied in impairment testing and macro-economic and geopolitical analysis of Kurdistan to the extent available. We also considered the revenue recognition approach taken by peers also operating in Kurdistan. We have reviewed the related judgement and revenue disclosures.	Given DNO's 3-year regular payment track record, indicators of reduced political risk and observed peer accounting practise, we agree with the change in revenue recognition in the year. We conclude that the Group's revenue recognition is appropriate in 2018. We consider the disclosures on this matter to be appropriate.
Oil reserves estimates materially impacting Tawke UOP-based depreciation expense (Tawke depreciation, depletion and amortisation ("DD&A") expense for 2018 amounted to USD 102.9m) *Refer to Accounting policies (pages 66, 74) of the Consolidated and Parent Financial Statements.* Oil reserves estimates used for accounting of DD&A of the Tawke license (Tawke field and Peshkabir field) production assets were considered to be a significant risk due to the subjective nature of reserves estimates and their impact on the Group's Consolidated Financial Statements. The estimation of oil reserves is a significant area of judgement due to the technical uncertainty in assessing reserves quantities and complex contractual arrangements dictating the Group's share which could be subject to management bias. DNO uses proven developed reserves for the purposes of its UOP deprecation calculation. We note that in the prior year this risk was considered as part of goodwill impairment and fair valuation risks for the settlement agreement with the Kurdistan regional government ("KRG"). Since those risks are either not existing or less applicable in 2018, the reserve estimation is now presented as a separate risk. The risk has remained unchanged to prior year.	Audit procedures over this risk area were carried out by EY Oslo, which covered 100 percent of the risk amount. We directed and supervised the work of the component auditor and we obtained full scope reporting from EY Oslo. We have reviewed all relevant work papers. We, with assistance from EY Oslo, have performed the following procedures: • Gained an understanding of DNO's process for reserves estimation. • Assessed management's assumptions used in the estimation, including commercial assumptions to ensure that they are based on supportable evidence. • Compared the internal reserve estimation balances to those estimated by DeGolyer & MacNaughton ("D&M"), assessing any variations for audit implications. • Assessed qualifications, expertise and objectivity of the in-house reserves specialists and of D&M. • Checked the accuracy of the data provided by DNO to D&M. • Assessed accuracy of last year's reserve estimate. • Prepared an independent recalculation of net entitlement reserves. • Confirmed that reserve estimates have been used accurately and prospectively in DD&A calculations.	We conclude that the estimation of Tawke proven reserves have been determined on a reasonable basis through the use of internal specialists and objective and competent external specialists. These reserves form an appropriate basis to be used prospectively in calculation of DD&A.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Judgement over rebutting the presumption of significant influence over Faroe Petroleum plc The carrying value of the investment at year end was USD 209.2 million, of which USD 10.5 million related to fair value gains since acquisition. *Refer to Accounting policies (page 72) of the Consolidated and Parent Financial Statements.* During 2018 DNO acquired a 29.90 percent stake in Faroe for USD 198.7 million. IAS 28.5 presumes that with a holding of greater than 20 percent an entity has significant influence over the investee unless it can be clearly demonstrated that this is not the case. Management has concluded that it can clearly demonstrate why it does not have the power to participate in the financial and operating policy decisions of Faroe. DNO, and the Company have accounted for Faroe at fair value through other comprehensive income ("OCI"). There is a risk that the associated judgement is not appropriate, or that the point at which this should change is not identified, resulting in the accounting for the investment being incorrect.	Audit procedures over this risk area were carried out by EY Oslo, which covered 100 percent of the risk amount. We directed and supervised the work of the component auditor and we obtained full scope reporting from EY Oslo. We have reviewed all detailed work papers. In addition, we have centrally performed additional procedures: • Analysed DNO's rights, as 29 percent shareholder. • Analysed Faroe's shareholder structure and the composition of the board of directors. • Considered public statements subsequent to the initial acquisition. • We have assessed whether DNO has had the ability to obtain representation on Faroe's board of directors. • We have reviewed the related judgement disclosures.	We agree with management that DNO has not had the ability to exercise significant influence over Faroe in 2018. We consider the disclosures on this matter to be appropriate.
Subsequent event note disclosure relating to the acquisition of Faroe The consideration for the Faroe acquisition was USD 0.81 billion. Net assets acquired are provisionally valued at USD 0.37 billion, resulting in provisional goodwill of USD 0.44 billion. *Refer to Accounting policies (page 65 - 66); and Note 31 (page 105-106) of the Consolidated and Parent Financial Statements.* The Faroe acquisition in the post balance sheet period results in disclosure requirements under IFRS 3 Business Combinations. This requires the identification and valuation of assets acquired and liabilities assumed in the transaction at the acquisition-date (the purchase price allocation ("PPA")). This is disclosed in the post balance sheet events note. The estimation of the fair value of certain assets or liabilities is judgemental. In particular, the valuation of oil and gas assets (including in exploration and development and production phases) is complex and requires significant judgement in applying forecasts and assumptions. This area is considered a key audit matter due to senior audit resource being directed to this.	We confirmed the acquisition date and recalculated the value of the consideration paid. We assessed Price Waterhouse Coopers ("PwC") as a specialist engaged by DNO executive management to provide valuation and business modelling support. With respect to oil and gas assets: • Through discussion with PwC, we have gained an understanding of the methodology that they have applied to date in performing a preliminary valuation of oil and gas related assets to assess whether this was appropriate. • We assessed key assumptions applied by PwC including the basis for oil and gas reserves and resources included in the valuation, oil and gas price assumptions and the discount rate applied. • Using an estimate of Faroe's 2P reserves as prepared by Gaffney, Cline & Associates as at 31 December 2018, we, with input from our valuation specialists, compared the valuation of oil and gas assets to values derived from multipliers of reserves volumes reflected in other market transactions. We reconciled balances at 31 December 2018 to the draft financial statements of Faroe as appropriate with assistance of the Faroe audit team. We reviewed the draft 2018 Faroe financial statements for indications of assets or liabilities not reflected in the PPA. We assessed the appropriateness of the related disclosures in the Consolidated and Parent Financial Statements.	We agree with the acquisition date and the valuation of consideration paid. We agree with the disclosure reflected in the post balance sheet event note of the preliminary values of assets acquired and liabilities assumed. We agree that this is appropriately reported as a preliminary purchase price allocation. We have not identified significant additional assets or liabilities that have not been considered in the PPA exercise.

The prior year key audit matter on the Kurdistan Receivables Settlement Agreement valuation is not applicable in 2018 as that was based on a one-off transaction which occurred in 2017. Impairment testing of goodwill in DNO was also a key audit matter in 2017, however is less risky in 2018 due to increased market capitalisation of DNO and improved value-in-use key assumptions.

An Overview of the Scope of Our Audit

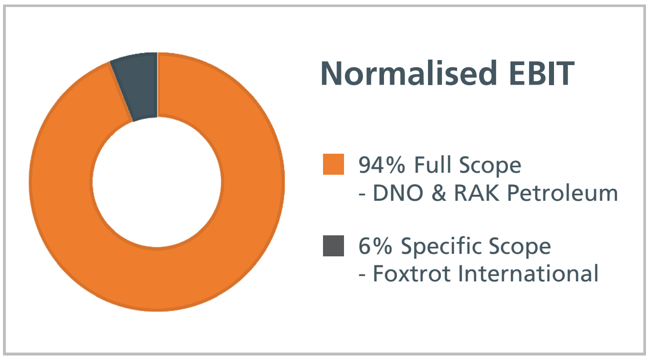
Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the Consolidated and Parent Financial Statements. We take into account size, risk profile, the organisation of the Group, changes in the business environment and other factors as appropriate when assessing the level of work to be performed at each entity.

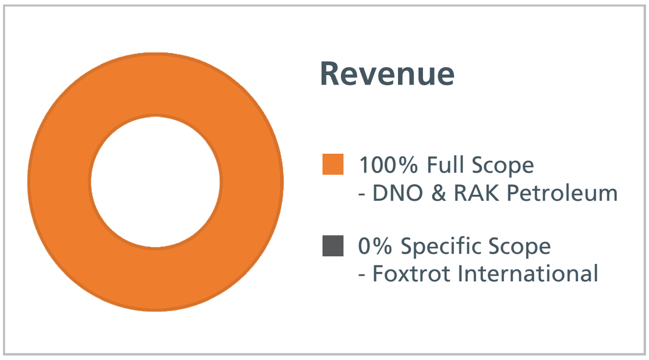
In assessing the risk of material misstatement to the Group's Consolidated Financial Statements, and to ensure we had adequate quantitative coverage of significant accounts in the Consolidated and Parent Financial Statements, we selected three components of the Group, being RAK Petroleum sub-group. DNO sub-group and equity-accounted Foxtrot International.

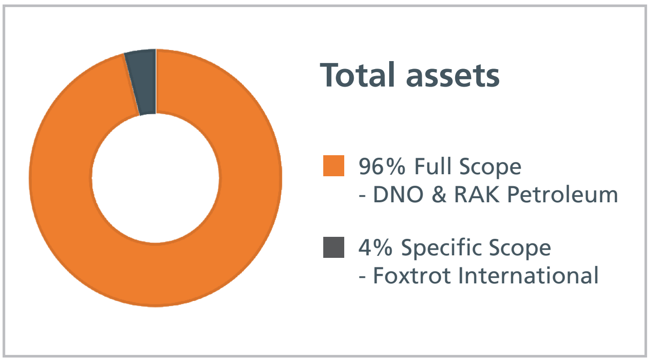
Of these three components, we performed an audit of the complete financial information of the DNO sub-group and RAK Petroleum sub-group ("full scope component") based on their size or risk characteristics. For the Foxtrot International component ("specific scope component"), we performed audit procedures on specific accounts that we considered had the potential for the greatest impact on the significant accounts in the Consolidated Financial Statements either because of the size of these accounts or their risk profile.

The components where we performed full or specific scope audit procedures accounted for 100 percent of the Group's normalised EBIT, Revenue and Total assets. The audit scope of specific scope components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

The charts below illustrate the coverage obtained from the work performed by our audit teams.







There are no scoping changes to prior year.

Involvement with Component Teams
In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. DNO sub-group is the only full scope component audited by a component

team (EY Oslo). Equity-accounted Foxtrot International is the only specific scope component audited by a component team (EY Ivory Coast) and we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the current year's audit cycle, two visits were undertaken by the primary audit team to the DNO component team in Oslo. This included the Senior Statutory Auditor visiting Oslo in January 2019. These visits involved discussing the audit approach with the component team and any issues arising from their work, attending a meeting with key management of DNO and reviewing key audit working papers on risk areas. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers onsite and remotely and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group's Consolidated and Parent Financial Statements.

Our Application of Materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the Consolidated and Parent Financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

- We determined materiality for the Group to be USD 10.4 million (2017: USD 9.0 million), which is 5 percent of normalised EBIT (2017: 0.5 percent of total assets). Normalised EBIT excludes the one-off effect of the change in recognition of Kurdistan revenue in 2018 and any impairment or reversal. In prior years, total assets was used for the basis of materiality, however due to the increased and stable profits generated, we have assessed that an earnings-based measure is more appropriate.

- We determined materiality for the Company to be USD 6.3 million (2017: USD 6.4 million), which is 1 percent (2017: 1 percent) of net assets.

During the course of our audit, we reassessed initial materiality and concluded that our materiality calculated at the planning stage of the audit continued to be appropriate.

Performance Materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50 percent (2017: 50 percent) of our planning materiality, namely USD 5.2 million (2017: USD 4.5 million). We have set performance materiality at this percentage based on the number of misstatements noted in the prior year.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the performance materiality allocated to DNO, as the most significant component, was USD 4.9 million (2017: USD 4.5 million).

Reporting Threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of USD 0.50 million (2017: USD 0.45 million), which is set at approximately 5 percent of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other Information
The other information comprises the information included in the Annual Report set out on pages 2 to 46, other than the Consolidated and Parent Financial Statements and our Auditors' Report thereon. The Board of Directors are responsible for the other information.

Our opinion on the Consolidated and Parent Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this Auditors' Report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated and Parent Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated and Parent Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Consolidated and Parent Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Consolidated and Parent Financial Statements are prepared is consistent with the Consolidated and Parent Financial Statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on Which we are Required to Report by Exception
In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors
As explained more fully in the Directors' Responsibility Statement set out on page 46, the Board of Directors is responsible for the preparation of the Consolidated and Parent Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Board of Directors determine is necessary to enable the preparation of Consolidated and Parent Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated and Parent Financial Statements, the Board of Directors is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors’ Responsibilities for the Audit of the Consolidated and Parent Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated and Parent Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated and Parent Financial Statements.

Explanation as to What Extent the Audit was Considered Capable of Detecting Irregularities, Including Fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the Consolidated and Parent Financial Statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant which are directly relevant to specific assertions in the Consolidated and Parent Financial Statements are those related to the reporting framework (IFRS as adopted by the European Union, the Companies Act 2006 and the Norwegian Code of Practise for corporate governance) and the relevant tax compliance regulations, mostly in Norway, Iraq/Kurdistan and Oman.

- We understood how the Group is complying with those frameworks by making enquiries to management, DNO internal audit, and those responsible for legal compliance procedures. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committees.

- We assessed the susceptibility of the Consolidated and Parent Financial Statements to material misstatement, including how fraud might occur by making enquiries to management, reviewing the findings of internal audit, assessing the entity level controls and identifying material amounts within the Consolidated and Parent Financial Statements which may be able to be manipulated to achieve desired results.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiries to management, review of DNO internal audit reports, and those responsible for legal compliance procedures.

A further description of our responsibilities for the audit of the Consolidated and Parent Financial Statements is located on the Financial Reporting Council’s website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors’ Report.

Other Matters we are Required to Address

- We were appointed by the Company in 2014 to audit the Consolidated and Parent Financial Statements for the year ending 31 December 2013 and subsequent financial periods.

- The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering the years ending 31 December 2013 to 31 December 2018.

- Non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee.

Use of our Auditors' Report

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 Auditors' 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.

Ernst & Young LLP

Daniel Trotman
(Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

London

14 April 2019

Notes:

1. The maintenance and integrity of the RAK Petroleum plc web site is the responsibility of the Board of Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Consolidated and Parent Financial Statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2018

USD million	Notes	2018	2017
Revenues	5	829.3	347.4
Cost of goods sold	6	(350.6)	(202.2)
Gross profit		**478.7**	**145.2**
Share of profit of a Joint Venture	14	11.2	5.9
Other income past oil sales	29	-	556.0
Other operating income	5	4.8	1.5
General and administrative expenses	7	(45.2)	(47.5)
Impairment oil and gas assets	12	(1.9)	(108.4)
Impairment goodwill	13	-	(160.0)
Reversal of impairment of investment in Joint Venture	14	8.7	11.2
Exploration costs expensed	8	(64.7)	(33.0)
Profit/(loss) from operating activities		**391.7**	**370.9**
Financial income	9	12.7	11.8
Financial expenses	9	(68.9)	(59.8)
Profit/(loss) before income tax		**335.4**	**322.9**
Income tax expenses	10	31.8	20.0
Net profit/(loss)		**367.2**	**342.9**
Other comprehensive income			
Currency translation differences		1.4	(0.4)
Other comprehensive income that may be reclassified to profit or loss in subsequent periods	-	**1.4**	**(0.4)**
Changes in the fair value of equity investments at fair value through other comprehensive income		11.6	-
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods	-	**11.6**	-
Total comprehensive income, net of tax		**380.2**	**342.5**
Net profit/(loss) attributable to:			
Equity holders of the parent		161.0	54.8
Non-controlling interest		206.2	288.1
Net profit/(loss)		**367.2**	**342.9**
Comprehensive income attributable to:			
Equity holders of the parent		166.4	54.6
Non-controlling interest		213.8	287.9
Total comprehensive income, net of tax		**380.2**	**342.5**
Earnings per share attributable to the equity holders of the parent during the year			
Earnings per share, basic		0.516	0.176
Earnings per share, diluted		0.516	0.176

The attached Notes 1 to 31 form part of these Consolidated and Parent Financial Statements.

Consolidated Statement of Financial Position
At 31 December 2018

USD million	Notes	31 December 2018	31 December 2017
Assets			
Non-current assets			
Deferred income tax assets	10	7.0	3.5
Intangible assets	12	255.9	254.5
Property, plant and equipment	12	758.1	863.3
Financial investments	15	212.9	-
Investment in Joint Venture	14	94.2	94.2
Other non-current assets	16	0.1	0.5
Total non-current assets		**1,328.2**	**1,216.0**
Current assets			
Inventories	6	8.3	7.4
Trade and other receivables	16	210.1	28.1
Tax receivables	10	28.3	33.7
Cash and cash equivalents	17	768.0	454.0
Total current assets		**1,014.7**	**523.2**
Total assets		**2,342.9**	**1,739.1**
Equity and liabilities			
Equity			
Share capital	18	5.3	5.3
Share premium	19	0.7	0.7
General reserve	20	797.7	796.6
Retained earnings		31.8	(135.5)
Attributable to equity holders of the parent		**835.5**	**669.2**
Attributable to non-controlling interest	13	698.3	499.7
Total equity		**1,533.8**	**1,168.8**
Non-current liabilities			
Interest-bearing liabilities	21	590.0	395.3
Provisions for other liabilities and charges	22	68.2	45.8
Total non-current liabilities		**658.2**	**441.0**
Current liabilities			
Current Interest-bearing liabilities	21	26.6	25.8
Trade and other payables	24	116.4	100.0
Income taxes payable	10	0.5	0.7
Provisions for other liabilities and charges	22	7.4	2.7
Total current liabilities		**150.9**	**129.2**
Total liabilities		**809.1**	**570.2**
Total equity and liabilities		**2,342.9**	**1,739.1**

The Consolidated and Parent Financial Statements in Section VII were authorised for issue by the Board of Directors on 15 April 2019.

For and on behalf of the Board of Directors

BIJAN MOSSAVAR-RAHMANI

Bijan Mossavar-Rahmani
Executive Chairman of the Board of Directors

14 April 2019

The attached Notes 1 to 31 form part of these Consolidated and Parent Financial Statements.

Consolidated Statement of Cash Flows For the Year Ended 31 December 2018

USD million	Notes	2018	2017
OPERATING ACTIVITIES			
Profit/(loss) before income tax		335.4	323.0
Adjustments to add/(deduct) non-cash items:			
Depreciation of property, plant and equipment	12	260.1	106.2
Impairment loss on oil and gas assets	12	1.9	108.4
Non-cash Kurdistan receivable settlement	29	-	(556.0)
Share of profit/(loss) of a Joint Venture	14	(11.2)	(5.9)
Reversal of impairment of Investment in Joint Venture	14	(8.7)	(11.2)
Impairment goodwill	13	-	160.0
Other		50.2	64.4
Changes in working capital and provisions:			
- Inventories	12	(2.4)	5.9
- Trade and other receivables	16	(181.9)	72.8
- Trade and other payables	24	16.5	53.8
- Provisions for other liabilities and charges	22	4.7	8.2
Cash generated from operations		**464.6**	**329.5**
Income taxes paid	10	-	(2.4)
Tax refund during the period	10	33.2	33.2
Net interest paid	9	(34.1)	(32.3)
Net cash from/(used in) operating activities		**463.7**	**328.0**
INVESTING ACTIVITIES			
Acquisition of subsidiary (net of cash acquired)	30	-	2.6
Purchases of intangible assets	12	(7.8)	(1.3)
Purchases of tangible assets	12	(130.3)	(129.1)
Investments in financial assets	15	(201.3)	-
Equity injection into Joint Venture	14	(2.0)	(3.1)
Dividends received from Joint Venture	14	21.9	28.7
Net cash from/(used in) investing activities		**(319.5)**	**(102.2)**
FINANCING ACTIVITIES			
Proceeds from borrowings	21	223.9	14.5
Repayment of borrowings	21	(39.2)	(38.0)
Acquisition of non-controlling interest without change of control	20	-	(24.1)
Paid dividend to non-controlling interest (NCI)		(15.2)	-
Net cash from/(used in) financing activities		**169.6**	**47.6**
Net increase/(decrease) in cash and cash equivalents	17	314.0	178.4
Cash and cash equivalents at beginning of the period	17	454.0	275.6
Cash and cash equivalents at end of the period		**768.0**	**454.0**
Of which restricted cash	17	**423.3**	**5.9**

The attached Notes 1 to 31 form part of these Consolidated and Parent Financial Statements.

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2018

USD million	*Share capital*	*Share premium*	*Treasury shares*	*Other reserves*	*Share-based payment reserve*	*Fair value reserve*	*Foreign currency translation reserve*	*Retained earnings*	*Total*	*Non-controlling interest*	*Total equity*
Balance at 1 January 2018	5.3	0.7	(20.8)	832.3	-	-	(14.8)	(133.5)	669.1	499.7	1,168.8
Profit/(loss) for the year	-	-	-	-	-	-	-	161.0	161.0	206.2	367.2
Other comprehensive income/(loss) for the year	-	-	-	-	-	-	1.1	4.3	5.4	7.6	13.0
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	**1.1**	**165.3**	**166.4**	**213.8**	**380.2**
Transactions with owners, recognised directly as equity											
Payment of dividend to NCI	-	-	-	-	-	-	-	-	-	(15.0)	(15.0)
Balance at 31 December 2018	**5.3**	**0.7**	**(20.8)**	**832.3**	**-**	**-**	**(13.7)**	**31.8**	**835.5**	**698.4**	**1,533.8**

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2017

USD million	*Share capital*	*Share premium*	*Treasury shares*	*Other reserves*	*Share-based payment reserve*	*Fair value reserve*	*Foreign currency translation reserve*	*Retained earnings*	*Total*	*Non-controlling interest*	*Total equity*
Balance at 1 January 2017	5.3	0.7	(20.3)	842.4	-	-	(14.3)	(188.3)	625.5	225.0	850.5
Profit/(loss) for the year	-	-	-	-	-	-	-	54.8	54.8	288.1	342.9
Other comprehensive income/(loss) for the year	-	-	-	-	-	-	(0.2)	-	(0.2)	(0.2)	(0.4)
Total comprehensive income/(loss) for the year	-	-	-	-	-		**(0.2)**	**54.8**	**54.6**	**287.9**	**342.5**
Transactions with owners, recognised directly in equity											
Changes in ownership interests in subsidiaries that do not result in a loss of control:											
Acquisition of non-controlling interest without change of control (Note 20)	-	-	(0.5)	(10.1)	-	-	(0.4)	-	(11.0)	(13.1)	(24.1)
Balance at 31 December 2017	**5.3**	**0.7**	**(20.8)**	**832.3**	**-**	**-**	**(14.8)**	**(133.5)**	**669.1**	**499.7**	**1,168.8**

Company Statement of Financial Position
At 31 December 2018

USD million	*Notes*	**2018**	*2017*
Assets			
Non-current assets			
Equipment		-	-
Investment in subsidiaries	25	670.1	670.1
		670.1	**670.1**
Current assets			
Other receivables	16	0.8	0.3
Intercompany debt owed to Company	21	-	-
Cash and cash equivalents		2.8	3.4
		3.6	**3.7**
Total assets		**673.7**	**673.7**
Equity and liabilities			
Equity			
Share capital	18	5.3	5.3
Share premium	19	0.7	0.7
Other reserves	20	667.1	667.1
Accumulated losses		(39.0)	(32.5)
Total equity		**634.0**	**640.5**
Non-current liabilities			
Employees' end of service benefits		0.1	0.1
Interest-bearing liabilities	21	14.3	22.5
		14.4	**22.5**
Current liabilities			
Trade and other payables	24	0.2	0.4
Provisions	22	-	-
Current interest-bearing liabilities	21	8.2	8.2
Intercompany debt owed by Company	21	17.0	2.1
		25.3	**10.7**
Total liabilities		**39.7**	**33.2**
Total equity and liabilities		**673.7**	**673.7**

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company profit and loss account. The loss for the parent company for the year was USD 6.5 million (USD 10.8 million loss for 2017).

The attached Notes 1 to 31 form part of these Consolidated and Parent Financial Statements.

Company Statement of Cash Flows
For the Year Ended 31 December 2018

USD million	Notes	2018	2017
Operating activities			
Profit/(loss) before income tax		(6.5)	(10.8)
Adjustments to add/(deduct) non-cash items:			
Depreciation of equipment		-	0.1
Provision	22	(0.1)	(0.2)
Operating profit before working capital changes		(6.5)	(11.0)
Trade and other receivables		(0.5)	1.0
Trade and other payables		(0.3)	0.3
Net cash from/(used in) operating activities		**(7.3)**	**(10.3)**
Investing activities			
Proceeds lent to subsidiary	21	-	-
Proceeds repaid by subsidiary	21	-	13.7
Net cash from/(used in) investing activities		**-**	**13.7**
Financing activities			
Proceeds obtained from subsidiary	21	14.9	2.1
Proceeds from borrowings	21	-	-
Repayment of borrowings	21	(8.2)	(5.5)
Net cash from/(used in) financing activities		**6.7**	**(3.4)**
Net increase/(decrease) in cash and cash equivalents		(0.5)	0.0
Cash and cash equivalents at beginning of the period		3.4	3.4
Cash and cash equivalents at end of the period		**2.8**	**3.4**

Company Statement of Changes in Equity
For the Year Ended 31 December 2018

USD million	Share capital	Share premium	Other reserve	Accumulated losses	Total
Balance at 1 January 2018	5.3	0.7	667.1	(32.6)	640.5
Profit/(loss) for the year	-	-	-	(6.5)	(6.5)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive profit/(loss) for the year	-	-	-	(6.5)	(6.5)
Balance at 31 December 2018	**5.3**	**0.7**	**667.1**	**(39.0)**	**634.0**

Company Statement of Changes in Equity
For the Year Ended 31 December 2017

USD million	Share capital	Share premium	Other reserve	Accumulated losses	Total
Balance at 1 January 2017	5.3	0.7	667.1	(21.8)	651.3
Profit/(loss) for the year	-	-	-	(10.8)	(10.8)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive profit/(loss) for the year	-	-	-	(10.8)	(10.8)
Balance at 31 December 2017	**5.3**	**0.7**	**667.1**	**(32.6)**	**640.5**

The attached Notes 1 to 31 form part of these Consolidated and Parent Financial Statements.

Notes to the Consolidated and Parent Financial Statements
At 31 December 2018

1. Corporate Information
RAK Petroleum plc ("RAK Petroleum" or the "Company") is incorporated as a public limited company organised and existing under the laws of England and Wales pursuant to the UK Companies Act. The Company was incorporated on 17 June 2013 and the Company's registration number is 08572925. The registered office of the Company is Elder House, St Georges Business Park, Brooklands Road, Weybridge, Surrey KT13 0TS, United Kingdom.

The Company is an energy investment company that currently owns two major assets:

- A block of 438,379,418 shares in DNO ASA ("DNO") representing 40.45 percent of the total DNO shares outstanding at 31 December 2018 (41.80 percent effective share net of DNO treasury shares held by DNO). This is unchanged from 2017. DNO and its subsidiaries (the "DNO Group") is included in the Consolidated Financial Statements of the Group as a subsidiary for the year ended 31 December 2018; and
- 100 percent ownership of Mondoil Enterprises, LLC ("Mondoil Enterprises"). Through this investment in Mondoil Enterprises, the Group holds a one-half stake in Mondoil Côte d'Ivoire LLC ("Mondoil Côte d'Ivoire") which in turn holds a two-thirds ownership in Foxtrot International LDC ("Foxtrot International"), a privately-held oil and gas company active in Côte d'Ivoire. Mondoil Côte d'Ivoire is included in the consolidated accounts of the Group as a Joint Venture for the year ended 31 December 2018.

On 7 November 2014, the Company listed its Class A Shares on the Oslo Børs.

2. Summary of Significant Accounting Policies
The principal accounting policies applied in the preparation of these Consolidated and Parent Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation
The Consolidated Financial Statements of the Group as well as the Parent Financial Statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The Consolidated Financial Statements are prepared under the historical cost convention with the following exemptions: investments in equity instruments classified as financial investments at fair value through other comprehensive income are recognised at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated or Parent Financial Statements, are disclosed in Note 3.

New Standards Adopted by the Group
There were no standards that have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2018 that had a material impact on the Group. The Group applied IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments effective 1 January 2018. The impact of the adoption of these two standards is described further below in this Note and under Note 5 Revenue recognition and Note 27 Financial Instruments. Several other amendments and interpretations were applied for the first time in 2018 but are not considered to have any material impact on the Consolidated or Parent Financial Statements.

2. Summary of Significant Accounting Policies (continued)

Investments

Subsidiaries

A subsidiary is an entity over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Acquisition of subsidiaries is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. Goodwill is recognised on acquisition of subsidiaries and it represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Subsidiaries are fully consolidated from the date of acquisition or incorporation, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Group, using consistent accounting policies.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Profit or loss and each component of Other Comprehensive Income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation for the controlling interest share.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

In the Parent Financial Statements, investments in subsidiaries are held at cost less impairment. Cost is the fair value of consideration given. Investments in subsidiaries are subject to the same impairment assessment as investments in Associates and Joint Ventures as explained below.

Joint Ventures

A Joint Venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the Joint Venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in Joint Ventures are accounted for using the equity method. Under the equity method, the investment in a Joint Venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the Joint Venture since the acquisition date. Goodwill relating to the Joint Venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The income statement reflects the Group's share of the results of operations of the Joint Venture.

On acquisition of the investment, any difference between the cost of the investment and the Group's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as:

- Goodwill relating to a Joint Venture and is included in the carrying amount of the investment. Such goodwill is not amortised; and
- Any excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment ("negative goodwill") is included as income in the determination of the entity's share of the Joint Venture's profit or loss in the period in which the investment is acquired.

Appropriate adjustments to the Group's share of the Joint Venture's

2. Summary of Significant Accounting Policies (continued)

profit or loss after acquisition are made in order to account, for example, for depreciation of the depreciable assets (and related deferred tax, if any) based on their fair values at the acquisition date.

Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the Joint Venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity.

The aggregate of the Group's share of profit or loss of a Joint Venture represents profit or loss after tax and non-controlling interests in the subsidiaries of the Joint Venture.

The financial statements of the Joint Venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group (IFRS).

The impact of reciprocal interests between the Group and its investees is eliminated before the Group accounts for its share; the Group also reduces its equity and investment balance by its effective interest in its own shares.

After application of the equity method, the Group evaluates whether there are any potential impairment indicators as per IFRS 9. If there is an indication that the Group's interests in a Joint Venture may be impaired, an impairment test as per IAS 36 is conducted. The entire carrying amount of the investment in the Joint Venture is compared to the recoverable amount, which is the higher of value-in-use or fair value less cost of disposal. Value-in-use is calculated by the present value of the Group's share of the Joint Venture's future cash flows, including any proceeds from future disposals. If the carrying amount exceeds the recoverable amount, the excess is recorded as impairment in the income statement.

If in a subsequent period, the amount of impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss should be reversed through profit or loss. The reversal of a previous impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases; however the maximal impairment reversal is limited to what that carrying amount would have been (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

The most recent detailed calculation made in a preceding period of the recoverable amount of a Group's interests in a Joint Venture may be used in the impairment test of that investment in the current period, provided that (i) the most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the investment by a substantial margin, and (ii) based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the investment is remote.

Interest in Jointly Controlled Operations (Assets)

A joint arrangement is present when the Company (or one of its subsidiaries) holds a long-term interest which is jointly controlled by the Company (or one of its subsidiaries) and one or more other parties under a contractual arrangement in which decisions about the relevant activities require the unanimous consent of the parties sharing control. Such joint arrangements are classified as either joint operations or joint ventures.

Under IFRS 11 *Joint Arrangements*, a joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities. Oil and gas licenses held by the Group which are within the scope of IFRS 11 have been classified as joint operations.

The Group recognises its investments in joint operations by reporting its share of related revenues, expenses, assets, liabilities and cash flows under the respective items in the Consolidated Financial Statements.

For those licenses that are not deemed to be joint arrangements pursuant to the definition of IFRS 11, either because unanimous consent is not required among all parties involved, or no single group of parties has joint control over the activity, the Group recognises its share of related expenses, assets, liabilities and cash flows under the respective items in the Consolidated Financial Statements in accordance with applicable IFRS standards. In determining whether each separate arrangement related to the Group's joint operations is within or outside the scope of IFRS 11, the Group considers the terms of relevant license agreements, governmental concessions and other legal arrangements impacting how and by whom each arrangement is controlled. Currently there are no significant differences in the Group's accounting for license arrangements.

Farm-in and Farm-out

A farm-in or farm-out of an oil and gas license takes place when the owner of the working interest (the "farmor") transfers all or a portion of its working interest to another party (the "farmee") in return for an agreed upon consideration and/or action, such as conducting subsurface studies, drilling wells or developing the property. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal. The farmee capitalises or expenses its costs as incurred according to the accounting method it is using. There are no accruals for future commitments in farm-in/farm-out agreements in the exploration and evaluation phase and no profit or loss recognised by the farmor. In the development or

2. Summary of Significant Accounting Policies (continued)

production phase a farm-in/farm-out agreement will be treated as a transaction recorded at fair value as represented by the costs carried by the farmee. Any gain or loss arising on the farm-in/farm-out is recognised in the statement of comprehensive income.

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. Acquisition related costs are expensed as incurred, unless the acquisition is related to an acquisition of an Associate or Joint Venture, in which case such costs are added to the initial investment cost.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group as acquirer reports in its Consolidated Financial Statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group will retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date which, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date which, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

Pre-existing contractual relationships between acquirer and acquiree are recognised separately from the business combination.

For an acquisition of a group of assets that does not constitute a business, all acquired assets and liabilities will be identified and the cost of the transaction is allocated to the assets acquired and liabilities assumed based on their relative fair values at the date of purchase. No goodwill arises on the transaction.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Chairman of the Board of Directors.

Foreign Currency Translation and Transactions

Functional Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Consolidated and Parent Financial Statements are presented in USD, which is the Company's presentation currency.

Transactions and Balances

Transactions in foreign currencies are recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to profit or loss. Foreign exchange gains or losses resulting from changes in the fair value of non-monetary financial assets classified as equity instruments are recognised directly in other comprehensive income.

At the reporting date, the assets and liabilities of Group companies with functional currencies other than USD are translated into USD at the rate of exchange ruling at the reporting date and their income statements are translated at the weighted average exchange rates for the year or each month. Equity is translated at historical rates. The differences arising on the translation are taken directly to the consolidated statement of other comprehensive income. On disposal of an entity, the deferred cumulative foreign currency translation differences recognised in equity relating to that entity are recognised in profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

Classification in the Statement of Financial Position

Current assets and short-term liabilities include items due less than a year from the statement of financial position date, and if longer, items related to the operating cycle. The current portion of long-term debt is included under current liabilities. Investments in shares held for trading are classified as current assets, while strategic investments are classified as non-current assets. Other assets and liabilities are classified as non-current assets and non-current liabilities.

Fair Value

Financial instruments such as investments in equity instruments are measured at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows:

- Level 1 — Quoted market prices in active markets for identical assets or liabilities

2. Summary of Significant Accounting Policies (continued)

- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Investments in equity instruments, where available, are measured at quoted market prices at the measurement date.

Property, Plant and Equipment and Intangible Assets

General

Property, Plant and Equipment ("PP&E") acquired by the Group are recognised at historical cost and adjusted for depreciation, depletion and amortisation ("DD&A") and impairment charges. The carrying amount of the PP&E in the statement of financial position represents the cost less accumulated DD&A and accumulated impairment charges.

The unit-of-production method is used in the depreciation of oil and gas assets. The rate of depreciation is equal to the ratio of oil and gas production for the period over the estimated remaining proven developed reserves.

Other fixed assets in use (excluding oil and gas properties) are generally depreciated on a straight-line basis at rates varying from three to seven years. Expected useful lives are reviewed at each statement of financial position date and, where there are changes in estimates, depreciation periods are changed accordingly.

Ordinary repairs and maintenance costs, defined as day-to-day servicing costs, are charged to profit or loss during the financial period in which they are incurred. The cost of major workovers is included in the asset's carrying amount when it is likely that the Group will derive future financial benefits exceeding the originally assessed standard performance of the existing asset. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Assets held for sale are reported at the lower of the carrying amount and the fair value, less selling costs.

Intangible assets are stated at cost, less accumulated amortisation and accumulated impairment charges. Intangible assets include acquisition costs for oil and gas licenses, expenditures on the exploration for oil and gas resources, goodwill and other intangible assets. The useful lives of intangible assets are assessed as either finite or infinite. Amortisation of intangible assets is based on the expected useful economic lives and assessed for impairment whenever there is an indication that the intangible asset might be impaired. The impairment review of intangible assets with infinite lives is undertaken annually.

Exploration and Development Cost for Oil and Gas Assets

The Group uses the successful efforts method to account for exploration, appraisal and development costs, where exploration costs are expensed as incurred.

However, drilling costs of exploration wells are temporarily capitalised pending the determination of oil and gas reserves. These costs include directly attributable employee remuneration, materials and fuel used, rig costs and payments made to contractors. If reserves are not found, or if discoveries are assessed not technically or commercially recoverable, the costs of exploration wells are expensed. Geological and geophysical costs are generally expensed as incurred.

Costs of acquiring licenses are capitalised within intangible assets and amortised over the period of the license using the unit-of-production method. An assessment for impairment is made at each reporting date. This assessment involves confirming that exploration drilling is still under way or firmly planned or, alternatively, that it has been determined or that work is under way to determine that a discovery is economically viable. If no future activity is planned, the carrying amount of the license acquisition costs or capitalised exploration well costs are written off through profit or loss. Upon recognition of proven reserves and internal approval for development, the relevant expenditure is transferred to oil and gas license development asset.

For accounting purposes, the field enters into the development phase when the partners in the license make the commercial decision to do so. All costs of developing commercial oil and/or gas fields are capitalised, including indirect costs. Pre-operating costs are expensed in the period in which they are incurred. Capitalised development costs are classified as tangible assets.

Oil and Gas Assets

Capitalised costs for oil and gas assets are depreciated using the unit-of-production method. The rate of depreciation is equal to the ratio of oil and gas production for the period over the estimated remaining proven developed reserves (expected to be recovered during the concession or contract period) at the beginning of the period. The reserves are calculated as the Group's entitlement to reserves under the contracts.

Borrowing Cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (such as PP&E assets), which are assets that necessarily take a substantial period of time to make ready for their intended use or sale, are capitalised and added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

All other borrowing costs are expensed and recognised in profit or loss in the period in which they are incurred.

The capitalisation of borrowing costs is recorded based on the average interest rate for the Group in the period. The capitalised borrowing costs cannot exceed the actual borrowing costs in each period.

2. Summary of Significant Accounting Policies (continued)

Component Cost Accounting/ Decomposition
The Group allocates the amount initially recognised in respect of an item of PP&E to its significant parts and depreciates separately each such part over its useful life. The Group has defined the license level as the lowest level at which separate cash flows can be identified. This means that there is no decomposition beyond the license level. A plan for development is usually defined for each field taking into consideration exploration wells, production wells and infill wells.

Impairment/Reversal of Impairment of Non-financial Assets

PP&E, Intangible Assets and Investments in Associates or Joint Ventures are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Goodwill is assessed annually for impairment.

Indications of impairment may include a decline in the price of oil and gas, changes in future investments or changes in reserve estimates. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separable identifiable cash inflows. An oil and gas license is defined as a cash generating unit. An impairment loss is recognised when the carrying amount exceeds the recoverable amount of an asset. The recoverable amount is the higher of the asset's fair value less costs of disposal and its value-in-use. The value-in-use is determined by reference to discounted future cash flows expected to be generated by the asset.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Goodwill is tested as part of the cash generating unit.

Except for goodwill, a previously recognised impairment loss is reversed through profit or loss only if there has been a change in the estimates used to determine the recoverable amount. It is not reversed to an amount that would be higher than if no impairment loss had been recognised. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial Instruments

Effective 1 January 2018, the Group adopted IFRS 9 and applied the new standard retrospectively with no restatement of prior reporting periods as allowed by the standard. There have not been any material changes to statements of comprehensive income, statements of financial position and cash flow statement as a result of the adoption of IFRS 9.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are initially recognised at fair value. After initial recognition the measurement and accounting treatment depend on the type of instrument and classification.

Financial instruments that are not derivatives consist of trade receivables and other receivables, cash and cash equivalents, loans, trade payables and other payables.

Finance assets
Financial assets are classified at initial recognition, and subsequently measured at:

- Amortised cost;
- Fair value through other comprehensive income ("FVTOCI"); and
- Fair value through profit/loss ("FVTPL").

Financial Assets at Amortised Cost
Financial assets are measured at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost include trade and other receivables.

Financial Assets Designated at FVTOCI
Upon initial recognition, equity investments can be irrevocably classified as equity instruments designated at FVTOCI. Gains and losses on these financial assets are not recycled to profit or loss at later periods. Equity instruments designated at FVTOCI are not subject to impairment assessment. The Group elected to classify irrevocably its listed equity investments under this category which is in line with the practice prior to 2018.

Financial Assets Designated at FVTPL
Financial assets designated at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets designated at FVTPL are carried in the statements of financial position at fair value with net changes in fair value recognised in profit or loss. Dividends on listed equity investments

2. Summary of Significant Accounting Policies (continued)

are also recognised as other income in profit or loss when the right of payment has been established. The Group does not have significant assets designated at FVTPL.

Impairment of Financial Assets

An allowance is recognised for expected credit losses ("ECL"s) for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that are expected to be received, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures with no significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months. For credit exposures with significant increase in credit risk since initial recognition, a loss allowance is provided for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

For trade receivables a simplified approach is applied in calculating ECLs. Changes in credit risk are not tracked but instead a loss allowance based on lifetime ECLs at each reporting date is recognised.

Expected credit losses will be based on a multifactor and holistic analysis and will depend on historical experience with the customers adjusted for forward-looking factors specific to the customers and the economic environment.

Financial assets are assessed with regard to default when contractual payments are past the established payment due date and there is internal or external information indicating that the Group is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition of Financial Assets and Liabilities

A financial asset is derecognised when:

- The Group no longer has the right to receive cash flows from the asset;
- The Group retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. A bond loan is derecognised when it is repaid.

Financial Liabilities

Financial liabilities are classified at initial recognition as financial liabilities at FVTPL, loans and borrowings or payables.

All financial liabilities are recognised initially at fair value and, in the case of loans/borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans.

The subsequent measurement of financial liabilities depends on the classification. No financial liabilities have been designated at FVTPL. Interest-bearing loans are after initial recognition measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The amortisation is included as finance expense in the statements of comprehensive income. This applies mainly to bond loans (see Note 21).

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Exchange and Modification of Debt Instruments

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances and short-term deposits with an original maturity of three months or less.

Share Capital/ Equity

Ordinary Shares

Ordinary shares are classified as equity.

In determining whether a preference share is a financial liability or an equity instrument, the Group assesses the particular rights attached to the share to determine whether it exhibits the fundamental characteristics of a financial liability. Preference shares which are mandatorily redeemable or redeemable at the holders' option are

2. Summary of Significant Accounting Policies (continued)

classified as liabilities. Preference shares which are redeemable only at the issuer's option or not redeemable are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction from the proceeds, net of any tax effects.

Treasury Shares
The Company's own equity instruments that are reacquired ("treasury shares") by the Company or subsidiaries are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss of the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in equity.

Dividend
Liability to pay a dividend is recognised when the distribution is authorised by the shareholders. A corresponding amount is recognised directly in equity.

Financial Income and Expenses
Financial income comprises interest income, dividend income, gains on the disposal of financial investments and changes in the fair value of financial assets measured at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss using the effective interest method. Dividend income is recognised in profit or loss on the date that the Company's or the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expenses on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets measured at fair value to profit or loss, impairment losses recognised on financial assets and losses on financial assets recognised in profit or loss.

Foreign exchange gains or losses from financial instruments are reported as financial income or financial expenses.

Inventories
Inventories, other than inventories of oil, are valued at the lower of cost and net realisable value. Cost is determined by the first-in, first-out ("FIFO") method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated selling expenses.

An overlift or underlift on oil or refined products is recorded at net realisable values.

Revenue Recognition

Oil and Gas Revenue
Effective 1 January 2018, the Group adopted IFRS 15 and applied the modified retrospective transition approach when implementing IFRS 15 with no restatement of prior reporting periods as allowed by the standard. There have not been any material changes to the Consolidated and Parent Financial Statements as a result of adoption of IFRS 15.

Revenues presented in the statement of comprehensive income consist of Revenue from contracts with customers and Other revenues. The split is disclosed in Note 5.

Revenue from contracts with customers is recognised when the customer obtains control of the oil and gas, which normally will be when title passes at point of delivery.

A liability (overlift) arises when the Group sells more than its share of the production. Similarly, an asset (underlift) arises when the sale is less than the Group's share of the production. Over/underlift are in accordance with the entitlement method valued at net realisable value. Changes in over/underlift balances do not meet the definition of Revenue from contracts with customers from IFRS 15 and are thus presented as Other revenues.

The recognition of revenues related to changes in over/underlift balances is currently subject to discussions in the IFRS Interpretation Committee (IFRIC). Based on IFRIC discussions to date, the Group has voluntarily decided to apply the sales method effective 1 January 2019. The adjustment for over/underlift balances will be measured at production cost and presented as part of the cost of goods sold with a corresponding entry on other short-term liabilities/other short-term receivables.

Service Income
Revenues from services are recognised by the Company when the service has been performed.

Dividend Income
Dividend income is recognised by the Company when the right to receive payment is established.

Production Sharing Contracts

A Production Sharing Contract ("PSC") is an agreement between a contractor and a host government, whereby the contractor bears all of the risk and costs for exploration, development and production in return for a stipulated share of production.

The contractor recovers the sum of its investment and operating costs from a percentage of production ("cost oil"). In addition, the contractor is entitled to receive a share of production in excess of cost oil ("profit oil"). The sum of cost oil attributable to the contractor`s share of costs and share of profit oil represents the contractor`s entitlement under a PSC. The sum of royalties and the government's share of profit oil, including that of a governmentally controlled enterprise, represents the government take under a PSC.

Presenting its operations governed by PSCs according to the net entitlement method, the Group only recognises as revenue its working interest of oil produced after deduction of government take.

Current and Deferred Income Tax

Tax income/(expense) consists of taxes receivable/(payable) and changes in deferred tax. Taxes payable are calculated based on taxable profits and taxes receivable are calculated based on refundable exploration expenses on the Norwegian Continental Shelf ("NCS") at the current tax rates. Deferred tax and deferred tax assets

2. Summary of Significant Accounting Policies (continued)

are calculated on all taxable temporary differences, provided that both of the following conditions are satisfied:

- The Group is able to control the timing of the reversal of the temporary differences; and
- It is probable that the temporary differences will reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are recognised irrespective of when the differences are reversed. They are recognised at their nominal value and classified as non-current assets/liabilities in the statement of financial position. Taxes payable and deferred tax are recognised directly in the equity to the extent that they relate to items charged directly to equity.

A deferred tax asset is recognised only to the extent that it is probable that the future taxable income will be available against which the asset can be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset in the statements of financial position if there is a legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same taxing authority on the same entity or different entities that intend to realise the asset and settle the liability at the same time.

Some PSCs provide that the corporate income tax to which the contractor is subject is deemed to have been paid to the government as part of the payment of profit oil to the government or its representatives. For accounting purposes, if such notional income tax is to be classified as income tax in accordance with the IAS 12, the Group would present this as an income tax expense with a corresponding increase in revenues. This is an accounting presentation issue with no net impact on the statement of comprehensive income statement. Furthermore, it would be assessed whether any deferred tax asset or liability is required to be recognised equal to the difference between book values and the tax values of the qualifying assets and liabilities, multiplied by the applicable tax rate.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Employee Benefits

Pensions

The Group's pension obligations in Norway and Australia are limited to certain defined contribution plans which are paid to pension insurance plans/superannuation funds and charged to profit or loss in the period in which they are incurred. Once the contributions are paid there are no further obligations.

Bonus Plans

The Group recognises the expected cost of employee bonus payments when, and only when, the Group has a present legal or constructive obligation to make such payment as a result of past events and a reliable estimate of the obligation can be made.

Provisions and Contingent Liabilities

Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is likely that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation amount.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only if the reimbursement is virtually certain. The expense related to any provision is presented in profit or loss, net of any reimbursement (if recognised in the same period). Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate.

The amount of the provision is the present value of the risk-adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk-free interest rate as the discount rate. Where discounting is used, the carrying amount of a provision increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognised as other financial expenses.

Contingent liabilities are not recognised but are disclosed unless the possibility of an outflow of resources is remote.

Asset Retirement Obligations (Decommissioning)

Provisions for decommissioning liabilities for oil and gas production facilities are initially recognised at the present value of the estimated future expenditure determined in accordance with local conditions and requirements.

A corresponding tangible fixed asset of an amount equivalent to the provision is also recognised initially. This is subsequently depreciated as part of the capital costs of the production and transportation facilities.

The provision and the discount rate are reviewed at each statement of financial position date. According to IFRIC 1.5, changes in the measurement of the decommissioning liability resulting from a change in the timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, are added to or deducted from the cost of the related asset. Changes in estimated asset

2. Summary of Significant Accounting Policies (continued)

retirement obligations will impact the cost of the asset in the period in which the estimate is revised.

Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of the parent using the weighted average number of shares outstanding during the year after deduction of the average number of treasury shares held over the period. The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share, while giving effect to all dilutive potential ordinary shares that were outstanding during the period.

Related Parties

Parties are related if one party has the ability to directly, jointly or indirectly control the other party or exercise significant influence over the party in making financial and operating decisions. Management is also considered to be a related party.

Transactions between related parties are transfers of resources, services or obligations, regardless of whether a price is charged.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

New Standards not yet Adopted

The standards and interpretations issued but not yet effective up to the date of issuance are listed below. The Group intends to adopt these standards when they become effective using modified retrospective application with recognition of any cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings of the reporting period that includes the date of initial application. Based on the Group's detailed and quantified assessment, none of these standards are expected to have a material impact on the Consolidated and Parent Financial Statements.

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatment

3. Critical Accounting Judgements, Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical Judgements in Applying the Group's Accounting Policies

Control Over DNO

The Group accounts for its 40.45 percent shareholding in DNO as a subsidiary. This is a matter of significant judgement as to which the Group believes that professional opinion could differ and is therefore subject to uncertainty and challenge. In making this judgement, the Group evaluated whether its existing rights, in the form of less than the majority of the voting rights, give it the current ability to direct the activities that significantly affect the investment returns of DNO. In making that judgement, the Group took into account that (i) the Group's 40.45 percent shareholding in DNO is by far the largest, with the next 19 largest shareholders holding approximately 16 percent of the shares and the remaining shareholdings are dispersed, (ii) the Company's Executive Chairman is also the DNO Executive Chairman, and (iii) the relevant activities are directed by the DNO Board of Directors and three of the five members of the DNO Board of Directors are independent from the Group.

The Group previously concluded that there were barriers that would prevent the Group from exercising its voting rights in such a manner as to attempt to exercise control over DNO or assert that it has the ability to control DNO and the Group's voting rights therefore did not provide the practical ability to direct the activities of DNO. While this represented a significant judgement, the Group was also cognisant of the requirements of IFRS 10, which states that *if it is not clear that an investor has power, the investor does not control the investee*. Accordingly, the Group previously concluded that it did not control DNO and therefore historically accounted for DNO as an Associate.

Upon re-examination of the factors that influence that decision following discussion with a Review Group of the United Kingdom's Financial Reporting Council ("FRC") during 2017, the Group determined in 2017 to account for DNO on a consolidated basis rather than utilising the equity method of accounting that it had applied in prior years. The share of profit attributable to the Company's shareholders is not materially affected by this change in accounting method, however the presentation and statement of financial position is affected.

DNO's financial statements are reported in its various public filings, including its Annual Report and Accounts for 2018, which is available at http://www.dno.no.

As required by IFRS 10, the Group monitors its judgement in this area on a continuous basis.

3. Critical Accounting Judgements, Estimates and Assumptions (continued)

Absence of Significant Influence Over Faroe Petroleum plc
Under IAS 28, an investor holding "significant influence" over an investee is required to account for the investment using the equity method of accounting whereby the investor records its percentage share of the investee's profit or loss for the reporting period. Without "significant influence" the investment is treated as a financial investment with its market value recorded at the end of the reporting period.

Also under IAS 28, a shareholder who holds over 20 percent of the shares of another company is presumed to have significant influence, but that presumption is rebuttable. Since April 2018, DNO held 28.23 percent of the Faroe Petroleum plc ("Faroe") shares. DNO purchased additional Faroe shares in December 2018, bringing its total shareholding at 31 December 2018 to 29.90 percent. Notwithstanding this shareholding, DNO concluded that it did not have significant influence over Faroe or its operating decisions during 2018 for the following reasons;

- DNO requested that two seats on Faroe's board of directors be made available for DNO representatives. Faroe's executive management and board of directors opposed this request and campaigned publicly against the placement of any DNO representatives on the board of Faroe.

- DNO representatives attended Faroe's annual general meeting in June 2018 and voted against the board composition put forward by Faroe. However, DNO was unable to influence the outcome of the voting.

- In October 2018, DNO called for a Faroe extraordinary general meeting to vote on an alternative board composition. Faroe management continued to publicly campaign against the placement of any DNO representative on Faroe's board. DNO withdrew its request for an extraordinary general meeting in the face of this strong public opposition.

- In December 2018, DNO made an offer for all of the outstanding shares of Faroe. Faroe rejected this offer.

- Without DNO's knowledge, input or influence of any kind, Faroe worked towards a significant corporate transaction during late 2018 which was announced in early 2019 (the asset swap with Equinor Energy AS further detailed in Note 31). DNO had no opportunity to learn about the discussions surrounding this corporate transaction in advance of any other shareholders, to understand or to influence this significant decision of Faroe carried out while DNO owned over 20 percent of its shares.

- At no stage during 2018 did DNO and Faroe engage in any meaningful dialogue regarding the operations of Faroe. No opportunity existed for DNO to influence the decisions and operations of Faroe.

For these reasons, DNO has accounted for Faroe as a financial investment as the presumption of significant influence is rebutted.

Revenue Recognition in Kurdistan
DNO generates revenues in the Kurdistan region of Iraq ("Kurdistan") through the sale of oil produced from the Tawke license and which is exported by pipeline through Turkey by the Kurdistan Regional Government ("KRG"). The title is considered to have passed on delivery of oil to the export pipeline at Fish Khabur. Considering the uncertainties related to timing of payments for oil deliveries, revenues were recognised upon receipt of cash payment up until September 2018. Following a further assessment of facts and circumstances, effective 1 October 2018, DNO recognises revenues in Kurdistan on an accruals basis in line with invoiced oil sales following monthly deliveries to the KRG and not upon cash receipt (see Note 5 Revenue for further detail).

DNO has applied the five-step model in IFRS 15 to determine when to recognise revenue and at what amount. Judgements that significantly affect this assessment are presented below.

The PSCs held by DNO are considered to be within the scope of the standard and sale of oil and gas to customers is recognised as Revenue from contracts with customers. Based on business practice, the KRG is responsible for exporting oil produced in Kurdistan and it is assessed that DNO has a customer relationship with the KRG. It is considered that the contracts with customers contain a single performance obligation which is considered to be delivery of produced oil to the customer.

The transaction price for oil deliveries to the KRG is based on quoted Brent crude prices with deduction for quality differential and a transportation fee. The consideration is considered fixed as all the parameters that determine the price will be known prior to issuance of invoice and recognition of revenue.

3. Critical Accounting Judgements, Estimates and Assumptions (continued)

Notional Income Tax/Deferred Tax Liability in Kurdistan

Under the terms of the PSCs in Kurdistan, DNO is not required to pay any corporate income taxes. The share of profit oil of which the government is entitled to is deemed to include a portion representing the notional corporate income tax paid by the government on behalf of the contractors. Current and deferred taxation arising from such notional corporate income tax is not calculated for Kurdistan, as there is uncertainty related to the tax laws of the KRG and there is currently no well-established tax regime for international oil companies. As such, it has not been possible to measure reliably such notional corporate income tax paid on behalf of DNO and it is the judgement of management that until a well-established tax regime is in place, the Group will not record a deferred tax liability. For further details, see Note 10.

3.2 Critical Accounting Estimates and Assumptions

Accounting estimates are employed in the Consolidated and Parent Financial Statements to determine reported amounts as detailed below. Although these estimates are based on management's best knowledge of historical experience, current events and actions, actual results may differ from these estimates. The estimates and the underlying assumptions are reviewed on an ongoing basis. Changes in estimates will be recognised when new estimates are available and at least at every statement of financial position date.

Estimates

The key sources of estimation uncertainty for the Group are:

Key sources of estimation uncertainty	*Main impact on accounting estimates*
Oil Price	DD&A, goodwill impairment, PP&E impairment, investment in Joint Venture impairment
Risks associated with operating in Kurdistan	Goodwill impairment, PP&E impairment, revenue recognition, and expected credit losses on trade receivables
Reserve and resources estimates	DD&A, goodwill impairment, PP&E impairment, investment in Joint Venture impairment, share of profit in Joint Venture

Impairment of Investments and Goodwill

The Group has significant investments in Foxtrot International and DNO, including goodwill. Changes in the circumstances or expectations of future performance of an individual asset or a group of assets may be an indicator that the asset is impaired, requiring the carrying amount to be written down to its recoverable amount. Management must determine whether there are circumstances indicating a possible impairment of the investments or of goodwill and conduct an annual goodwill impairment test. The estimation of the recoverable amount for the underlying oil and gas assets includes assessments of expected future cash flows and future market conditions, including entitlement production, future oil prices, risk factors, discount rate and the date of expiration of the licenses. Impairments are reversed if conditions for impairment are no longer present (except for goodwill). Evaluating whether an asset is impaired or if an impairment should be reversed requires a high degree of judgement, including market expectations concerning future oil prices. Refer to Note 12, 13 and 14 for further details.

Risks Associated with Operating in Kurdistan

As a result of the historical and legal position of Kurdistan, and the relationships of the KRG with the Federal Government of Iraq (the "FGI") and with neighboring countries such as Turkey, the DNO Group and other international oil and gas exploration and production companies operating in Kurdistan face a number of risks specific to the region as set forth below.

Among the DNO Group's three PSCs, the Tawke and Erbil PSCs were entered into with the KRG prior to the adoption of the Iraqi Constitution and the fields were not producing at the time of adoption. A successful attempt by the FGI to revoke or materially alter all PSCs in Kurdistan, including those held by the DNO Group, could disrupt or halt DNO's operations, subject the Group to contractual damages or prevent the execution of the DNO Group's strategy, any of which could have a material adverse effect on the Group's business, results of operations, financial position and prospects.

There remains uncertainty related to the receipt of proceeds from oil exported from Kurdistan. This risk could result in a loss of revenue to the DNO Group and adversely affect the Group's business, results of operations, recoverability of capitalised intangible assets and PP&E, financial position and prospects.

3. Critical Accounting Judgements, Estimates and Assumptions (continued)

Reserves and Resources Estimates
Reserve and contingent resource volumes have been estimated and classified in accordance with the rules and guidelines of the Petroleum Resource Management System ("PRMS") framework as approved by the Society of Petroleum Engineers ("SPE"). All estimates of oil and gas reserves and resources involve uncertainty. In their estimates, DNO and Foxtrot International have applied deterministic or scenario-based methods. The figures represent the most likely quantity of oil and gas that will be recovered from a field or reservoir given the information available at the end of the year calculated as the Group's entitlement to reserves under the applicable PSCs.

Important factors that could cause actual results to differ from the estimates include, but are not limited to: technical, geological and geotechnical conditions; economic and market conditions; oil prices; changes in government regulations; interest rates; and currency exchange rates. Specific parameters of uncertainty related to the field/reservoir include but are not limited to: reservoir pressure and porosity; recovery factors; water cut development; production decline rates; gas/oil ratios; and oil properties.

Analogy to similar fields and reservoirs has been applied when production history and information are limited and/or the field/reservoir has a complex structure. The uncertainty span is larger for fields/reservoirs with limited field information and production history compared to fields/reservoirs with longer production history. The contractors' entitlement to annual production is determined based on the PSCs and is subject to audit and confirmation by the relevant government authority in each country of operation.

The estimates for reserves and resources are made in accordance with the rules and guidelines of the SPE and in the case of DNO are in conformity with requirements from the Oslo Børs for the reporting of reserves. International petroleum consultants DeGolyer and MacNaughton have carried out an independent assessment of the Tawke and Peshkabir fields. The DNO Group has internally assessed their remaining assets. Independent assessment of Foxtrot International's fields has been carried out by Gaffney Cline & Associates in 2016.

Future development costs (both committed and uncommitted) are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities and other capital costs.

4. Segment Information

Executive management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation, investment decisions and performance assessment (the Executive Chairman of the Board of Directors acts as the Chief Operating Decision Maker). Segment performance is evaluated based on the profit or loss including share price and is measured consistently with the net profit or loss in the Consolidated Financial Statements.

Operating and Reportable Segments
For management purposes, the Group is organised into two operating segments that are also reportable segments:

- DNO (Subsidiary)
- Foxtrot International (Joint Venture with interest held through Mondoil Enterprises' 50 percent ownership of Mondoil Côte d'Ivoire)

"Others" are reconciling items including head-office general and administrative transactions and balances that do not constitute separate operating segments.

4. Segment Information (continued)

The following tables include revenue, net profit and other segment information for the years ended 31 December 2018 and 2017. Assets and liabilities information regarding business segments is presented at 31 December 2018 and 2017.

USD million	*DNO*	*Mondoil Côte d'Ivoire*	*Others*	*Eliminations*	*Total*
Year ended 31 December 2018:					
Comprehensive Income Information:					
External sales	829.3	-	-	-	829.3
Cost of goods sold	(350.6)	-	-	-	(350.6)
Gross profit	478.7	-	-	-	478.7
Share of profit of a Joint Venture	-	11.2	-	-	11.2
Other operating income	4.8	-	1.3	(1.3)	4.8
Administrative expenses	(36.7)	-	(6.4)	1.3	(41.8)
Other operating expenses	(3.4)	-	-	-	(3.4)
Impairment reversal/(Impairment) oil and gas assets	(1.9)	-	-	-	(1.9)
Impairment goodwill	-	-	-	-	-
Reversal of impairment of investment in Joint Venture	-	8.7	-	-	8.7
Exploration costs expensed	(64.7)	-	-	-	(64.7)
Segment operating result	376.8	20.0	(5.1)		391.7
Net finance costs (incl. interest)	(54.3)	-	(1.9)		(56.3)
Tax income/(expense)	31.8	-	-	-	31.8
Net profit/(loss)	354.3	20.0	(7.0)		367.2
Financial Position Information:					
Capital expenditures	138.0	-	-	-	138.0
Non-current assets*	1,028.7	94.2	223.1	(17.9)	1,328.2
Current assets	975.5	-	39.3		1,014.7
Total segment assets	2,004.3	94.2	262.4	(17.9)	2,342.9
Total segment liabilities	(786.5)	-	(22.7)	(0.1)	809.1
Other Segment Information:					
Sale of petroleum products**	829.3	-	-	-	829.3
Lifting costs	(90.4)	-	-	-	(90.4)
Lifting costs/bbl	(3.0)	-	-	-	(3.0)
Amortisation and depreciation	(260.1)	-	-	-	(260.1)

* DNO non-current assets is split USD 785.3 million from Kurdistan and USD 8.3 million from Norway with USD 235.1 million unallocated or eliminated.
**DNO revenue is split USD 811.3 million from Kurdistan and USD 18.1 million from Oman with USD 0.0 million unallocated or eliminated.

4. Segment Information (continued)

USD million	DNO	Mondoil Côte d'Ivoire	Others	Eliminations	Total
Year ended 31 December 2017:					
Comprehensive Income Information:					
External sales	347.4	-	-	-	347.4
Cost of goods sold	(202.2)	-	-	-	(202.2)
Gross profit	145.2	-	-	-	145.2
Share of profit of a Joint Venture	-	5.9	-	-	5.9
Other operating income	557.5	-	1.0	(1.0)	557.5
Administrative expenses	(33.2)	-	(8.3)	1.0	(41.5)
Other operating expenses	(7.0)	-	-	-	(7.0)
Impairment of oil and gas assets	(108.4)		-	-	(108.4)
Impairment goodwill	-	-	(160.0)	-	(160.0)
Reversal of impairment of investment in Joint Venture	-	11.2	-	-	11.2
Impairment goodwill	-	-	-	-	(108.4)
Reversal of Impairment of oil and gas assets	-				(108.4)
Exploration costs expensed	(33.0)	-	-	-	(33.0)
Segment operating result	521.1	17.1	(167.3)	-	370.9
Net finance costs (incl. interest)	(46.1)	-	(1.9)	-	(48.0)
Tax income/(expense)	20.0	-	-	-	20.0
Net profit/(loss)	495.0	17.1	(169.2)	-	342.9
Financial Position Information:					
Capital expenditures	130.4	-	-	-	130.4
Non-current assets*	916.1	94.2	223.1	(17.4)	1,216.0
Current assets	499.1	-	24.1		523.2
Total segment assets	1,415.2	94.2	247.2	(17.4)	1,739.1
Total segment liabilities	(539.1)	-	(31.1)	-	570.2
Other Segment Information:					
Sale of petroleum products**	347.4	-	-	-	347.4
Lifting costs	(96.1)	-	-	-	(96.1)
Lifting costs/bbl	(3.6)	-	-	-	(3.6)
Amortisation and depreciation	(106.1)	-	-	-	(106.1)

* DNO non-current assets is split USD 888.9 million from Kurdistan and USD 0.4 million from Oman with USD 22.2 million unallocated or eliminated.
**DNO revenue is split USD 331.0 million from Kurdistan and USD 16.3 million from Oman with USD 0.6 million unallocated or eliminated.

During 2018, oil production from Kurdistan was sold to the KRG for export by pipeline through Turkey. In Oman, the oil was sold to multiple buyers through a bidding process. The Company sold its subsidiary operating in Tunisia, DNO Tunisia AS, to Panoro Energy AS, a subsidiary of Panoro Energy ASA ("Panoro"), in July 2018. Country-by-country reporting for companies in extractive industries in line with the Norwegian Accounting Act is available on the DNO website.

5. Revenues and Other Operating Income

USD million	**2018**	2017
Sale of petroleum products	833.9	347.4
Revenue from contracts with customers	**833.9**	**347.4**
Other revenues	(4.6)	-
Total revenue	**829.3**	**347.4**

5. Revenues and Other Operating Income (continued)

During 2018, DNO received a total of USD 817.0 million from the KRG as payments for oil deliveries to the export market from the Tawke license, of which USD 628.5 million was net to DNO. Revenue in Oman totalled USD 18.0 million during 2018.

During the fourth quarter of 2018, DNO recognised an additional USD 182.8 million of revenues following a change in Kurdistan revenue recognition criteria (see Note 3). For comparison purposes, assuming DNO had recognised its revenues from Kurdistan based on cash receipt, the full-year 2017 and full-year 2018 total revenues of the DNO Group would have been USD 347.4 million (unchanged) and USD 628.5 million, respectively. Assuming that DNO had recognised its Kurdistan revenues on the changed revenue recognition criteria (see Note 1), the full-year 2017 and full-year 2018 total revenues of the DNO Group would have been USD 413.3 million and USD 691.6 million, respectively.

Other revenues reflect revenue adjustments for imbalances between oil and gas production and sales previously included in revenues under the entitlement method related to Oman Block 8 because they do not qualify as revenue from contracts with customers under IFRS 15. See Note 2 for more information.

Other operating income of USD 4.8 million during 2018 relates to an accounting gain of USD 6.1 million recognised following the sale of DNO Tunisia AS to Panoro. There was no consideration involved in this transaction. Panoro retained a cash balance of USD 8.6 million and assumed all permit interests, rights and remaining work obligations held by DNO Tunisia AS. As part of the transaction, DNO subscribed to shares in Panoro (see Note 15). The full-year 2018 other operating income includes adjustments of negative USD 1.4 million related to provisional amounts made during the measurement period for the 2017 acquisition of Origo Exploration Holding AS ("Origo").

Other income past oil sales of USD 556.0 million booked in 2017 was related to recognition of the receivable as settled with the KRG ("Kurdistan Receivables Settlement Agreement") in August 2017 and detailed in Note 29.

6. Cost of Goods Sold/Inventory

USD million	**2018**	*2017*
Lifting costs	(90.4)	(96.1)
Depreciation, depletion and amortisation	(260.1)	(106.1)
Total cost of goods sold	**(350.6)**	**(202.2)**

Lifting costs consist of expenses related to the production of oil and gas, including operation and maintenance of installations, well intervention activities and insurances. During 2017 a provision for obsolete inventory of USD 19.0 million was charged to DNO's lifting costs in Kurdistan.

USD million	**2018**	*2017*
Spare parts and drilling equipment	8.3	7.4
Total inventory	**8.3**	**7.4**

Total inventory of USD 8.3 million relates entirely to Kurdistan. In 2018, spare parts of USD 3.9 million were reclassified to PP&E in Kurdistan. In 2017, spare parts of USD 19.6 million were reclassified to PP&E in Kurdistan.

7. General and Administrative Expenses

USD million	**2018**	*2017*
Salaries and social expenses	(10.4)	(12.5)
General and administrative expenses	(31.4)	(28.0)
Other operating expenses	(3.4)	(7.0)
Total general and administrative expenses	**(45.2)**	**(47.5)**

USD million	**2017**	*2016*
Salaries, bonuses, etc	(36.8)	(37.3)
Employers payroll tax expenses	(2.7)	(2.4)
Pensions	(2.2)	(1.7)
Other personnel costs	(4.7)	(5.1)
Reclassification of salaries and social expenses to lifting costs and exploration costs*	36.0	34.0
Total salaries and social expenses	**(10.4)**	**(12.5)**

* Salaries and social expenses directly attributable to operations are reclassified to lifting costs or exploration costs.

7. General and Administrative Expenses (continued)

Auditors' Remuneration

During the year the Company and DNO obtained the following services from the Company's Auditors, Ernst & Young LLP, DNO's auditors, Ernst & Young AS, and their associates:

USD million	**2018**	*2017*
Audit of Company	(0.63)	(0.55)
Audit of Subsidiaries	(0.55)	(0.54)
Total audit	(1.18)	(1.09)
Tax advisory services - DNO	(0.04)	(0.14)
Other advisory services - DNO	(0.04)	(0.06)
Total non-audit	(0.08)	(0.20)
Total auditors' remuneration	**(1.26)**	**(1.29)**

Company - Average Number of People Employed

	2018	*2017*
Average number of people employed (including executive Directors):		
Management	3	3
Administration	3	3
Total average headcount	**6**	**6**

Group - Average Number of People Employed

	2018	*2017*
Average number of people employed (including executive Directors):		
Management	10	10
Other (administration, operations etc)	1,069	913
Total average headcount	**1,079**	**923**

8. Exploration Expenses

USD million	**2018**	*2017*
G&G and field surveys	(13.8)	(3.1)
Seismic costs	(18.0)	(19.7)
Exploration costs capitalised during the year and carried at cost, subsequently expensed	(8.2)	(3.6)
Other exploration costs expensed	(24.8)	(6.6)
Total exploration expenses	**(64.7)**	**(33.0)**

Total exploration expenses of USD 64.7 million incurred by DNO in 2018 were mainly related to exploration activities in Norway and the United Kingdom and provisions for exploration in Tunisia. Exploration expenses of USD 33.0 million in 2017 were incurred by DNO and were mainly related to the acquisition of seismic in Norway and exploration expenses in Tunisia and the United Kingdom.

9. Financial Income and Financial Expenses

USD million	**2018**	*2017*
Interest received	10.1	5.5
Other financial income	-	4.6
Exchange rate gain, unrealised items	-	-
Exchange rate gain, realised items	2.6	1.7
Total financial income	**12.7**	**11.8**

USD million	**2018**	*2017*
Interest expenses	(47.0)	(38.3)
Impairment of financial assets	0.2	-
Other financial expenses	(16.6)	(21.5)
Exchange rate loss, unrealised items	(1.9)	-
Exchange rate loss, realised items	(2.9)	-
Total financial expenses	**(68.9)**	**(59.8)**

9. Financial Income and Financial Expenses (continued)

Other financial expenses mainly comprise of amortisation of issue costs related to DNO's bonds and accretion expenses (unwinding of discount) related to asset retirement obligations. Other financial income in 2017 was mainly related to net present value effects from the settled underlift receivable in Kurdistan. Interest expenses include USD 1.7 million of interest on the loan with Mashreq Bank during 2018 and 2017.

10. Income Tax

USD million	**2018**	*2017*
Tax income/(expense)		
Changes in deferred taxes	3.9	2.3
Income tax receivable/(payable)	27.9	17.7
Total tax income/(expense)	**31.8**	**20.0**

USD million	**31 December 2018**	*31 December 2017*
Income tax receivable/(payable)		
Tax receivables (non-current)	-	-
Tax receivables (current)	28.3	33.7
Income tax payable	(0.5)	(0.7)
Net income tax receivable/(payable)	**27.8**	**33.1**

USD million	**2018**	*2017*
Reconciliation of the year's income tax		
Profit/(loss) before income tax	**335.4**	**322.9**
Expected income tax according to nominal tax rate 23 percent (24 percent in 2017)	(75.7)	(114.9)
Expected income tax according to nominal tax rate 55 percent (54 percent in 2017)	24.1	15.6
Expected income tax according to nominal tax outside Norway	2.7	1.5
Taxes paid in kind under PSCs	(1.5)	(1.8)
Tax effect of Joint Venture results, reported net of tax	2.3	1.2
Tax effect of expenses that are not deductible in determining taxable profit	(5.1)	(3.0)
Tax effect of income not subject to tax	2.9	0.2
Foreign exchange variations between functional and tax currency	(21.9)	(15.8)
Adjustment of previous years	-	-
Adjustment of deferred tax assets not recognised	(14.7)	(15.1)
Impairment financial assets	-	-
Tax free dividend from subsidiaries	-	-
Change in previous years	-	-
Other items (other permanent differences)	117.4	151.9
Change in tax rate	(4.0)	(3.7)
Tax loss carried forward (utilised)	5.5	2.3
Tax income/(expense)	**31.8**	**20.0**
Taxes charged to equity	**-**	**-**

10. Income Tax (continued)

USD million	**2018**	*2017*
Tax effects on temporary differences relate to the following items:		
Tangible assets	(0.2)	(0.0)
Other temporary differences	(1.1)	(1.2)
Non-deductible interest carried forward	9.9	9.8
Tax losses carried forward NCS	7.8	4.2
Tax losses carried forward	93.6	94.6
Deferred tax assets/(liabilities)	110.1	107.3
Valuation allowance	(103.1)	(103.9)
Deferred tax assets/(liabilities)	**7.0**	**3.5**
Recognised deferred tax assets	7.0	3.5
Recognised deferred tax liabilities	-	-

Total tax income of USD 31.8 relates to tax income refundable under the Norwegian petroleum tax system (USD 29.7 million), notional corporate income tax expense for Oman Block 8 (USD 1.5 million), tax expense in other DNO entities (USD 0.3 million) and changes in deferred taxes in DNO Norge AS (USD 3.9 million).

Income taxes receivable amounting to USD 28.3 million relates to the refund of exploration costs in Norway for 2018. Income taxes payable amounting to USD 0.5 million (2017: USD 0.7 million) relates entirely to the notional corporate income tax in Oman.

DNO Norge AS, a wholly-owned subsidiary of DNO, is subject to the provisions of the Norwegian Petroleum Taxation Act. Revenues from activities on the NCS are liable to ordinary company tax and special tax. The general corporate tax rate was 23 percent in 2018 with special tax at a rate of 55 percent. The general corporate tax rate was 24 percent in 2017 with additional special tax at a rate of 54 percent. From 1 January 2019, the general corporate tax rate is 22 percent with additional special tax at a rate of 56 percent. As the subsidiary is not yet in a tax payable position, it can claim a 78 percent refund of the exploration costs limited to taxable losses for the year. The exploration tax refund is paid out in November-December in the subsequent year.

The tax value of tax losses carried forward of USD 93.6 million at year-end 2018 relates to DNO and its subsidiaries in the United Kingdom. The unused tax losses of the DNO Group in Norway relate to the ordinary tax regime and can be carried forward indefinitely. Tax losses in the United Kingdom relate mostly to pre-trading expenditure. A deferred tax asset has not been recognised for these losses as there is uncertainty regarding future taxable profits. The recognised deferred tax asset relates to exploration activity on the NCS subject to the petroleum tax system where carried forward losses can be paid out upon termination of petroleum activity.

There are no tax consequences attached to items recorded in other comprehensive income.

Under the terms of the PSCs in Kurdistan, DNO is not required to pay any corporate income taxes. The share of profit oil which the government is entitled to is deemed to include a portion representing the notional corporate income tax paid by the government on behalf of the contractors. Current and deferred taxation arising from such notional corporate income tax is not calculated for Kurdistan, as there is uncertainty related to the tax laws of the KRG and there is currently no well-established tax regime for international oil companies. As such, it has not been possible to reliably measure such notional corporate income deemed to have been paid on behalf of DNO. This is an accounting presentational issue and there is no tax required to be paid by DNO. For accounting purposes, if such notional corporate income tax was to be classified as income tax in accordance with the IAS 12, it would result in a gross up of revenues with a corresponding income tax expense with no net impact on the statement of comprehensive income. Furthermore, it would be assessed whether any deferred tax asset or liability is required to be recognised equal to the difference between book values and the tax values of the qualifying assets and liabilities, multiplied by the applicable tax rate. It is estimated that the tax rate would be between nil and 15 percent.

From 2013, profits from foreign oil activities are no longer taxable in Norway in accordance with the General Tax Act, section 2-39. Further, exploration expenses will no longer be tax deductible. Under these rules only certain financial income and expenses are taxable in Norway. Permanent tax differences related to this are included in “Other items” in the table above.

11. Earnings/(Loss) Per Share

Basic earnings per share amounts are calculated by dividing net profit or loss for the period by the weighted average number of Class A and Restricted Class A Shares outstanding during the period. Diluted earnings per share are calculated by adjusting the weighted average number of Class A Shares and Restricted Class A Shares outstanding assuming conversion of all potentially dilutive Class A Shares.

The information necessary to calculate basic and diluted earnings per share is as follows:

USD million	**2018**	*2017*
Group		
Earnings: Profit/(loss) for the year attributable to the shareholders of the parent	161.0	54.8
Adjustment on dilution of profit	-	-
Profit/(loss) for the year adjusted for the effect of dilution	161.0	54.8
No. of Shares: Weighted average number of Class A Shares and Restricted Class A Shares excluding treasury shares for basic earnings per share	327,814,705	327,814,705
Adjustment for the Company's shares held by a subsidiary (treasury shares)	(15,849,737)	(15,849,737)
Weighted average number of Class A Shares adjusted for the effect of dilution	311,964,968	311,964,968
Earnings/(loss) per share (in USD)		
Basic	0.516	0.176
Diluted	0.516	0.176

12. Property Plant and Equipment/Other Intangible Assets

Depreciation is mainly charged to cost of goods sold in the statement of comprehensive income. Of the total net book amount of USD 758.1 million at year-end 2018, USD 756.7 million is related to Kurdistan. There is no pledge over the oil and gas assets within property, plant and equipment.

Property, Plant and Equipment

USD million	*Development assets*	*Assets in operation*	*Total oil & gas assets*	*Other PP&E*	*Total*
At 1 January 2018					
Costs	42.1	1,869.1	1,911.1	21.1	1,932.3
Accumulated impairments	(42.1)	(286.1)	(328.2)	(0.1)	(328.3)
Accumulated depreciation	-	(724.9)	(724.9)	(15.8)	(740.7)
Net book amount	**-**	**858.1**	**858.1**	**5.2**	**863.3**
Period ended 31 December 2018					
Opening net book amount	-	858.1	858.1	5.2	863.3
Translation differences	-	-	-	(0.1)	(0.1)
Additions*	-	148.8	148.8	0.4	149.3
Transfers**	-	-	-	(2.8)	(2.8)
Disposals cost price	-	1.7	1.7	(1.3)	0.4
Disposals depreciation/impairments	-	(1.7)	(1.7)	1.0	(0.7)
Impairments	-	-	-	-	-
Depreciation charges	-	(250.3)	(250.3)	(1.1)	(251.4)
Closing net book amount	**-**	**756.7**	**756.7**	**1.4**	**758.1**

* Additions includes recognition of estimated change on ARO.
** Transfers include reclassification of administrative software systems (net book value) to intangible assets and spare parts previously classified as inventory.

12. Property Plant and Equipment/Intangible Assets (continued)

At 31 December 2018					
Costs	42.1	2,019.6	2,061.7	17.6	2,079.3
Accumulated impairments	(42.1)	(286.1)	(328.2)	(0.1)	(328.3)
Accumulated depreciation	-	(976.8)	(976.8)	(16.0)	(992.8)
Translation differences	-	-	-	(0.1)	(0.1)
Net book amount	**-**	**756.7**	**756.7**	**1.4**	**758.1**
Depreciation method		UoP***		3-7 years linear	

*** Unit of Production

Other Intangible Assets

USD million	*License interest*	*Exploration assets*	*Goodwill*	*Other*	*Total*
At 1 January 2018					
Costs	103.8	10.8	383.1	-	497.7
Accumulated impairments	(19.7)	(10.8)	(160.0)	-	(190.5)
Accumulated depreciation	(52.8)	-	-	-	(52.8)
Net book amount	**31.4**	**-**	**223.1**	**-**	**254.4**
Period ended 31 December 2018					
Opening net book amount	31.4	-	223.1	-	254.4
Translation differences	-	(0.1)	-	-	(0.1)
Additions	0.1	6.6	-	1.2	7.9
Transfers*	-	-	-	2.8	2.8
Disposals cost price	-	-	-	-	-
Disposals depreciation/impairments	-	-	-	-	-
Impairments	(0.4)	-	-	-	(0.4)
Depreciation charges	(7.9)	-	-	(0.8)	(8.7)
Closing net book amount	**23.1**	**6.5**	**223.1**	**3.2**	**255.9**
At 31 December 2018					
Costs	103.9	17.4	383.1	11.2	515.6
Accumulated impairments	(20.1)	(10.8)	(160.0)	-	(190.9)
Accumulated depreciation	(60.8)	-	-	(8.0)	(68.8)
Translation differences	-	(0.1)	-	-	(0.1)
Net book amount	**23.1**	**6.5**	**223.1**	**3.2**	**255.9**
Depreciation method	UoP			3-7 years linear	

*Administrative software system transferred from tanglible assets. Accumulated costs USD 10.0 million and accumulated depreciations USD 7.2 million.

12. Property Plant and Equipment/Intangible Assets (continued)

Property, Plant and Equipment

USD million	*Development assets*	*Assets in operation*	*Total oil & gas assets*	*Other PP&E*	*Total*
At 1 January 2017					
Costs	181.8	1,735.1	1,916.9	21.0	1,937.9
Accumulated impairments	(181.8)	(368.3)	(550.2)	(0.1)	(550.3)
Accumulated depreciation	-	(971.6)	(971.6)	(12.9)	(984.5)
Net book amount	**-**	**395.2**	**395.2**	**8.0**	**403.1**
Period ended 31 December 2017					
Opening net book amount	-	395.2	395.2	8.0	403.1
Exchange differences	-	-	-	-	-
Additions*	-	593.6	593.6	0.2	593.8
Transfers**	-	68.5	68.5	0.2	68.8
Disposals cost price	(139.7)	(528.2)	(667.9)	(0.3)	(668.2)
Disposals depreciation/impairments	139.7	528.2	667.9	0.3	668.2
Impairments	-	(102.6)	(102.6)	-	(102.6)
Depreciation charges	-	(96.6)	(96.6)	(3.2)	(99.9)
Closing net book amount	**-**	**858.1**	**858.1**	**5.2**	**863.3**
At 31 December 2017					
Costs	42.1	1,869.1	1,911.1	21.1	1,932.3
Accumulated impairments	(42.1)	(286.1)	(328.2)	(0.1)	(328.3)
Accumulated depreciation	-	(724.9)	(724.9)	(15.8)	(740.7)
Net book amount	**-**	**858.1**	**858.1**	**5.2**	**863.3**
Depreciation method		UoP		3-7 years linear	

* Additions include recognition of an asset of USD 457.5 million following the Kurdistan Receivables Settlement Agreement in August 2017 and an estimated change on asset retirement obligation.

** Transfers include reclassification of exploration assets (intangible assets) to assets in operation. In 2017, the book value of USD 49.0 million related to Peshkabir, previously classified as an exploration asset (intangible asset), was reclassified to assets in operation. In addition, the book value of USD 19.6 million related to spare parts, previously classified as inventory, was reclassified to assets in operation.

Other Intangible assets

USD million	*License interest*	*Exploration assets*	*Goodwill*	*Total*
At 1 January 2017				
Costs	102.5	60.0	383.1	545.6
Accumulated impairments	(18.4)	(11.0)	-	(29.4)
Accumulated depreciation	(46.6)	-	-	(46.6)
Net book amount	**37.5**	**49.0**	**383.1**	**469.6**

12. Property Plant and Equipment/Intangible Assets (continued)

Period ended 31 December 2017				
Opening net book amount	37.5	49.0	383.1	469.6
Exchange differences	-	-	-	-
Additions	1.3	(0.2)	-	1.1
Transfers	-	(49.0)	-	(49.0)
Disposals cost price	(3.9)	-	-	(3.9)
Disposals depreciation/impairments	3.9	-	-	3.9
Impairments	(1.3)	0.2	(160.0)	(161.1)
Depreciation charges	(6.2)	-	-	(6.2)
Closing net book amount	**31.4**	**-**	**223.1**	**254.4**

At 31 December 2017				
Costs	103.8	10.8	383.1	497.7
Accumulated impairments	(19.7)	(10.8)	(160.0)	(190.5)
Accumulated depreciation	(52.8)	-	-	(52.8)
Net book amount	**31.4**	**-**	**223.1**	**254.4**
Depreciation method	UoP			

Impairment Testing other than Goodwill

Impairment tests of individual cash-generating units are performed when impairment triggers are identified. IAS 36 requires that an entity assess at each reporting date whether there are any indications that an asset may be impaired. Impairment is recognised when the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. DNO has defined the license level as the lowest level at which separate cash flows can be identified. The recoverable amount is the higher of the asset's fair value less cost to sell and value-in-use. In the assessment of the value-in-use, the expected future cash flow is discounted to the net present value (before tax) by applying a discount rate before tax. The discount rate is derived from the WACC for a market participant. Cash flows are projected for the estimated lifetime of the fields or license (whichever is earlier), which may exceed periods longer than five years.

Below is an overview of the key assumptions applied for impairment testing purposes at 31 December 2018. All impairment testing during 2018 has been based on value-in-use.

Oil Prices

Future oil price level is a key assumption and has significant impact on the net present value. Forecasted oil prices are based on management's estimates and available market data. Information about market prices in the near future can be derived from the futures contract market. The information about future prices is less reliable on a long-term basis, as there are fewer observable market transactions going forward. DNO has used an oil price based on the forward curve for Brent crude in December 2018, adjusted for any differential in oil quality applicable to each field. Considering that as of end-2018 the monthly price goes forward to March 2026, a method of linear prediction (extrapolation) beyond this date has been applied. An average Brent crude price of USD 58.2 per barrel has been applied for 2019. Thereafter the Brent crude forward curve is applied through December 2022 followed by a long-term oil price starting at USD 60.7 per barrel and inflated by two percent per year.

Oil Price Differential

The oil price differential is a differential to the marker selling price to account for the quality of the oil being sold. The recoverable amount can be sensitive to the oil price differential.

Oil and Gas Reserves

Future cash flows are based on management's best estimate and are calculated on the basis of expected production profiles (P50 estimates). The recoverable amount is sensitive to changes in reserves. For more information about the determination of the reserves, reference is made to Note 3 about important accounting assessments, estimates and assumptions.

12. Property Plant and Equipment/Intangible Assets (continued)

Discount Rate

The discount rate is derived from DNO's WACC. WACC is weighted based on the debt and equity to enterprise value ratios at year-end. Cost of equity is calculated on a country-by-country basis using the Capital Asset Pricing Model ("CAPM") and adding a country risk premium. Cost of debt is based on yield-to-maturity on DNO's outstanding bond with an upward adjustment to reflect a potential longer maturity. The relevant pre-tax discount rate used in the impairment assessments at year-end 2018 for Kurdistan assets is 14.8 percent (2017: 16.5 percent). In 2017, 11.0 percent was used for the assets in Oman.

Impairment Charge and Reversal of PPE and Intangible Assets

The following table shows the recoverable amount and carrying amount for the cash generating units which have been impaired in 2018 and 2017.

Impairments

USD million	2018		2017	
	Impairment (-)/ reversal (+)	*Recoverable/ carrying amount*	*Impairment (-)/ reversal (+)*	*Recoverable/ carrying amount*
Erbil license, Kurdistan	-	24.4	(59.1)	20.7
Block 8, Oman	-	-	(47.8)	-
Sfax Offshore Exploration Permit, Tunisia	(1.5)	-	(1.6)	1.5
SL 18, Somaliland	(0.4)	-	-	0.4
Total impairment charge	**(1.9)**	**24.4**	**(108.4)**	**22.6**

Of the total 2018 impairment charge of USD 1.9 million, USD 0.4 million was recognised on PP&E and USD 1.5 million was recognised on inventories. In 2017, USD 102.1 million of the total impairment charge was recognised to PP&E.

During 2018, the total impairment charge of USD 1.9 million relates to the SL18 exploration license in Somaliland (USD 0.4 million) and the Sfax Offshore Exploration Permit in Tunisia (USD 1.5 million). DNO exited its licenses in Tunisia and Somaliland during 2018. The total impairment charge is presented in the profit and loss as a separate line 'Impairment oil and gas assets' below gross profit; it includes impairment of exploration, development and production assets. No allocation into cost of goods sold was conducted as a split presentation was deemed to be less meaningful. Of the above impairments, the Oman 2017 impairment relates to a production asset.

During 2017, the net impairment charge of USD 108.4 million was related to operations in Kurdistan (USD 59.1 million), Oman (USD 47.8 million) and Tunisia (USD 1.6 million). The impairment in Kurdistan during 2017 was mainly due to a negative revision of the oil price differential in the Erbil license, while the impairment in Oman was due to negative development in the production profile.

Sensitivities

A sensitivity analysis for the Erbil license shows that a decrease in oil price of 10 percent would reduce the value-in-use (recoverable amount) by USD 19.4 million while an increase in the oil price differential of 10 percent would reduce the value-in-use by USD 6.7 million. An increase in the WACC by one percent would reduce the recoverable amount by USD 3.4 million, while a reduction in 2P reserves for the Erbil license by 10 percent would reduce the recoverable amount by USD 6.3 million. The sensitivity is for indicative purposes only and has been established on the assumption that all other factors would remain unchanged. The expected cash flows from the Tawke license are substantially higher than the carrying amount and the same sensitivity tests performed for the Erbil license would only cause minor changes to the surplus and would not lead to any impairment charges.

Refer to Note 13 for impairment of goodwill.

License Expiry

In Kurdistan, the Tawke license expires in 2026, but DNO has the right to one automatic five-year extension (i.e., to 2031) and, if commercial production is still possible, DNO is entitled to request a further five-year extension (i.e., to 2036). Based on DNO's current assessments, production from the Tawke license will be commercial for the duration of its contractual term and through subsequent extensions. The Erbil license expires in 2031, but DNO has the right to one automatic five-year extension (i.e., to 2036) and, if commercial production is still possible at the end of this extended period, DNO is entitled, upon request to the KRG, to a further five-year extension (i.e., to 2041).

13. Material Partly-owned Subsidiary

The Group currently has the following investment in a Subsidiary which has a material non-controlling interest:

		Percent ownership interest		
Subsidiary name	*Country of incorporation*	**2018**	*2017*	*Nature of Business*
DNO ASA	Norway	**40.45 (41.80 net of DNO treasury shares)**	40.45 (41.80 net of DNO treasury shares)	Exploration and production company engaged in the acquisition, exploration, development and operation of oil and gas properties

The summarised financial information of this subsidiary is provided below. This information is based on amounts before inter-company eliminations. Changes in effective net ownership of DNO are a result of purchases of non-controlling interest in DNO as described in Note 20.

Summarised Statement of Profit or Loss

USD million	**2018**	*2017*
Revenues	829.3	347.4
Cost of goods sold	(350.6)	(202.2)
Other operating income	4.8	1.5
Other income past oil sales	-	556.0
General and administrative expenses	(40.1)	(40.2)
Impairment oil and gas assets	(1.9)	(108.4)
Exploration costs expensed	(64.7)	(33.0)
Financial income and expense	(54.3)	(46.1)
Profit/(loss) before tax	322.5	475.1
Income tax expense	31.8	20.0
Profit/(loss) for the year as presented by DNO	354.3	495.0
Total comprehensive income for the year as presented by DNO	367.7	498.0

Summarised Statement of Financial Position

USD million	**2018**	*2017*
Current assets		
Cash and cash equivalents	729.1	430.2
Other current assets (excl. cash)	246.4	68.9
Non-current assets	1,028.8	916.0
Current liabilities	(142.7)	(120.6)
Non-current financial liabilities	(575.7)	(372.8)
Other non-current liabilities	(68.1)	(45.7)
Equity at 31 December	1,217.8	875.9
Attributable to shareholders of the parent	519.5	376.2
Attributable to non-controlling interest	698.3	499.7

Summarised Cash Flow Information

USD million	**2018**	*2017*
Net cash from/(used in) operating activities	471.1	337.4
Net cash from/(used in) investing activities	(339.4)	(127.8)
Net cash from/(used in) financing activities	167.1	(40.5)
Net increase/(decrease) in cash and cash equivalents	298.8	169.1
Cash and cash equivalents at beginning of the period	430.2	261.1
Cash and cash equivalents at end of the period	729.1	430.2

13. Material Partly-owned Subsidiary (continued)

Goodwill and Impairment Assessment
Goodwill is the difference between the carrying value and the recorded net identifiable asset value of DNO at acquisition date.

Impairment Assessment
IAS 36 requires an annual goodwill impairment test, comparing the recoverable amount to the carrying amount, regardless of impairment indicators. For the purpose of annual goodwill impairment testing, management determines the recoverable amount which is the higher of the fair value less costs of disposal and value-in-use.

31 December 2018
Fair value less costs of disposal based on DNO's market capilisation (level 1 in the fair value hierachy) trend exceeded the carrying amount. A value-in-use computation also exceeded the carrying amount. Accordingly, there was no goodwill impairment required at 31 December 2018.

31 December 2017
During 2017 the carrying amount increased significantly by increased PP&E recorded at fair value as part of the Kurdistan Receivables Settlement Agreement in August 2017 (refer to Note 29 for further detail). A portion of this was previously deemed to be subsumed into goodwill and upon realisation a partial impairment of goodwill was taken in order to avoid double recording within the carrying amount. Value-in-use impairment assumptions were consistent with those disclosed in Note 12 being based on proven and probable reserves, the Brent crude forward curve and a WACC of 16.5 percent for Kurdistan. A value-in-use of USD 1,450.0 million was calculated taking into account various risk factors.

A sensitivity analysis for the Tawke license showed that a decrease in oil price of 10 percent would have reduced the value-in-use (recoverable amount) by USD 142.0 million all other factors remaining the same. An increase in the WACC by one percent would have reduced the recoverable amount by USD 52.0 million, while a drop in 2P reserves for the Tawke license by 10 percent would have reduced the recoverable amount by USD 142.0 million. The sensitivity was for indicative purposes only and had been established on the assumption that all other factors would remain unchanged.

14. Investment in a Joint Venture

General Information
The Group's subsidiary Mondoil Enterprises has a 50 percent equity interest in Mondoil Côte d'Ivoire, registered in the United States and a Joint Venture in terms of IFRS 11 (required to be equity accounted by the Group).

Mondoil Côte d'Ivoire has a 66.67 percent equity interest in Foxtrot International. Due to different voting and contractual rights, Foxtrot International is an Associate for Mondoil Côte d'Ivoire (required to be equity accounted by Mondoil Côte d'Ivoire). Mondoil Côte d'Ivoire has one-third of Foxtrot International's total shareholder votes and can appoint one-third of the Foxtrot International Board of Directors, but Mondoil Côte d'Ivoire is entitled to two-thirds of Foxtrot International's profit and liquidation proceeds.

Foxtrot International is a Cayman Islands company engaged in oil and gas exploration and production in Côte d'Ivoire. It owns a direct 24 percent interest in Block CI-27 (joint operation). On 1 December 2014 Foxtrot International acquired a 27.27 percent stake in Energie de Côte d'Ivoire SA (ENERCI), which owns an additional 12 percent interest in Block CI-27. During 2018, Foxtrot International signed agreements for a 24 percent interest in and operatorship of two exploration blocks offshore Côte d'Ivoire, Block CI-502 (but under different terms) and Block CI-12.

Since Mondoil Côte d'Ivoire is solely a holding vehicle for Foxtrot International with no other activity or balances, the Group discloses in the table below the summarised financial information of Foxtrot International as a 33.33 percent Associate in terms of summarised financial information.

14. Investment in a Joint Venture (continued)

Foxtrot International's Summarised Statement of Financial Position

USD million	**2018**	*2017*
Current assets		
Cash	0.3	0.2
Other current assets (excl. cash)	38.5	31.5
Non-current assets	162.0	188.5
Current liabilities	(16.5)	(10.8)
Non-current liabilities	(2.6)	(7.7)
Equity	181.6	201.1
Group's share of net assets (33.33 percent)	60.5	67.0
Fair value uplift on property, plant and equipment, carrying amount (before current year impairment), net of related deferred tax	25.4	16.0
Impairment reversal/(impairment)	8.7	11.2
Other	(0.5)	-
Investment carrying amount at 31 December – as accounted	**94.2**	**94.2**

Foxtrot International's Summarised Statement of Comprehensive Income

USD million	**2018**	*2017*
Revenue	83.3	103.8
Depreciation and amortisation	(20.9)	(54.3)
Other expenses	(15.3)	(13.8)
Other income/finance income	(5.9)	(6.8)
Income taxes	(13.9)	(21.9)
Profit for the year as presented by Foxtrot International	39.1	20.7
Group's share of profit for the year (33.33 percent)	13.1	6.9
Depletion of fair value uplift of Foxtrot International's proportionally acquired property, plant and equipment, net of related deferred tax	(1.8)	(1.1)
Group's share of adjusted profit – as accounted	**11.2**	**5.9**

According to the terms of the Block CI-27 PSC, the Government of Côte d'Ivoire pays Foxtrot International's income taxes from the state's share of profit on behalf of Foxtrot International. Therefore, the above revenue and income taxes were presented gross under IFRS [i.e., both revenue and tax line items were increased by USD 13.9 million in 2018 (USD 21.9 million in 2017)].

Movement of Investment Carrying Amount

USD million	**2018**	*2017*
Opening balance 1 January	94.2	102.7
Group's share of adjusted profit – as accounted	11.2	5.9
Contributions via cash calls paid during the year	2.0	3.1
Dividends received during the year	(22.0)	(28.7)
Impairment reversal	8.7	11.2
Interest in Joint Venture at 31 December	**94.2**	**94.2**

The carrying amount at 31 December 2018 contains cumulative past impairments of USD 8.4 million (2017: USD 17.1 million)

14. Investment in a Joint Venture (continued)

Impairment test
Due to the partial impairment reversal at 31 December 2017, the assessment was updated at 31 December 2018.

The fair value less costs of disposal is based on cash flows expected to be generated from oil, condensate and gas production profiles up to the expected date of cessation of the PSC based on current estimates of reserves and resources, appropriately risked. The fair value calculation is based primarily on level 3 inputs as defined by the IFRS 13 'Fair value measurement hierarchy'. The underlying production profiles, operating and capital costs and cash flows were primarily estimated by Foxtrot International, but were validated by a third party reserves engineer in 2016; therefore, management believes that these cash flows are an appropriate basis upon which to assess the investment for impairment.

Key assumptions used in the fair value less costs of disposal calculation were:

- Total production volumes and production profiles/timing;
- Oil and gas sales prices;
- Operating and capital costs and abandonment cost;
- Discount rate.

Estimated future cash flows were prepared on the basis of certain assumptions prevailing at year-end.

Management has used a post-tax nominal discount rate of 15 percent (15 percent in 2017) and believes that this discount rate considers risks and uncertainties not factored into the undiscounted cash flows. On this basis, for the current investment carrying amount before impairment testing of USD 85.5 million (USD 83.0 in 2017), an impairment reversal of USD 8.7 million (USD 11.2 million in 2017) was deemed appropriate. A change of the discount rate by 100 basis points would lead to a change in the recoverable amount by USD 4.2 million (USD 4.7 million in 2017).

15. Financial Investments

Financial investments comprise of equity instruments and are recorded at fair value (market price, where available) at the end of the reporting period. Fair value changes are included in other comprehensive income (FVTOCI). See Note 2 for more details.

USD million	**2018**	*2017*
At 1 January	-	-
Additions	201.3	-
Fair value changes through other comprehensive income (FVTOCI)	11.6	-
At 31 December	**212.9**	**-**
Non-current portion	212.9	-

Financial investments include the following:

USD million	**2018**	*2017*
Listed shares:		
Faroe Petroleum plc	209.2	-
Panoro Energy ASA	3.6	-
Total financial investments	**212.9**	**-**

During 2018, DNO acquired 111,494,028 shares in Faroe representing 29.90 percent of the outstanding shares. The total acquisition price for the shares was USD 198.7 million. Change in fair value of USD 10.5 million is recognised in other comprehensive income in 2018 based on the Faroe share price as listed on the London Stock Exchanges Alternative Investment Market ("AIM"). See Note 3 for the basis of accounting for Faroe as a financial investment. See Note 31 for more information on the acquisition of Faroe shares.

During 2018, DNO subscribed to 2,641,465 shares in Panoro, representing 5.65 percent of the outstanding shares, at a price of NOK 12.82 per share. The total acquisition price for the shares was USD 4.2 million. The share subscription follows completion of a transaction in which DNO sold its Tunisia subsidiary, DNO Tunisia AS, to Panoro Energy AS. Change in fair value of negative USD 0.6 million is recognised in other comprehensive income in 2018 based on the Panoro share price as listed on the Oslo Børs.

16. Trade and Other Receivables

USD million	2018	2017
Group		
Trade debtors	182.8	-
Underlift, entitlement method	1.1	7.8
Other	26.2	20.3
Total trade and other receivables	**210.1**	**28.1**

USD million	2018	2017
Company		
Amounts due from DNO subsidiary	0.3	-
Amounts due from other subsidiaries	0.4	0.1
Other	0.1	0.2
Total trade and other receivables	**0.8**	**0.3**

On 1 October 2018, DNO changed its treatment of revenue received from the KRG to an accruals method. This has resulted in a trade debtor of USD 182.8 million for revenue earned in October, November and December of 2018 for which payment has not been received at 31 December 2018.

During 2017, DNO received USD 49.1 million from the KRG toward the booked underlift receivable. The remaining underlift receivable was settled through the Kurdistan Receivables Settlement Agreement in August 2017. The outstanding underlift receivable at 31 December 2018 is related to Block 8 in Oman. Other short-term receivables relate to items of working capital.

Amounts due to the Company from DNO are unsecured and have a 30-day credit term. Amounts due from subsidiaries are repayable on demand, expected to be settled in 2019, unsecured and interest free. No amounts are past due nor impaired.

17. Cash and Cash Equivalents

USD million	2018	2017
Group		
Restricted cash	5.2	5.8
Restricted cash, Faroe offer	418.1	-
Unrestricted cash	344.6	448.2
Total cash and cash equivalents	**768.0**	**454.0**

Non-restricted cash is entirely related to bank deposits at 31 December 2018. Of the USD 768.0 million, USD 729.1 million relates to cash held by DNO. USD 38.9 million relates to the Company and its wholly-owned subsidiaries.

For RAK Petroleum, restricted cash relates to a loan which requires that one quarter's principal repayment (USD 2.0 million) be kept in a term deposit with the bank. For DNO, restricted cash relates to employees' tax deductions, debt service reserve account, as well as deposits for rent and savings related to the employee share saving plan and restricted cash related to the revolving exploration facility (USD 3.2 million).

The remaining restricted cash for DNO relates to cash held in an account for the acquisition of Faroe shares (USD 418.1 million). In November 2018, to be in compliance with the United Kingdom regulations DNO was required to present a guarantee of available funds to complete the settlement of the Faroe offer. The guarantee was issued by a bank backed by transfer of an amount of USD 418.1 million to a deposit account held in the name of DNO and pledged in favour of the bank. The guarantee was cancelled in February 2019 following the acquisition or the receipt of acceptance of over 98 percent of the Faroe shares.

DNO has a group bank account system which allows negative balances in given currencies if the total balance is positive hence such negative balances are still presented within cash and cash equivalents.

18. Share Capital

The Company had the following shares issued at 31 December 2018:

	Par value	2018 Number of shares	2017 Number of shares
Class A Shares	GBP 0.01	194,642,717	190,142,717
Restricted Class A Shares	GBP 0.001	133,171,988	137,671,988
Total Class A		327,814,705	*327,814,705*
Class B Shares	GBP 0.0000001	133,171,988	137,671,988
Class C Shares	GBP 0.0000001	87,488,693	87,488,693
Preference shares	GBP 1.00	50,000	50,000

All shares are fully paid.

Transfers of Restricted Class A Shares are limited to certain permitted transferees set forth in the Company's Articles of Association -- essentially, related parties or charities. Transfers to non-permitted transferees give rise to loss of Class B Share voting rights. Because they have the same rights to participate in profits as Class A Shares, Restricted Class A Shares are not treated as a class separate from Class A Shares for accounting purposes.

The Company's share capital and voting rights changed on 8 May 2015. At that time, the Company received notices opting to continue existing restrictions on trading with respect to 137,761,988 Restricted Class A and Class B Shares. The holders of the remaining Class A Shares allowed their Restricted Class A shares to become unrestricted, thereby extinguishing rights associated with their Class B Shares. Accordingly, 155,994,650 Restricted Class A Shares were re-designated as Class A Shares and 155,994,650 Class B Shares were cancelled or re-designated as non-voting Class C Shares.

On 30 January 2018 as a result of a shareholder's request to release the restrictions on its Restricted Class A Shares, 2,700,000 Restricted Class A Shares were re-designated as Class A Shares and 2,700,000 Class B Shares, representing 5,400,000 votes, were transferred to the Company and cancelled. On 24 September 2018 as a result of a shareholder's request to release the restrictions on its Restricted Class A Shares, 1,800,000 Restricted Class A Shares were re-designated as Class A Shares and 1,800,000 Class B Shares, representing 3,600,000 votes, were transferred to the Company and cancelled. See Note 31 for share re-designations after year-end 2018.

Key rights attached to each class of shares are as follows:

	Restricted Class A share	Class A share	Class B share	Class C share	Preference share
Right to vote	one vote	one vote	two votes	none	none
Right to participate in profits	yes	yes	none	none	none

The preference shares were classified as equity.

19. Share Premium

The Company shows proceeds above par in the share premium reserve.

20. Other Reserves, Treasury Shares and Foreign Currency Translation Reserves

Other Reserves

USD million	**2018**	*2017*
Group		
Discount for (predecessor) shares issued below fair value as part of acquisition in 2013	(15.5)	(15.5)
Settlement of share-based payment arrangement in 2013	(20.3)	(20.3)
Reclassification within equity due to Group Reorganisation in 2014	360.8	360.8
Acquisition of non-controlling interest without change of control (DNO treasury shares acquired by DNO)	(11.0)	(11.0)
Capital reduction	518.3	518.3
Total other reserves	**832.3**	**832.3**

USD million	**2018**	*2017*
Company		
Group reorganisation from 2014	148.8	148.8
Capital reduction	518.3	518.3
Total other reserves	**667.1**	**667.1**

The USD 148.8 million above represents the difference between the nominal value of the shares issued as consideration for the shares in subsidiaries received by the Company as part of the 2014 Group Reorganisation and their fair value. The Group Reorganisation took place shortly before the Company listed its shares. The first quoted price for the Company's shares on the Oslo Børs was determined to represent fair value. The Group Reorganisation fell under section 611 of the 2006 Companies Act (group reconstruction relief). However, since IAS 27 requires the Company to account for the investment at cost in its Parent Financial Statements, the Company was unable to take advantage of the permission in section 615 of the 2006 Companies Act to record the transaction at nominal value. The cost of the investment is the fair value of the consideration issued. This treatment under IAS 27 also complies with the 'alternative presentation' allowed under section 615 of the 2006 Companies Act.

Treasury Shares

There are cross-holdings between the Company and DNO. At 31 December 2018 and 2017, DNO owned 4.86 percent (15,849,737) of the Company's outstanding Class A shares. The Group accounts for the shares in the Company as treasury shares. The shares of the Company were acquired by DNO for USD 49.8 million.

Acquisition of Non-controlling Interest without Change in Control

The parent's effective ownership interest in subsidiary DNO was increased in 2017 due to the acquisition by DNO of DNO own shares which changed the Group's effective holding in DNO from 40.74 percent to 41.80 percent. There was no change throughout 2018. The change in the Company's interest in 2017 did not result in a change of control of DNO and therefore was accounted for as an equity transaction, i.e., a transaction with owners in their capacity as owners. The carrying amounts of the Treasury Shares and Foreign Currency Translation Reserves of the controlling and non-controlling interest were adjusted to reflect the changes in their relative interests in DNO.

USD million	**2018**	*2017*
Group		
Carrying amount of NCI acquired	-	13.1
Consideration paid to NCI	-	(24.1)
Decrease in equity attributable to owners of the parent	-	**(11.0)**

21. Interest-bearing Liabilities

USD million	Ticker OSE	Currency	Amount	Interest (percent)	Maturity	Effective Interest rate (percent)	Fair value 2018	Fair value 2017	Carrying amount 2018	Carrying amount 2017
Interest-bearing liabilities:										
Bond loan (ISIN NO0010740392)	DNO01	USD	200.0	8.75	18.06.2020	12.50	200.5	400.1	200.0	400.0
Bond loan (ISIN NO0010823347)	DNO02	USD	400.0	8.75	31.05.2023	9.70	396.3	-	400.0	-
Borrowing issue costs		-	-						(24.3)	(27.2)
Exploration financing facility		NOK	1000.0	see below	see below	3.26	18.4	17.6	18.4	17.6
Mashreq loan		AED	32.6	Eibor + 4.0	11.11.2021		22.5	30.6	22.5	30.6
Total interest-bearing liabilities							**637.7**	**448.3**	**616.6**	**421.0**

USD million	2018	2017
Non-current		
Bonds	600.0	400.0
Capitalised borrowing issue costs (bonds)	(24.3)	(27.2)
Exploration financing facility (long term portion)	-	-
Mashreq loan	14.3	22.5
Total non-current interest-bearing liabilities	**590.0**	**395.3**
Current		
Exploration financing facility (current portion)	18.4	17.6
Mashreq loan	8.2	8.2
Total current interest-bearing liabilities	**26.6**	**25.8**
Security and pledges		
Exploration tax refund	28.3	33.7
Restricted cash	0.6	0.7
Total book value of assets pledged	**28.9**	34.4

Mashreq Loan

During 2016, the Group negotiated a new loan facility with Mashreq Bank of USD 32.7 million at the three-month Emirates Interbank Offered Rate ("EIBOR") plus 4.0 percent. Quarterly repayments of principal began 15 months after the start date of the loan and end in 2021. Interest is paid on a quarterly basis. While borrowings are outstanding, the Group has agreed to: not dispose of or encumber its indirect interest in Mondoil Enterprises; maintain a pledge account holding shares in DNO with a value of at least twice the outstanding indebtedness; and maintain a cash balance of one quarter's payments (USD 2.0 million) in a service account as restricted cash. The proceeds have been and may be used for general working capital purposes, which may include, among others, repayment of existing bank loans or meeting cash calls from Foxtrot International. The loan was obtained by a subsidiary of the Company and passed onwards to the Company on the same terms.

Bonds

On 19 June 2015, DNO completed the placement of USD 400 million of five-year senior unsecured bonds with a fixed coupon rate of 8.75 percent and an issue price of 87.5 percent of par value. The bond matures on 18 June 2020 and there are no principal installments to be paid until maturity. The bond was registered on the Oslo Børs on 9 November 2016 with the ticker DNO01. The principal amount at 31 December 2018 is USD 200 million. Interest is paid bi-annually.

21. Interest-bearing Liabilities (continued)

On 31 May 2018, DNO completed the placement of USD 400 million of five-year senior unsecured bonds issued at 100 percent on par with a fixed coupon rate of 8.75 percent. In connection with the bond placement, DNO rolled over USD 200 million in nominal value of the DNO01 bond into the new bond. The rolled over bonds were cancelled and USD 200 million of outstanding DNO01 bond remains. The new bond is listed on the Oslo Børs under ticker DNO02. The principal amount at 31 December 2018 is USD 400 million and falls due on 31 May 2023. Interest is paid on a quarterly basis.

The financial covenants of the bonds require DNO to have a liquidity of a minimum of USD 40 million and a minimum equity ratio of 30 percent or a total equity no less than USD 600 million. There is also a restriction on declaring or making any dividend payments if the liquidity is less than USD 80 million immediately after such distribution is made. At 31 December 2018, DNO satisfies all loan agreement requirements including a covenant on DNO's equity ratio

Exploration Financing Facility

DNO Norge AS has available a revolving exploration facility in an aggregate amount of NOK 1 billion (equivalent to USD 115.1 million at 31 December 2018). Utilisation requests need to be delivered for each proposed loan. The aggregate of the proposed loan shall not exceed 95 percent of the tax value of eligible costs which have not already been refunded by the tax authorities. The facility is secured against the tax refund and is repaid when the refunds have been received which is approximately 11 months after the end of the financial year. The interest rate equals three months Norwegian Interbank Offered Rate (NIBOR) plus 1.55 percent. The facility was amended on 21 December 2018 which resulted in an increased facility amount from NOK 500 million to NOK 1 billion, an increased margin from 1.2 percent to 1.55 percent and an extension of the utilisation period until 31 December 2020.

Intercompany Loans

All intercompany loan receivables and liabilities related to the Company are repayable on demand, unsecured and interest free other than the Mashreq loan passed through from a subsidiary to the parent at identical terms and conditions.

Changes in Liabilities Arising from Financing Activities Split on Cash and Non-cash Changes

			Non-cash changes			*Non-cash changes*		
USD million	*At 1 Jan 2017*	*Cash flows*	*Amortisation & Acquisition*	*Total at 31 Dec 2017*	*Cash flows*	*Acquisition*	*Amortisation/ Currency*	*Total at 31 Dec 2018*
Group								
Bond loans	400.0	-	-	400.0	200.0	-	-	600.0
Borrowing issue costs	(38.3)	-	11.1	(27.2)	(10.5)	-	13.4	(24.3)
Exploration financing facility	-	(16.4)	34.0	17.6	3.4	-	(2.6)	18.4
Mashreq loan	32.6	(2.0)	-	30.6	(8.1)	-	-	22.5
DNB loan	5.1	(5.1)	-	-	-	-	-	-
Total liabilities from financing activities	**399.4**	**(23.5)**	**45.1**	**421.0**	**184.7**	**-**	**10.8**	**616.6**
Company								
Mashreq loan	32.6	(2.0)	-	30.6	(8.1)	-	-	22.5
DNB loan	3.5	(3.5)	-	-	-	-	-	-
Intercompany debt	-	2.1	-	2.1	14.9	-	-	17.0
Total liabilities from financing activities	**36.1**	**(3.4)**	**-**	**32.7**	**6.8**	**-**	**-**	**39.5**

22. Provisions for Other Liabilities and Charges

The Company currently has no provisions.

At 31 December 2018, DNO included the following provisions;

USD million	**2018**	*2017*
Non-current		
Asset retirement obligations	49.4	31.9
Other long-term obligations	18.7	13.8
Total non-current provisions for other liabilities and charges	**68.1**	**45.7**
Current		
Other provisions and charges	7.4	2.7
Total current provisions for other liabilities and charges	**7.4**	**2.7**
Total provisions for other liabilities and charges	**75.5**	**48.4**

22. Provisions for Other Liabilities and Charges (continued)

The asset retirement obligation comprises the future cost of decommissioning oil and gas wells, facilities and related pipelines in Kurdistan.

Other long-term provisions and charges include provision for a production bonus for the Erbil license of USD 11.8 million at year-end 2018 (USD 10.9 million at year-end 2017).

Provisions for a water purification project ("WPP") in Kurdistan and provision for production bonuses for the Tawke license previously included in other long-term provisions and charges of total USD 145.0 million were derecognised as part of the Kurdistan Receivables Settlement Agreement in August 2017.

USD million	*Asset retirement obligations*	*Other non-current*	*Other current*	*Total*
Balance at 1 January 2017	**23.2**	**144.1**	**5.3**	**172.6**
Increase/(decrease) in existing provisions	5.1	2.6	1.5	9.3
Amounts charged against provisions	(2.3)	(135.3)	(3.1)	(140.7)
Effects of change of the discount rate	4.6	0.7	-	5.3
Accretion expenses (unwinding of discount)	1.2	0.7	-	1.8
Reclassification and transfer	-	1.0	(1.0)	-
Balance at 31 December 2017	**31.9**	**13.8**	**2.7**	**48.4**
Increase/(decrease) in existing provisions	1.8	1.9	2.8	6.4
Amounts charged against provisions	-	(0.4)	-	(0.4)
Effects of change of the discount rate	17.4	1.6	-	19.0
Accretion expenses (unwinding of discount)	1.2	0.6	-	1.8
Reclassification and transfer	(2.8)	1.1	1.9	0.1
Balance at 31 December 2018	**49.4**	**18.7**	**7.4**	**75.4**

23. Commitments and Contingencies

Operating Leases

The Group rents a number of office spaces under operating leases. The leases typically run for a period of six months to five years, with the possibility to negotiate a renewal.

At 31 December 2018, the future minimum lease payments under non-cancellable leases were payable as follows:

USD million	*2019*	*2020*	*2021*	*2022*	*2023*	*All periods thereafter*	*Total*
Lease of properties	3.8	3.6	2.6	2.4	2.4	2.3	17.1
Lease of equipment	0.2	0.1	-	-	-	-	0.3
Lease of other	-	-	-	-	-	-	-
Total lease obligations	**4.0**	**3.7**	**2.6**	**2.4**	**2.4**	**2.3**	**17.3**

The Company has no operating leases with a duration of more than six months.

Legal Disputes

During the normal course of its business, the Company or its Investment Entities can be involved in legal proceedings and unresolved claims. The Group provides in its Consolidated and Parent Financial Statements for probable liabilities related to litigation and claims based on executive management's best judgement and in line with IAS 37. Other than what is set out below, the Group is not aware of any governmental, legal or arbitral proceedings (including any such proceedings which are pending or threatened) initiated against it that may have, or have had, significant effects on the Group's results of operations, cash flows or financial position.

At 31 December 2018, DNO had the following legal disputes.

23. Commitments and Contingencies (continued)

Ministry of Oil and Minerals of Yemen Arbitration Claim against the Partners of Block 53
The Ministry of Oil and Minerals (MOM) of Yemen has filed an arbitration claim against the partners of Block 53 for allegedly wrongful withdrawal from the PSC. DNO Yemen AS is disputing this claim. It is not possible to reliably estimate what the outcome of this arbitration will be. No provisions have been provided at 31 December 2018.

Unresolved Issues Following Relinquishment of Operatorship and Participation in Oman Block 8
On 3 January 2019, DNO announced that its subsidiary, DNO Oman Block 8 Limited, had relinquished operatorship and participation in Oman Block 8 to Oman's Ministry of Oil and Gas as a result of the expiration of the Exploration and Production Sharing Agreement. DNO held a 50 percent interest in the license alongside LG International Corp., which held the remaining 50 percent interest. The relinquishment has given rise to certain contested issues between Oman and the partners of Block 8, DNO Oman Block 8 Limited and LG International Corp., which are unresolved as of the reporting date. It is not possible to reliably estimate what the outcome of this arbitration will be. No provisions have been provided at 31 December 2018.

Contractual Obligations/ License Commitments
Some PSCs have work programme commitments and contractual obligations to conduct certain activity. These liabilities attributable to DNO totalling USD 30.2 million are based on current best estimates.

Guarantees at 31 December 2018
DNO ASA has issued parent company guarantees on behalf of its subsidiaries, DNO Norge AS and DNO Exploration UK Limited to the authorities in Norway and the United Kingdom, respectively, in connection with the participation in licenses in these countries. In addition, DNO has issued guarantees to the Tunisian government for the contractor obligations in relation to the Sfax Offshore Exploration Permit and the Ras El Besh Concession which became null and void following the sale of DNO Tunisia AS to Panoro Energy AS in 2018. DNO, together with its partners, has issued a joint and several parent company guarantee to the KRG for the payment of a minimum guaranteed amount relating to the work obligations that the parties are required to undertake in the Baeshiqa PSC.

Liability for Damages/ Insurance
Installations and operations are covered by various insurance policies.

24. Trade and Other Payables

USD million	**2018**	*2017*
Group		
Trade payables	46.0	24.9
Public duties payable	3.1	1.7
Other accrued expenses	67.3	73.4
Total trade and other payables	**116.4**	**100.0**

USD million	**2018**	*2017*
Company		
Trade payables	0.2	0.4
Other accrued expenses	-	-
Total trade and other payables	**0.2**	**0.4**

Other accrued expenses include items of working capital related to participation in oil and gas licenses in Kurdistan and Norway and seismic acquisition in Norway.

Trade payables are non-interest bearing and are normally settled on 30 to 60 day terms. Other payables are non-interest bearing and have an average term of 30 to 60 days.

25. Investment in Subsidiaries

Subsidiaries

The Group had the following subsidiaries:

Name of the subsidiary	*Address*	*Country of incorporation*	*Place of business*	*Percent holding* **31 December 2018**	*31 December 2017*	*Nature of business*
Directly held by the Company						
RAK Petroleum Holdings B.V.	Prins Bernhardplein 200 1097JB Amsterdam Netherlands	Netherlands	Netherlands	**100**	100	Holding and finance company
RAK Petroleum Corporate Services Limited	Canon's Court 22 Victoria Street Hamilton HM EX Bermuda, UK	Bermuda	United Arab Emirates	**100**	100	Liquidated January 2019
Petroleum Merger Company	Office 611 The Fairmont Dubai Sheikh Zayed Road Dubai, UAE	UAE	United Arab Emirates	**100**	100	Holding company
Indirectly held by the Company						
RAK Petroleum Public Company Limited	Office 12A07 XL Tower Al Abraj Street, Business Bay Dubai, UAE	UAE	United Arab Emirates	**100**	100	Ras Al Khaimah and Dubai offices
Mondoil Enterprises, LLC	Corporation Trust Center 1209 North Orange Street Wilmington, Delaware USA	USA	United States	**100**	100	Holding company
DNO ASA	Dokkveien 1 0250 Oslo, Norway	Norway	Norway, Kurdistan, Other	**40.45**	40.45	Holding company
Held directly or indirectly by DNO ASA						
DNO Iraq AS	Dokkveien 1 0250 Oslo, Norway	Norway	Kurdistan	**40.45**	40.45	Operating company
DNO Yemen AS	Dokkveien 1 0250 Oslo, Norway	Norway	Yemen	**40.45**	40.45	Operating company
DNO Oman AS	Dokkveien 1 0250 Oslo, Norway	Norway	Oman	**40.45**	40.45	Operating company
DNO Somaliland AS	Dokkveien 1 0250 Oslo, Norway	Norway	Somaliland	**40.45**	40.45	Operating company
DNO Norge AS	Dokkveien 1 0250 Oslo, Norway	Norway	Norway	**40.45**	40.45	Operating company
DNO Exploration UK Limited	Dokkveien 1 0250 Oslo, Norway	UK	UK	**40.45**	40.45	Operating company
DNO Technical Services AS	Dokkveien 1 0250 Oslo, Norway	Norway	Dubai	**40.45**	40.45	Services company
DNO Mena AS	Dokkveien 1 0250 Oslo, Norway	Norway	Oman, Tunisia	**40.45**	40.45	Holding company
DNO UK Limited	Dokkveien 1 0250 Oslo, Norway	UK	UK	**40.45**	40.45	Holding company
DNO Invest AS	Dokkveien 1 0250 Oslo, Norway	Norway	Norway	**40.45**	40.45	Holding company
Northstar Exploration Holding AS	Dokkveien 1 0250 Oslo, Norway	Norway	Norway, UK	**40.45**	40.45	Holding company
DNO Oman Limited	Dokkveien 1 0250 Oslo, Norway	Bermuda	Oman	**40.45**	40.45	Dormant
DNO Oman Block 8 Limited	Dokkveien 1 0250 Oslo, Norway	Guernsey	Oman	**40.45**	40.45	Dormant
DNO Oman Block 30 Limited	Dokkveien 1 0250 Oslo, Norway	Guernsey	Oman	**40.45**	40.45	Dormant
DNO Al Khaleej Limited	Dokkveien 1 0250 Oslo, Norway	Guernsey	United Arab Emirates	**40.45**	40.45	Dormant
DNO Technical Services Limited	Dokkveien 1 0250 Oslo, Norway	Guernsey	Dubai	**40.45**	40.45	Dormant
DNO Tunisia Limited	Dokkveien 1 0250 Oslo, Norway	Guernsey	Tunisia	**40.45**	40.45	Dormant
DNO Iran AS	Dokkveien 1 0250 Oslo, Norway	Norway	Iran	**-**	40.45	Liquidated in 2018
DNOILCO AS	Dokkveien 1 0250 Oslo, Norway	Norway	Norway	**-**	40.45	Liquidated in 2018
DNO Tunisia AS	Dokkveien 1 0250 Oslo, Norway	Norway	Tunisia	**-**	40.45	Disposed in 2018

The DNO subsidiary companies are owned by DNO either directly or indirectly, giving the Group an indirect interest in them.

25. Investment in Subsidiaries (continued)

The Company

At 31 December 2018 no impairment indicators were present. In 2017 the Company conducted an impairment test. The value of RAK Petroleum Holdings B.V. is predominantly derived from the recoverable amounts of its investments. Refer to impairment testing in Note 12 and Note 13 for DNO and Note 14 for Foxtrot International. At 31 December 2017 a change in oil price of 9 percent would have eliminated the headroom. At 31 December 2017 no impairment was considered warranted.

26. Related Party Disclosures

Transactions with related parties were carried out in the normal course of business on terms agreed between the parties.

The Group has no (ultimate) controlling company/party.

Significant related party transactions occur between DNO and the Company. DNO and the Company entered into a Service Agreement whereby DNO reimburses the Company for work carried out on behalf of DNO and travel expenses incurred on behalf of DNO.

Related Party Transactions (Company)

USD million	**2018**	*2017*
Services Agreement - DNO	1.3	1.0
Total related party transactions	**1.3**	**1.0**

Details of the Board of Directors and executive management remuneration are disclosed elsewhere in this report in the Directors' Remuneration Report. Key management compensation called for by IAS 24 is as follows:

Key Management Compensation (Group)

USD million	**2018**	*2017*
Salaries and other short-term employee benefits	(4.3)	(3.6)
Directors' fees	(0.3)	(0.3)
Total key management compensation	**(4.6)**	**(3.9)**

Key Management Compensation (Company)

USD million	**2018**	*2017*
Salaries and other short-term employee benefits	(2.2)	(2.4)
Directors' fees	(0.3)	(0.3)
Total key management compensation	**(2.5)**	**(2.7)**

Key management compensation of the Group includes Mr. Mossavar-Rahmani's salary as Executive Chairman of DNO and Mr. Dale as the Managing Director of DNO.

Other related party transactions are disclosed in other Notes.

27. Financial Risk Management Objectives and Policies

Financial Risk Policies

The Group's activities expose it to a variety of financial risks. The Board of Directors provides certain specific guidance in managing such risks, particularly as relates to credit and liquidity risk. Any form of borrowing arrangement requires approval from the Board of Directors and the Group does not currently use any derivative financial instruments to manage its financial risks. The key financial risks and the Group's major exposures are as follows:

Equity Price Risk

Equity price risk includes the risk that the fair value of equity securities held by the Group may decrease because of changes in (i) equity markets generally, (ii) particular equity markets or market segments, or (iii) the market price of individual equities.

The Group's most valuable asset is its shareholding in DNO, whose shares are publicly traded on the Oslo Børs. At 31 December 2018, the market value of that interest was USD 633.2 million. However, the Group's interest in DNO is accounted for as an investment in a subsidiary under International Financial Reporting Standards (see Note 13) such that the market value is not directly reflected in the Group's financial position. If the public equity value of the Group's interest in DNO decreases below the carrying value, the Group in certain circumstances may be required to record an impairment of its goodwill in DNO, recorded as a loss in the Group's income statement. Similarly, the Group's income statement reflects the income performance of DNO and does not directly record or reflect changes in its market value.

DNO held financial investments at 31 December 2018 of USD 212.8 million for shares in Faroe and Panoro. A change in the equity price of +- 10 percent would result in a change to other comprehensive income of +- USD 21.3 million.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's indebtedness bears interest at rates that fluctuate with the EIBOR. The Company is not exposed to any significant interest rate risk. DNO has one bond loan maturing in 2020 with a fixed interest rate and one bond loan maturing in 2023 with a fixed interest rate. The bond loans are not subject to interest rate exposure as the bond loans have a fixed interest rate. In addition to the bond loans, DNO has an exploration financing facility of 1 billion NOK (USD 115.1 million at 31 December 2018) with a floating rate and a short-term bank credit facility of USD 200 million with a floating rate. These loans are subject to interest rate exposure but do not create a material interest rate exposure for the Group. The terms of the loans are described in Note 21. At 31 December 2018, neither the Company nor the Group has any interest rate hedging instruments.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counter-party to a financial instrument fails to meet its contractual obligations. For all classes of financial assets held by the Group, the maximum exposure to credit risk is the carrying value as disclosed in the statement of financial position.

Credit risk from balances with banks and financial institutions is managed by the Group's treasury function. The Group limits its counterparty credit risk by maintaining its cash deposits with multiple banks and financial institutions with high credit ratings.

Credit risk for intercompany receivables of the Company is viewed as negligible.

DNO also carries credit risk with respect to trade debtors. Following an assessment of facts and circumstances, effective 1 October 2018, DNO recognises revenue in Kurdistan in line with invoiced oil sales following monthly deliveries to the KRG and not upon cash receipt (see Note 3), which gives rise to a receivable in the consolidated statements of financial position. In accordance with IFRS 9, receivables are recognised and carried at their anticipated realisable value, which implies that a provision for a loss allowance on lifetime expected credit losses of the receivable is recognised. A provision for loss allowance for expected credit losses is performed at each reporting date and is based on a multifactor and holistic analysis depending on several considerations. The DNO Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the assessment of credit risk with regard to the KRG.

27. Financial Risk Management Objectives and Policies (continued)

Normal payment terms apply to amounts owed to DNO by the KRG for oil sales. DNO has received regular monthly payments from the KRG for more than three years, and as long as the KRG continues to settle invoices on a monthly basis in line with what has been normal practice since late 2015, there are no indications of significant increase in credit risk. As such, it is not considered necessary to provide for any loss allowance on credit losses. Of the USD 182.8 million, USD 109.9 million is current and USD 72.9 million is over 30 days past due.

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group and Company are not exposed to any significant currency risk. The Group operates internationally and can be exposed to currency risk on commercial transactions, assets and liabilities. Commercial transactions and assets and liabilities are subject to currency risk when payments are denominated in a currency other than the respective functional currency of the Group. The vast majority of the Group's expenditures, revenues, debts, receivables and cash are denominated in USD. The Group has limited expenditures in AED and DNO has limited expenditures in NOK. DNO's revenues from the sale of oil and gas are in USD, while corporate operational costs are mainly in USD and NOK. The Group's assets and liabilities are mainly denominated in USD. With the acquisition of Faroe shares in 2018, DNO now has a currency exposure in GBP. A +- 10 percent change in the GBP/NOK exchange rate at 31 December 2018 will impact other comprehensive income by USD (19.0) million to USD 23.3 million.

Liquidity Risk

The Company's liquidity risk is the risk that it will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash balances, marketable securities, credit facilities and other financial resources to maintain financial flexibility under dynamic market conditions. Cash flow forecasts are performed by the Group and liquidity requirements monitored.

Foxtrot International issues cash calls to Mondoil Enterprises to fund capital and operating requirements for Côte d'Ivoire Block CI-27. These cash calls are made on a regular basis pursuant to an approved budget and in 2018 totalled USD 2.0 million.

The Company has concluded that cash distributions anticipated to be received from Foxtrot International together with available borrowings will be sufficient to enable the Company to meet all of its scheduled and anticipated obligations. In the unlikely event of a disruption of these cash distributions, the Company (i) will make use of any cash reserves or available borrowings, (ii) will pursue additional financing arrangements, if available, (iii) may have available to it the proceeds of insurance against the risks giving rise to the disruption, or (iv) could liquidate a portion of its liquid investment holdings.

The DNO Group maintained conservative capital spending throughout 2018 and had an unrestricted cash position of USD 307.8 million at year-end 2018 and restricted cash (mainly restricted due to the purchase of Faroe shares) of USD 421.3 million (2017: USD 426.4 million unrestricted cash). The increase in the year-to-year cash position was mainly related to net cash from operating activities, including export payments from Kurdistan. It is expected that planned future investments will be funded from operational cash flow, cash balances and credit facilities, with revenues from Kurdistan expected to drive future investment programmes.

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. DNO's revenues currently derive mainly from production in the Tawke license in Kurdistan, implying concentration risk. The Group actively seeks to reduce such risk through organic growth and business and asset acquisitions aimed at further diversifying its revenue sources (see Note 31 for details on the Faroe acquisition).

At the balance sheet date the Company had no undrawn bank facilities (31 December 2017: USD 0.0 million).

The Company has obligations to repay indebtedness to financial institutions, falling due at various times during the next three years. DNO also has loans and borrowings falling due at various times during the next three years. Loan repayment obligations are summarised below.

27. Financial Risk Management Objectives and Policies (continued)

2018 USD million	Book value	Total cash flow	Less than 3 months	3 to 12 months	1 to 3 years	Over 3 years
Mashreq loan	22.5	24.7	2.4	7.1	15.3	-
DNO loans and borrowings	594.1	784.9	10.1	46.4	313.8	414.6
Total	**616.6**	**809.6**	**12.5**	**53.4**	**329.1**	**414.6**

2017 USD million	Book value	Total cash flow	Less than 3 months	3 to 12 months	1 to 3 years	Over 3 years
Mashreq loan	30.6	34.1	2.5	7.3	18.1	6.3
DNO loans and borrowings	390.4	539.0	-	53.0	486.0	-
Total	**421.0**	**573.1**	**2.5**	**60.3**	**504.1**	**6.3**

The undiscounted cash flows of the Group's and Company's other financial liabilities approximate their carrying amounts and their contractual maturity is within three months.

The Company's loans include the Mashreq loan transferred to the Company through its subsidiary RAK Petroleum PCL on the same terms and conditions. The Company also has an intercompany debt of USD 17.0 million owed by the Company to its subsidiary Mondoil Enterprises. This intercompany loan is interest free and repayable on demand.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. Equity is defined as capital. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017, although the changes in capital structure and debt described in the Notes above were implemented.

The Group's debt to equity (attributable to shareholders of the parent) ratio at 31 December 2018 was 2.7 percent (4.6 percent at 31 December 2017).

Financial Assets and Liabilities

Financial assets and liabilities in the Group consist of bank deposits, trade and other receivables, other non-current assets, interest-bearing liabilities, other current and non-current provisions for other liabilities and charges and trade and other payables. Financial assets and liabilities are offset when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Current financial assets and liabilities are carried at their fair value due to their short maturity.

Fair Value Hierarchy

Financial instruments measured at fair value are classified by the levels in the fair value hierarchy. Both carrying amount and fair value are shown for all financial instruments.

For financial instruments measured at fair value, the levels in the fair value hierarchy are:
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Financial instruments are reclassified between the levels at the date of the event or change in circumstances that caused the transfer.

The effect of initially applying IFRS 9 on the Group's financial instruments is described in Note 2. For comparison purposes, the classification at year-end 2017 financial assets and financial liabilities are classified in accordance with IFRS 9 at year-end 2018. At year-end 2017, financial investments were classified as *Available for sale investments*, receivables and cash deposits were classified as *Loans and receivables.* There is no change in the classification of financial liabilities compared to the classification of financial instruments at year-end 2017.

27. Financial Risk Management Objectives and Policies (continued)

Note that financial instruments where the carrying amount is a reasonable approximation of fair value (e.g., bank deposits, tax receivables, trade and other receivables, trade and other payables) are not included in the fair value hierarchy.

		Carrying amount			*Fair value hierarchy*			
2018 - USD million	*Notes*	*Financial assets designated at FVTOCI**	*Financial liabilities at amortised cost*	*Total*	*Date of valuation*	*Level 1*	*Level 2*	*Level 3*
Financial assets measured or disclosed at fair value								
Financial investments	15	212.9	-	212.9	31 December 2018	212.9	-	-
Financial assets not measured or disclosed at fair value								
Trade and other receivables	16	-	-	-		-	-	-
Tax receivables	10	-	-	-		-	-	-
Cash and cash equivalents	17	-	-	-		-	-	-
Financial liabilities measured or disclosed at fair value								
Interest-bearing liabilities (non-current)	21	-	590.0	590.0	31 December 2018	596.8	-	14.3
Interest-bearing liabilities (current)	21	-	26.6	26.6	31 December 2018	-	-	26.6
Financial liabilities not measured or disclosed at fair value								
Trade and other payables	24	-	-	-		-	-	-
Income tax payable	10	-	-	-		-	-	-
Provisions for other liabilities and charges	22	-	-	-		-	-	-

*Financial assets designated at FVTOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).

		Carrying amount			*Fair value hierarchy*			
2017 - USD million	*Notes*	*Financial assets designated at FVTOCI**	*Financial liabilities at amortised cost*	*Total*	*Date of valuation*	*Level 1*	*Level 2*	*Level 3*
Financial assets measured or disclosed at fair value								
Financial investments	15	-	-	-		-	-	-
Financial assets not measured or disclosed at fair value								
Trade and other receivables	16	-	-	-		-	-	-
Tax receivables	10	-	-	-		-	-	-
Cash and cash equivalents	17	-	-	-		-	-	-
Financial liabilities measured or disclosed at fair value								
Interest-bearing liabilities (non-current)	21	-	395.3	395.3	31 December 2017	400.1	-	22.5
Interest-bearing liabilities (current)	21	-	25.8	25.8	31 December 2017	-	-	25.8
Financial liabilities not measured or disclosed at fair value								
Trade and other payables	24	-	-	-		-	-	-
Income tax payable	10	-	-	-		-	-	-
Provisions for other liabilities and charges	22	-	-	-		-	-	-

*Financial assets designated at FVTOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).

The Company's other receivables (USD 0.8 million) and cash and cash equivalents (USD 2.8 million) make up the Companies financial assets at amortised cost. The Company's interest-bearing liabilities (USD 22.5 million), intercompany debt (USD 17.0 million) and trade and other payables (USD 0.1 million) make up the Company's other financial liabilities at amortised cost. The carrying amount of these items approximate their fair value.

28. Oil and Gas License Portfolio

The Group's oil and gas license portfolio at 31 December 2018 is as summarised below.

Held through DNO as a subsidiary:

Region/license	*Participating interest at end 2018 (percent)*	*Participating interest at end 2017 (percent)*	*Operator*	*Partners*
Kurdistan				
Tawke license	75.0	75.0	DNO Iraq AS	Genel Energy International Limited
Erbil license	40.0	40.0	DNO Iraq AS	Gas Plus Erbil Limited, Kurdistan Regional Government
Baeshiqa license	32.0	-	DNO Iraq AS	ExxonMobil Kurdistan Region of Iraq Limited, Turkish Energy Company Limited, Kurdistan Regional Government
Norway				
PL248 F	20.0	20.0	Wintershall Norge AS	DNO Norge AS, Petoro AS
PL248 GS	20.0	20.0	Wintershall Norge AS	DNO Norge AS, Petoro AS
PL248 HS	20.0	20.0	Wintershall Norge AS	DNO Norge AS, Petoro AS
PL293 B	20.0	20.0	Equinor Energy AS	DNO Norge AS, Idemitsu Petroleum Norge AS
PL767	10.0	-	Lundin Norway AS	DNO Norge AS, INPEX Norge AS
PL825	10.0	-	Faroe Petroleum Norge AS	DNO Norge AS, Equinor Energy AS, Spirit Energy Norway AS
PL827S	30.0	-	Equinor Energy AS	DNO Norge AS
PL859	20.0	-	Equinor Energy AS	DNO Norge AS, Petoro AS, Lundin Norway AS, ConocoPhillips Skandinavia AS
PL889	20.0	20.0	Neptune Energy Norge AS	DNO Norge AS, Concedo ASA
PL902	10.0	-	Lundin Norway AS	DNO Norge AS, Aker BP ASA, Petoro AS
PL921	15.0	-	Equinor Energy AS	DNO Norge AS, Lundin Norway AS, Petoro AS
PL922	20.0	-	Spirit Energy Norge AS	DNO Norge AS, Total E&P Norge AS, Neptune Energy Norge AS
PL923	20.0	-	Equinor Energy AS	DNO Norge AS, Petoro AS, Wellesley Petroleum AS
PL924	15.0	-	Equinor Energy AS	DNO Norge AS, Lundin Norway AS
PL926	20.0	-	Faroe Petroleum Norge AS	DNO Norge AS, Lundin Norway AS, Concedo ASA
PL929	10.0	-	Neptune Energy Norge AS	DNO Norge AS, Lundin Norway AS, DEA Norge AS, Pandion Energy AS
PL931	40.0	-	Wellesley Petroleum AS	DNO Norge AS
PL943	30.0	-	Equinor Energy AS	DNO Norge AS, Capricorn Norge AS
PL950	10.0	-	Lundin Norway AS	DNO Norge AS, Petoro AS, INPEX Norge AS
PL951	20.0	-	Aker BP ASA	DNO Norge AS, Vår Energi AS, Concedo ASA
PL953	30.0	-	Wintershall Norge AS	DNO Norge AS, Concedo ASA
Oman				
Block 8	50.0	50.0	DNO Oman Block 8 Limited	LG International Corp.
United Kingdom				
P1998	22.5	22.5	Apache North Sea Limited	DNO Exploration UK Limited, Euroil Exploration Limited
P2074	25.0	25.0	Chrysaor CNS Limited	DNO Exploration UK Limited, Ineos UK SNS Limited
Yemen				
Block 47	64.0	64.0	DNO Yemen AS	The Yemen Company, Geopetrol Hadramaut Incorporated

Held through equity-accounted investment Mondoil Côte d'Ivoire as a Joint Venture:

Region/license	*Participating interest at end 2018 (percent)*	*Participating interest at end 2017 (percent)*	*Operator*	*Partners*
Côte d'Ivoire				
Block CI-27	27.27	27.27	Foxtrot International LDC	SECI SA, Petroci*
Block CI-502	24.0	-	Foxtrot International LDC	SECI SA, Petroci
Block CI-12	24.0	-	Foxtrot International LDC	SECI SA, Petroci

* Société Nationale d'Opérations Pétrolières de la Côte d'Ivoire

29. Kurdistan Receivables Settlement Agreement

On 24 August 2017, DNO and the KRG completed a settlement of outstanding receivables owed to DNO for past oil deliveries. The settlement had an effective date of 1 August 2017. Under this receivables settlement agreement, DNO was assigned the 20 percent interest in the Tawke license previously held by the KRG, bringing DNO's operated interest to 75 percent. In addition to the 20 percent interest, DNO will receive three percent of gross license revenues each month from the KRG over a five-year period. The KRG has also discharged DNO from certain payment obligations, including those for production bonuses, license fees and a water purification project. In addition, the KRG has exercised its Tawke license audit rights to its satisfaction for the period up to the effective date and has no adjustment claims.

In addition to internal assessments, DNO engaged an external valuation advisor to prepare a fair value assessment of the 20 percent assigned interest and the three percent of gross license revenue it received under the agreement. This was used as the basis for the accounting of the settlement in the Consolidated Financial Statements. The relevant discount rate (WACC) used in the valuation was 17.1 percent. The settlement results in a recognition of an asset (PP&E) equal to the estimated fair value of the 20 percent assigned interest and the three percent of gross license revenue. DNO is of the opinion that the value of the settlement can be reliably measured and as such a corresponding revenue has been recognised as other income in the statement of comprehensive income in the consolidated accounts for 2017.

The removal of the liabilities under the settlement agreement resulted in a recognition of revenue equal to the book value of the liability as recognised in the financial statement at the effective date. The remaining book value of the underlift receivable was considered settled. The accounting effects for the Kurdistan Receivables Settlement Agreement in August 2017 are shown below:

USD million	*2017*
Property, plant and equipment	457.5
Trade and other receivables	(46.5)
Total assets	**411.0**
Retained earnings	556.0
Provisions for other liabilities and charges (non-current)	(145.0)
Total equity and liabilities	**411.0**
Other income past oil sales	556.0
Net profit/(loss)	**556.0**

For comparison purposes, assuming that the agreement had been completed in the beginning of 2017, it is estimated that DNO's revenues would have been USD 71.7 million higher and DNO's gross profit USD 29.5 million higher during 2017. The estimated effects were based on internal calculations and assumes cash payments from the KRG in accordance with the terms of the agreement.

30. Business Combination: Norway

On 29 June 2017, DNO finalised and completed the acquisition of 100 percent of the shares in Origo Exploration Holding AS ("Origo"), after obtaining approval by regulatory authorities in both Norway and the United Kingdom and the boards of both companies. The payable of USD 2.6 million (NOK 22.1 million) to the former shareholders of Origo can be adjusted based on the final cost of the Val d'Isere well. The acquisition was part of DNO's return to the North Sea and gave DNO stakes in 11 licenses offshore Norway and the United Kingdom.

The acquisition was regarded as a business combination and accounted for using the acquisition method in accordance with IFRS 3. A purchase price allocation was performed to allocate the consideration to fair value of assets and liabilities of Origo at the acquisition date.

30. Business Combination: Norway (continued)

Acquired assets and liabilities assumed were recognised at acquisition-date fair values and are as follows:

USD million	*Fair value at acquisition-date*
Deferred tax asset	3.4
Property, plant and equipment	0.2
Long-term tax receivables	11.3
Tax receivables (current)	32.3
Trade and other receivables	1.5
Cash and cash equivalents	2.6
Total assets	**51.3**
Interest-bearing liabilities (non-current)	30.6
Provisions for other liabilities and charges (non-current)	0.6
Current interest-bearing liabilities	3.4
Trade and other payables	12.6
Total liabilities	**47.1**
Total identifiable net assets at fair value	4.2
Consideration payable on acquisition	2.6
Gain from a bargain purchase arising on acquisition	**(1.5)**

The consideration payable was included in provisions for other liabilities and charges under current liabilities in the DNO consolidated balance sheet at 31 December 2017. The gain of USD 1.5 million is mainly due to the application of measurement requirements of IFRS 3 as part of the transaction. The gain from a bargain purchase was included in other operating income.

In 2017, DNO included in its consolidated statement of comprehensive income a loss of USD 10.3 million and no revenue. If the business combination had occurred in the beginning of 2017, DNO would have included in its consolidated statement of comprehensive income a loss of USD 16.2 million and no revenue.

31. Events After the Reporting Period

The following events occurred in early 2019:

DNO's Acquisition of Faroe

On 8 January 2019, DNO announced the terms of a final cash offer for the entire issued and to be issued share capital of Faroe at a price of 160 pence in cash for each Faroe share.

On 14 January 2019, DNO announced the final offer had become unconditional in all respects on 11 January 2019, which is when DNO obtained control over Faroe by achieving more than 50 percent ownership.

The consideration payable by DNO under the terms of the final offer was funded from existing cash resources. DNO`s main reason for the acquisition was to firmly establish itself in Norway. The Faroe acquisition strengthens the DNO Group's portfolio and operational capabilities in Norway, transforming the DNO Group into a more diversified company with a strong, second leg. Through the transaction, the DNO Group obtains attractive exploration, production and development projects and an experienced team with extensive knowledge of the North Sea. Faroe currently has nine producing fields, of which five are in Norway (Trym, Tambar, Ula, Brage and Ringhorne East) and four are in the United Kingdom or cross borders with the United Kingdom (Blane (United Kingdom/Norway), East Foinaven, Enoch (United Kingdom/Norway) and Orca (United Kingdom/Netherlands)). This serves to complement DNO's two currently producing fields, Tawke and Peshkabir, both located within the Tawke license in Kurdistan.

DNO has obtained the necessary government approvals in Norway and has submitted the required notifications in the United Kingdom and Ireland. No notification is necessary in the Netherlands.

Preliminary Purchase Price Allocation ("PPA")

The acquisition is regarded as a business combination and is accounted for using the acquisition method in accordance with IFRS 3 Business Combinations. The date of acquisition is determined to be the date the offer became

31. Events After the Reporting Period (continued)

unconditional, in all respects on 11 January 2019, which is when DNO obtained control over Faroe by achieving more than 50 percent ownership. The general principle in IFRS 3 is that the identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values. For convenience purposes, DNO has designated 1 January 2019 as the acquisition date. A preliminary PPA has been performed as of the acquisition date to allocate the consideration to fair values of acquired assets and assumed liabilities of Faroe.

Each identifiable asset and liability are measured at its acquisition date fair value based on guidance in IFRS 3 and IFRS 13 Fair Value Measurement. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition emphasises that the fair value is a market-based measurement, not an entity-specific measurement. When measuring the fair value, the DNO Group uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. Acquired producing and development assets as well as discovery assets (intangible assets) of Faroe have been valued using the income based approach.

DNO had estimated the preliminary PPA based on unaudited Faroe accounts for 2018 and preliminary fair value assessments. DNO had noted their disclosure as preliminary. This critical work continues to be in progress and will be finalised during 2019.

The identified assets and liabilities as of the date of acquisition are estimated as follows:

Preliminary PPA (USD billion)	*Fair value at acquisition-date*
Non-current assets	0.84
Current assets	0.31
Total assets	**1.15**
Non-current liabilities	0.58
Current liabilities	0.20
Total liabilities	**0.78**
Total identifiable net assets at fair value	0.37
Consideration payable on acquisition (100 percent of the shares)	0.81
Goodwill*	**0.44**

* No part of the goodwill will be deductible for tax purposes.

Note that the PPA does not include effects of Faroe's recent asset swap with Equinor Energy AS (a wholly-owned subsidiary of Equinor ASA). Although the effective date of the asset swap is 1 January 2019, it has not been approved by the Norwegian Ministry of Petroleum and Energy as of the acquisition date and as such, the PPA covers pre-swap assets owned by Faroe.

The goodwill recognised in the transaction relates mainly to technical goodwill due to the requirement to recognise deferred tax assets and liabilities for the temporary difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination. Licenses under development and licenses in production can only be sold in the market after tax, based on a decision made by the Norwegian Ministry of Finance pursuant to the Petroleum Taxation Act Section 10. The assessment of fair value of such licenses is therefore based on cash flows after tax. Nevertheless, in accordance with IAS 12 Sections 15 and 19, a provision is made for deferred tax corresponding to the tax rate multiplied by the difference between the acquisition cost and the tax base. The offsetting entry to this deferred tax is goodwill.

The above valuation is based on currently available information about fair values as of the acquisition date. If new information becomes available within 12 months from the acquisition date, the DNO Group may change the fair value assessment in the PPA, in accordance with guidance in IFRS 3.

For comparison purposes, assuming that the acquisition had taken place effective at 1 January 2018, full-year revenues would have increased by USD 291.4 million while net profit/(loss) would have increased by USD 0.3 million.

31. Events After the Reporting Period (continued)

The Company's Buyback of its own Class A Shares / Changes in Share Capital
On 16 January 2019 as a result of shareholders' requests to release the restrictions on their Restricted Class A Shares, 9,180,000 Restricted Class A Shares were re-designated as Class A Shares and 9,180,000 Class B Shares representing 18,360,000 votes, were transferred to the Company and cancelled.

Pursuant to authority granted by the Company's shareholders at the 2018 Annual General Meeting, on 21 January 2019 the Company offered to buy back up to USD 15 million in value of its Class A Shares (the "Buyback Offer"). The Buyback Offer expired on 31 January 2019 and as a result the Company purchased from Sparebank 1 Markets AS and cancelled 8,450,000 Class A Shares representing 8,540,000 votes. In addition, to maintain their voting levels in the Company to pre-buyback levels, Mr. Mossavar-Rahmani and DNO requested that the Company re-designate a total of 3,399,032 Restricted Class A Shares to Class A Shares. As a result, 3,399,032 Class B Shares, representing 6,798,064 votes, were transferred to the Company and cancelled.

DNO Handed over Operatorship of Oman Block 8 Following License Expiry
On 3 January 2019, DNO announced that its subsidiary DNO Oman Block 8 Limited has relinquished operatorship and participation in Oman Block 8 to Oman's Ministry of Oil and Gas due to the expiration of the 30-year commercial term of the Exploration and Production Sharing Agreement ("EPSA"). Effective 4 January 2019, Block 8 has been operated by the Musandam Oil and Gas Company, wholly-owned by the state-owned Oman Oil Company Exploration and Production LLC (OOCEP). DNO held a 50 percent interest in the license alongside LG International Corp., which held the remaining 50 percent interest. Both parties relinquished their interest upon expiry of the EPSA.

DNO Received 18 Awards in Norway's APA Licensing Round
On 15 January 2019, DNO announced that its wholly owns subsidiary DNO Norge AS has been awarded participation in 18 exploration licenses, of which five are operatorships, under Norway's Awards in Predefined Areas ("APA") 2018 licensing round. Of the licenses, nine are in the North Sea, two in the Norwegian Sea and seven in the Barents Sea. Prior to the announcement, DNO held interests in 21 Norway licenses. Another eight licenses were awarded to Faroe Petroleum Norge AS, prior to which the latter held 44 Norwegian licenses.

DNO Bond Listed on the Oslo Børs
DNO's bond loan (ISIN NO0010823347) has been listed on the Oslo Børs with ticker DNO02. The USD 400 million, five-year senior unsecured bond, which settled on 31 May 2018, matures on 31 May 2023.

DNO Board of Directors approve Dividend Payment
On 6 February 2019, DNO announced that, pursuant to the authorisation granted at the Extraordinary General Meeting held on 13 September 2018, the DNO Board of Directors has approved a dividend payment of NOK 0.2 per share to be made on or about 27 March 2019 to all shareholders of record at 18 March 2019. DNO shares will be traded ex-dividend as of 15 March 2019. The Company's wholly-owned subsidiary received a dividend with a value of USD 10.2 million on 29 March 2019.

Short-term Bank Credit Facility
In January 2019, DNO entered into a USD 200 million short-term bank credit facility to strengthen liquidity subsequent to the acquisition of Faroe.

DNO's Share Price Movement
DNO's share price at end March 2019 of NOK 19.15 was up 52.6 percent from year-end 2018.

We’re not just hands on.
We’re hands in.