

# A focused business

ANNUAL REPORT 2016



## Who we are

Genel Energy is the largest holder of reserves and resources in the Kurdistan Region of Iraq, where we have been operating for over a decade.

Through the Miran and Bina Bawi gas fields, Genel is positioned to be the cornerstone provider of KRI gas to Turkey under the KRI-Turkey Gas Sales Agreement.

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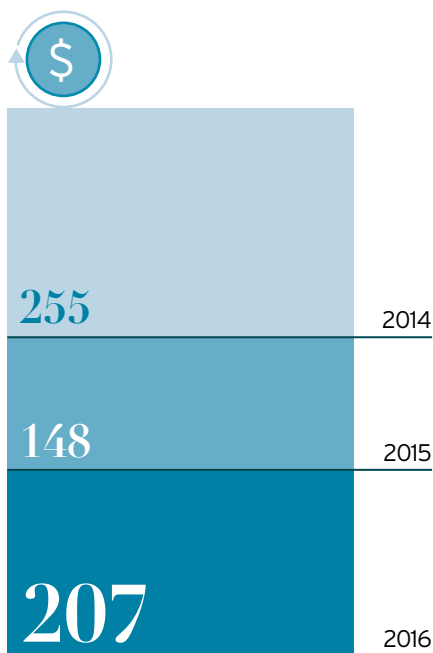
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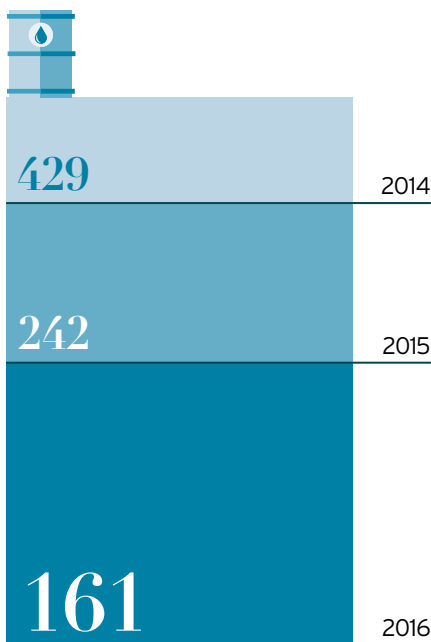


Discover more about Genel Energy on our website [www.genelenergy.com](http://www.genelenergy.com)

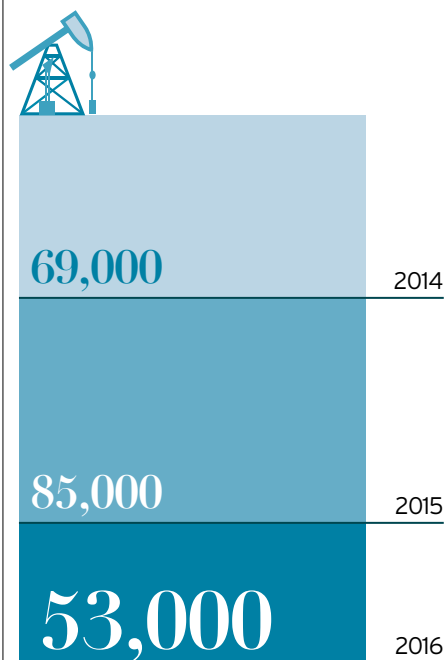
**CASH PROCEEDS**  
(\$ million)



**2P RESERVES**  
(net MMbbls)



**PRODUCTION**  
(bopd, working interest)



**HIGHLIGHTS**

- The KRG's February 2016 commitment to pay contractor export payments and address outstanding receivables led to a significant increase in cash proceeds during 2016.
- \$207 million cash proceeds were received in 2016, with Genel generating \$59 million in free cash flow (2015: \$179 million outflow).
- \$67 million in cash proceeds received in 2017 to date, representing full settlement of invoices for 2016 production.
- 2016 net production averaged 53,300 bopd (2015: 84,900), at the lower end of revised guidance.
- Strong liquidity position at the end of 2016, with unrestricted cash balances of \$407 million.

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**OUTLOOK**

- Signature of amended PSCs and GLA in February 2017, with a focus now on concluding negotiations with potential partners.
- Continued engagement with the KRG over accelerating the recovery of unpaid entitlements.
- Tawke 2017 production expected to average around year to date production levels of 111,000 bopd, in line with the Operator's guidance.
- Peshkibir-2 Cretaceous discovery in early 2017 - accelerated appraisal and early production planning.
- 2017 capex guidance for Taq Taq and Tawke reiterated at \$50-75 million. KRI gas business and Africa exploration expenditure also reiterated at c.\$50 million.
- Bond buy-back announced.

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**ESSENTIAL READING**

**Market environment**

The Kurdistan Regional Government's cash liquidity improved in 2016, facilitating regular payments.

[READ MORE P6](#)

**CEO statement**

Maximising the value of our oil assets, accelerating the recovery of the receivable, building on the momentum in the development of our gas assets.

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**Sustainability**

Genel has been drilling for a decade in the Kurdistan Region of Iraq, making a significant contribution to the local community.

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## I am pleased to welcome you to Genel Energy's sixth annual report

Tony Hayward  
Chairman



Last year we spoke of Genel Energy's resilience, and 2016 saw this tested once again. There is now greater stability in the oil industry, and there are opportunities in the Genel portfolio that provide clear reasons for optimism going forward.

Following a difficult 2015 for the entire oil industry, after hitting a low in February 2016, the oil price and operating environment improved across the remainder of the year. For the Kurdistan Region of Iraq, an economy almost entirely dependent on income from its oil exports, these tailwinds have begun to make a difference.

At the start of the year the continued fall in the oil price, coupled with the financial cost of the fight against ISIS and the ongoing lack of budget transfers from Baghdad, placed a significant financial strain on the KRG. Despite this the KRG reaffirmed its commitment to pay exporters based on the contractual entitlements under the Production Sharing Contract governing each licence.

Payments for exports were made throughout the year, with over half a billion dollars paid for gross exports from Taq Taq and Tawke. This resulted in Genel generating free cash flow in the year, a testament to our low cost base and a notable achievement during a difficult time for the industry. The recovery in the oil price facilitates ongoing and regular payments, and provides a basis from which the KRG can turn its attention to progressing the gas development.

Despite the disappointment associated with the further impairments to our balance sheet, there remains significant value potential in the portfolio. Maximising the recovery of oil from our fields, the recovery of our full receivable entitlement, as well as the development of our gas assets, remain key priorities for Genel going forward.

### **KRI oil assets**

Payments throughout 2016 enabled a resumption of investment at Taq Taq and Tawke. Tawke's production performance remains robust, and the asset is now the primary driver of value in Genel's oil business. We will work together with the operator, DNO, as the field continues to generate significant cash flow and value for the partners in years ahead.

The regularity of payments also allowed appraisal drilling at the nearby Peshkibir discovery, with very encouraging initial results. Further appraisal activity is planned for 2017, but we already believe the potential exists to add to our production going forward.

Challenges continue at the Taq Taq field, and production performance has been disappointing. Work done in 2016, and the first two months of 2017, helped to refine our understanding of the remaining potential. This regrettably led to a further write-down of reserves. Additional drilling in 2017, and further investment at the field, will be targeted and appropriate in order to maximise the recovery of remaining oil and generate positive cash flow from operations on an annual basis.

**Momentum in the gas business**

As we look ahead, of great encouragement is the momentum behind the development of the Miran and Bina Bawi gas fields. Across the industry, 2016 saw accelerated adoption of natural gas usage, with the Middle East recording the strongest regional growth rate. Turkey continues to be one of the largest gas consuming markets in the world, and its willingness to diversify supply away from the 88% it gets from just three countries provides a compelling reason for Turkey and the KRG to drive forward the development of Genel's fields. Miran and Bina Bawi alone have the potential to help meet a meaningful percentage of this demand.

The finalisation of documentation of the Production Sharing Contracts and Gas Lifting Agreements for both fields in February 2017 is a significant milestone.

There remain many challenges to bringing these assets to production, but this is a company-changing opportunity.

**Management changes**

In order to ensure that we have an appropriate team in place to best deliver on our strategy, Paul Schofield was appointed Chief Operating Officer in May 2016. With thirty five years' management and technical experience encompassing all aspects of the upstream oil and gas business, Paul has been a welcome addition to the team.

Jim Leng and Sir Graham Hearne retired from the Board during 2016, having both made valuable contributions in the establishment of Genel Energy as a respected London-listed company. It was a great pleasure working with them. Simon Lockett was added to the Board, bringing significant knowledge and experience of the oil sector.

Post-period end, we have also welcomed Tolga Bilgin to the Board.

**Responsible operations**

2016 was the tenth anniversary of Genel Energy drilling at Taq Taq, and we are proud of the work done to support the local community and the KRI as a whole in that time. Since drilling began Taq Taq has been a major source of revenue to the KRG, and we have also invested around \$25 million on local community projects, funding over 178 separate projects, as well as currently providing employment to over 400 local people. This work continues, and is a credit to the team in the KRI.

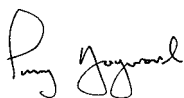
As well as the local community, we take our responsibilities to our employees, contractors, and partners seriously. In 2016 we achieved our target of zero injuries across the business, something that we will strive to emulate in 2017 and beyond.

**Outlook**

We recognise that 2016 share price performance has been disappointing, and the Board and management team are focused on a strategy to reverse this trend. We retain high-impact onshore exploration opportunities in the portfolio, our oil fields remain cash flow generative, and our gas assets provide a very large scale opportunity that is rare for an independent E&P company.

The regularity of payments for our oil production, coupled with our confidence in them continuing throughout 2017 and beyond, provides us with optionality regarding our financial position. The Board will continue to assess the appropriate capital structure for the business as the framework for our gas development evolves ahead of our 2019 bond refinancing.

With the opportunities available in our portfolio we are confident that we have the strategy and team to grow the business in coming years. We look forward to updating you on progress throughout 2017.



**Tony Hayward**  
Chairman



We retain high-impact onshore exploration opportunities in the portfolio, our oil fields remain cash flow generative, and our gas assets provide a very large scale opportunity that is rare for an independent E&P company.

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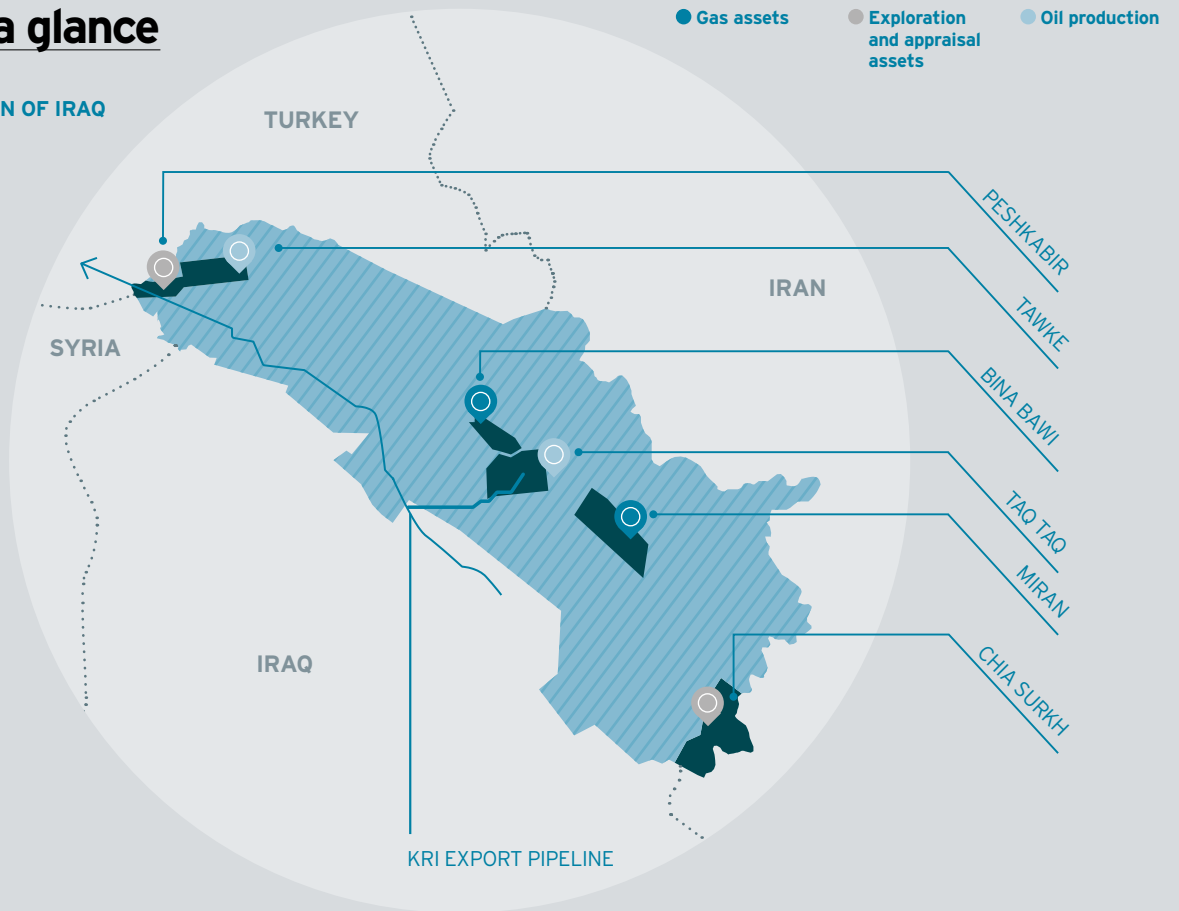
Where we operate P6

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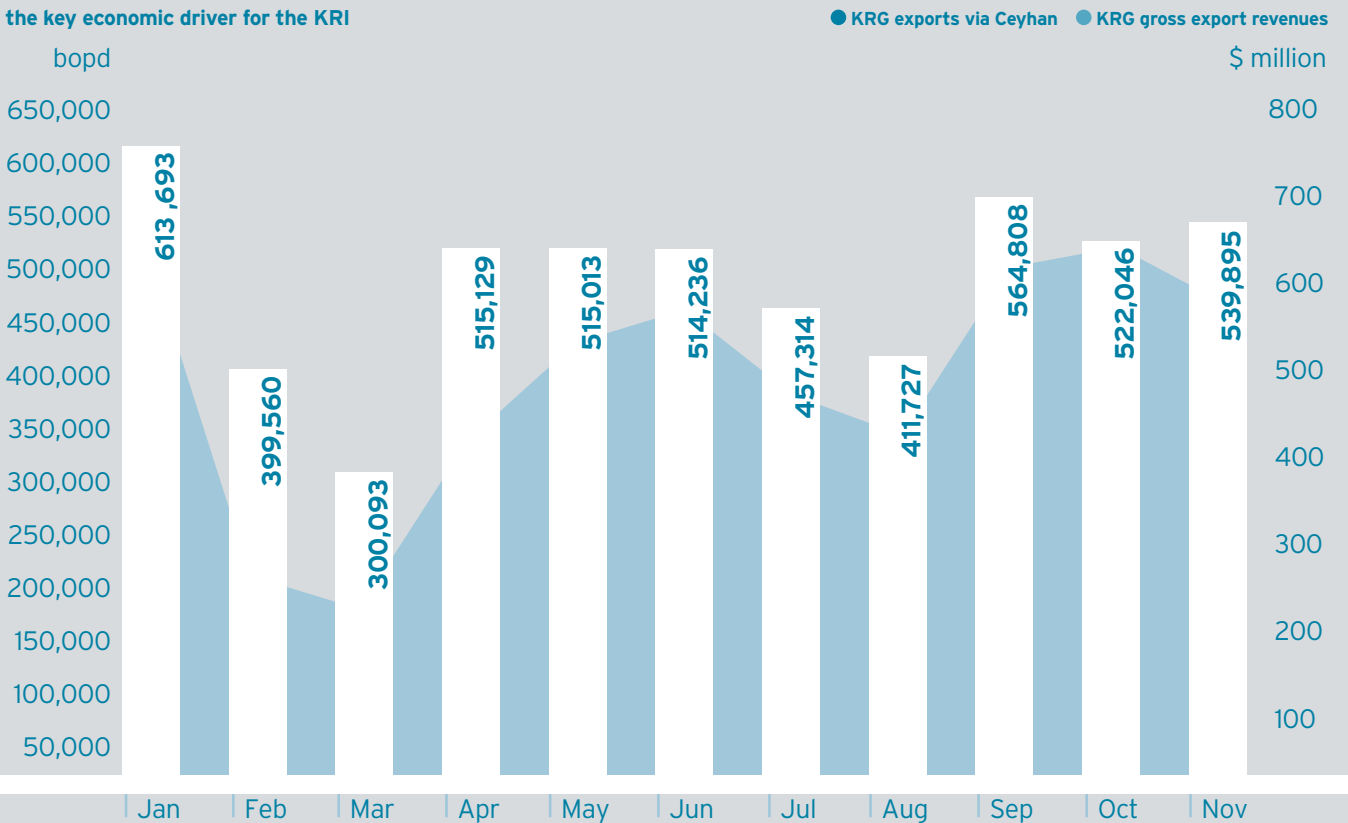
Corporate Governance P34

## Genel at a glance

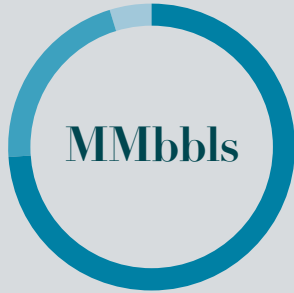
KURDISTAN REGION OF IRAQ



KRI PIPELINE EXPORTS 2016 - the key economic driver for the KRI

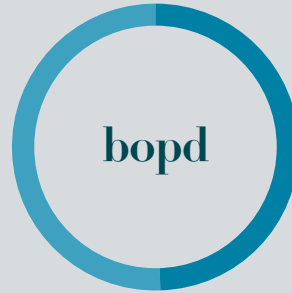


NET 2P RESERVES BY LICENCE



- Tawke - 126
- Taq Taq - 36
- Peshkibir - 8

2016 NET PRODUCTION



- Taq Taq - 26,500
- Tawke - 26,800

2016 CAPITAL EXPENDITURE



- Producing assets - 40
- Exploration and appraisal - 21

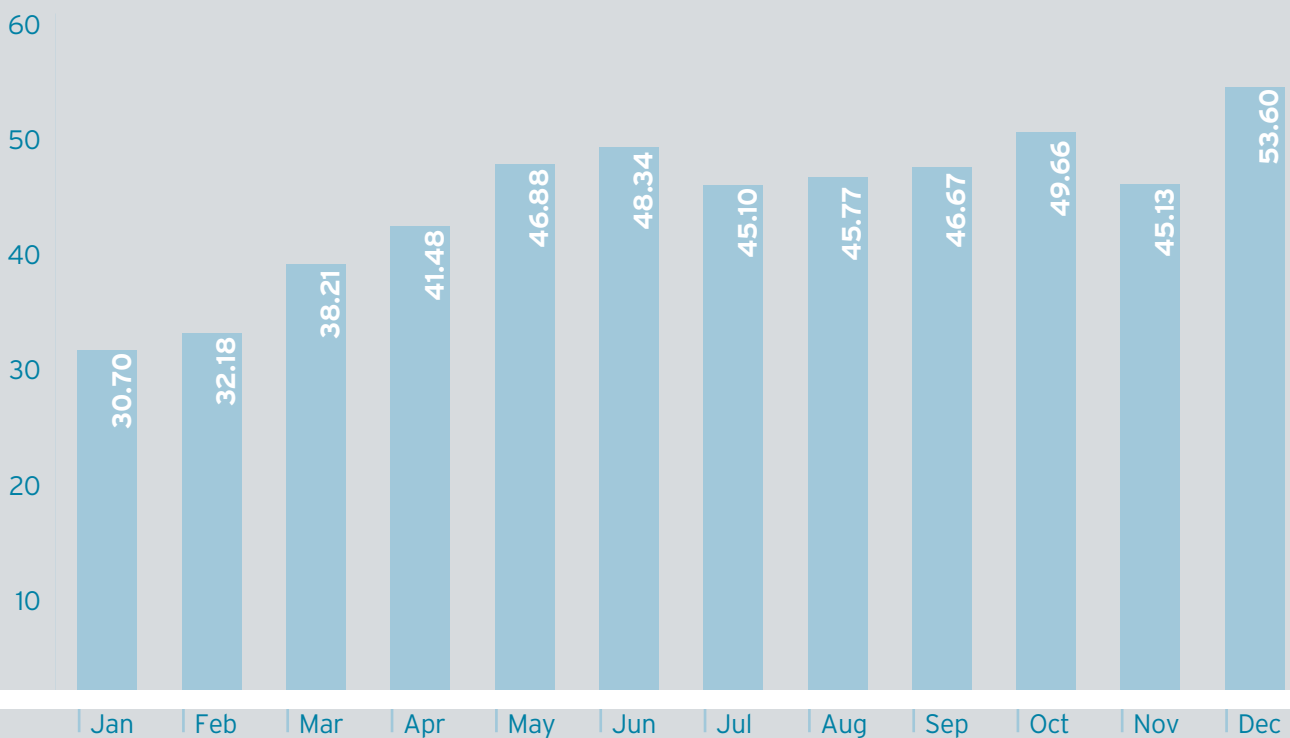
NET UNRISKED RESERVES AND RESOURCES



- KRI - 1,712
- Somaliland - 1,250
- Morocco - 899

BRENT OIL PRICE 2016

\$/bbl



## Our market environment

### Building solid foundations

The Kurdistan Region of Iraq is a semi-autonomous region, governed by the Kurdistan Regional Government. The KRI has been central to the fight against ISIS, while sheltering people displaced by the fighting in Iraq and Syria. With this backdrop, the KRI continues its work to create a sustainable economic framework.

If 2015 was the year that the KRI proved its resilience in the face of numerous challenges, 2016 was the year that the KRG took significant steps forward, maintaining the security of its borders and improving its economic situation.

Boosted by a recovery in the Brent oil price from lows of \$30/bbl to \$55/bbl, KRI oil exports increased in value, while significant economic reforms helped the KRG move towards financial stability. Moving into 2017, the Kurdistan Region of Iraq is now achieving a monthly fiscal breakeven.

### ISIS on the defensive

The Peshmerga, working alongside Baghdad-controlled forces and supported by a wide international coalition has helped to vastly shrink the territory under ISIS control in Iraq. At the time of writing, the liberation of Mosul has been continuing, with the east and south of the city back under coalition control and ISIS suffering numerous defeats on the western wing of the city. Prior to the Mosul campaign, the terrorist group had already been driven from its last remaining oilfields in Iraq, cutting its most significant source of revenue.



The Kurdistan Region of Iraq remained safe and secure in 2016. The military battle is being won, although the humanitarian struggle continues.

In total, 1.8 million refugees and internally displaced persons are currently sheltered within the borders of the KRI, constituting 97% of Syrian refugees in Iraq and 40% of internally displaced Iraqis. The KRG has provided leadership for the humanitarian response, and the territorial pressure on ISIS is allowing the KRG to plan for the voluntary and dignified return of IDPs to their homes.

Non-governmental organisations have provided valuable support to the KRG, although the lack of significant financial aid from the international community means that the KRG economy continues to suffer a significant strain.

### Maturing oil industry

External factors continue to put pressure on the finances of the KRG, finances that were already overburdened by public spending, but the recent rise in the oil price has been a significant boon for an economy based almost entirely on its natural resources.

Pipeline exports via the Turkish port of Ceyhan continued throughout 2016, peaking at just under 600,000 bopd in November. Sales by the KRG to international traders were regular and predictable throughout the year, and major companies are publicly committing to operations in the KRI, with Rosneft signing a Cooperation Agreement in the fields of upstream, infrastructure, logistics and trading in early 2017.



As the KRI continued to suffer economic hardship in 2016, Genel, with its partners in TTOPCO, provided vocational training courses for residents of villages close to Taq Taq



Boosted by a recovery in the Brent oil price from lows of \$30/bbl to \$55/bbl, KRI oil exports increased in value, while significant economic reforms helped the KRG move towards financial stability.





With the addition of Rosneft, international trading houses have now provided pre-payments to the KRG for oil exports totalling around \$3 billion since 2014, helping to boost liquidity in the region and strengthen the KRI's fiscal position.

Regular payments to the KRG have in turn facilitated regular payments to oil companies operating in the KRI, and just under \$700 million was paid to IOCs in 2016.

An oil price of \$55 per barrel, with exports at 550,000 bopd, generates \$750 million monthly for the KRG. Coupled with economic reforms, this has moved the KRG towards a current account surplus.

#### **Economic reforms**

The Kurdistan Regional Government has followed through on its promise to modernise its economy and significantly reduce public spending. Working with the World Bank, the KRG has carried out a full economic audit, looking to cut costs and build a solid economic bedrock.

Actions have been taken to diversify sources of government income, including the overhaul of the taxation system and a reduction in electricity fuel subsidies. The KRG has also moved to an electronic payment system for salaries, requiring all government employees to be biometrically registered. Austerity measures have led to temporary salary reductions throughout the public sector, which continues to provide employment for over 50% of the KRI workforce.

The work undertaken has led to an 80% drop in the consolidated fiscal deficit, from \$6.5 billion in 2014 to an estimated \$1.3 billion in 2016. At the same time, government spending has decreased by c.70% as the KRG continues to implement austerity measures. Non-salary operating expenditure has also fallen by over 50%.

Qubad Talabani, Deputy Prime Minister of the KRG, stated at a conference in London that the payment for salaries (excluding the Peshmerga) has been reduced from \$750 million to c.\$450 million per month. Although part of this has been achieved through temporary salary cuts, the biometric registration programme paves the way to making an element of this reduction permanent. As of March 2017, biometric registration of government wage-earners crossed over one million people.

#### **Regional relationships**

2016 saw a continuation in the more stable relationship between Baghdad and Erbil since the election of Iraqi Prime Minister Haider al-Abadi. The Peshmerga has fought alongside Iraqi troops in the campaign to liberate Mosul, with this military cooperation indicative of an improvement in the overall relationship between the respective authorities.

In the second half of 2016 a deal was reached between the KRG and Baghdad's Northern Oil Company regarding the federally controlled Kirkuk fields, with both sides agreeing to split the export volumes equally. This agreement has been built on in 2017, with new commitments by Baghdad to bring Kirkuk crude to Kurdish refineries. In February 2017 this agreement has seen 40,000 bopd of NOC crude transported to KAR's refineries west of Erbil, generating fuel for Mosul and liberated areas to offset the losses of the Bayji and Qayyarah refineries.

As the relationship with Baghdad has stabilised, the relationship between Turkey and the KRG has continued to improve. In February 2017, President Barzani visited

Turkey, a meeting that followed closely behind January 2017 talks between KRG Prime Minister Nechirvan Barzani and Turkish President Erdogan, at which they discussed the further development of cooperation in the field of energy amongst other things.

The requirement for energy is one of the key drivers of the Turkey-KRG relationship. Turkey has one of the fastest growing gas markets in the world, and gas from Russia, Iran and Azerbaijan makes up 88% of imports.

There is a clear incentive for Turkey to diversify supply, especially when this can be done while reducing costs, and KRI gas offers the opportunity to diversify supply from a secure, long-term source at a cheaper cost than all other alternatives.



Central processing facility at Taq Taq



## **Maximising recovery, generating positive cash flow, building on renewed momentum in the gas business**

Murat Özgül  
 Chief Executive Officer

The last three years have been a difficult period for Genel. The entire E&P sector struggled with a collapsing oil price environment, the Kurdistan Region of Iraq faced a challenging security situation, and our Taq Taq field has suffered from sharp production declines and subsequent reserve downgrades.

While acknowledging the recent disappointing share price performance and cumulative impact of impairments, there are now clearer opportunities for value creation than there have been for some time, driven by the significant opportunity afforded by our gas assets.

Genel has operated in the KRI, and worked alongside the Kurdistan Regional Government, for over a decade. We have acknowledged the difficult times that the KRG has faced economically, and the hard work that has delivered a working payment mechanism for oil exports.

2016 was a watershed for contractor payments, with Genel receiving \$207 million in the year, an increase from \$148 million in 2015. This led us to generate free cash flow after interest payments for the period, a notable performance at a time of low oil prices.

The willingness and ability of the Kurdistan Regional Government to make regular payments has been welcome at a time when they continue to implement significant austerity measures. Our key focus is the recovery of outstanding receivables.

In February 2016 a mechanism was implemented by the KRG through which the receivable would begin to be recovered.

Alongside monthly payments for current sales based on a proxy for contractual PSC entitlement, the KRG agreed to make further payments equivalent to five percent of the monthly netback revenue derived from our producing fields towards the recovery of outstanding entitlements. This was a promising start, and we will continue to work with the KRG to build on this.

As part of its commitment to transparent governance, the KRG has engaged internationally recognised auditing firms to audit the KRI oil sector. This process will also cover unpaid entitlements to oil companies. We are confident that once this audit process is complete, the KRG will remain committed to the full settlement of unpaid entitlements in a timely fashion, and we remain focused on recovering the full amount of our receivable.

### **Building a transformational gas business**

While the oil business continues to generate cash, the gas business is now moving forward towards development. In 2016, hampered by the KRG's economic crisis and regional geopolitical events, progress was slower than expected. Expenditure was accordingly kept to a minimum, with the Pre-FEED and upstream Gas Development Plan studies for the Miran and Bina Bawi fields being the focus of activity.



2016 was a watershed for contractor payments, with Genel receiving \$207 million in the year, an increase from \$148 million in 2015.





The development of our Miran and Bina Bawi assets has the potential to be transformational for Genel, and we are focused on demonstrating the value proposition to the industry and market.



Workers at Taq Taq

Overleaf: The successful Peshkabir-2 well, on the Tawke licence

An updated view on discount rates, and the pace of the development timetable, amongst other factors, has led the Company to reduce the carrying value of the Miran and Bina Bawi fields in the Company's accounts from \$1,448 million to \$867 million. Despite this write-down, the development of our gas assets represents a huge opportunity for the Company, and for the Kurdistan Region of Iraq as a whole.

Indeed, while 2016 progress was slow, momentum has recently returned to the gas project. We are very pleased to have finalised documentation for the amended Miran and Bina Bawi Production Sharing Contracts and Gas Lifting Agreements. This was an important milestone allowing us to focus on the next step of concluding negotiations with potential partners, which will be the catalyst for pre-development activity to start in earnest in order to move the KRI gas project towards FID.

Our focus in 2017 is the positive conclusion of discussions with a strategic partner for the project, followed by a completion of the midstream agreement and financing of the gas processing facility.

The development of our Miran and Bina Bawi assets has the potential to be transformational for Genel, and we are focused on demonstrating the value proposition to the industry and market. Genel has been central to the Kurdistan Region of Iraq's development as an oil province, and we now look forward to

playing the same role in the development of gas exports which will provide a huge boost to the KRG's economy.

#### **Cash generative oil assets**

Despite a period of export pipeline downtime in the first quarter of 2016, Tawke field performance remained strong, producing an average of 107,000 bopd in the year. Regular payments allowed investment in the field to restart in the first quarter and continue throughout the year, with the development programme offsetting natural well decline at the field.

Tawke reserve estimates also remain stable, with gross proved plus probable (2P) reserves estimated at 504 MMbbls, compared to 543 MMbbls at year-end 2015, with the difference between that and the prior year being primarily the production in 2016. The Tawke field is now our cornerstone oil asset. It remains a low cost field, and we look forward to working with DNO to maximise the cash generation and value of this key asset in the future. We expect that Tawke production in 2017 will average around year to date production levels, in line with the Operator's current view.

The Peshkabir discovery, under the Tawke PSC, provides potential upside. Following the discovery of Jurassic oil in the Peshkabir 1 well in 2012, the Peshkabir-2 well, spudded in October 2016, discovered additional oil in the Cretaceous horizon in the southern flank of the field in early 2017.



The Tawke partners are considering a number of options to step up the appraisal of the new discovery, including the drilling of a third well in the second half of 2017. Options are also under consideration for possible early Peshkabir production from Peshkabir-2, incorporating oil transportation to the Tawke field's production facilities at Fishkabur 12 kilometres away.

Taq Taq field performance in 2016 was disappointing. It is both a mature and complex field, where the recent production decline has been faster than expected. Having produced over 200 million barrels of oil, the focus is now on maximising oil recovery while controlling costs, with an overall aim of generating positive cash flow from operations.

There remains continued uncertainty at the field over reserves estimation and future production rates, and the Company has removed guidance for Taq Taq in 2017. Ongoing work at Taq Taq is aimed at maximising oil recovery at Taq Taq and its value to Genel.

In 2016 capital expenditure totalled \$61 million across Genel's entire business, a reduction of 30% on initial guidance and almost \$100 million down on the prior year. Both fields continue to benefit from low capital and operating costs, and appropriate expenditure remains a key priority for Genel. As such, investment at both Taq Taq and Tawke will keep pace with the payments that we receive.

#### Development of reserves and resources

The reduction in the Company's 2P reserves at the end of 2016 primarily reflects the updated assessment of Taq Taq 2P reserves, a consequence of a reassessment of the gross rock volume above the oil water contact and fracture porosity in the undrained Cretaceous Shiranish reservoir. The Peshkabir Cretaceous discovery represents the best current prospect for near-term reserve bookings, and we look forward to spudding the Peshkabir-3 appraisal well in the second half of the year.

As with all aspects of the business, our focus on cost and value means we will prioritise those areas of the portfolio that meet our value creation criteria. In this regard, following the drilling of the CS-12 well and a subsequent review of licence prospectivity, we have agreed the sale of our 40% interest in the Chia Surkh licence to Petoil, subject to KRG approval. On completion Petoil will pay Genel an initial consideration of \$2 million, and an additional \$25 million in staged payments contingent on future crude oil production from the Chia Surkh licence.

In line with our strategy to concentrate on low-cost, onshore activity with high-impact potential, we look forward to stepping up activity in Somaliland. The potential is significant - our licences cover an area the size of the entire KRI, with the geology analogous to the proven hydrocarbon province in Yemen. The acquisition of 2D seismic data on the Odewayne and SL-10B/13 blocks is now underway. The data will be acquired as part of a Somaliland government-owned project, with the Company purchasing the associated data from the government. We look forward to maturing prospects towards drilling in the medium term.

The Company is currently in discussions with the Moroccan government over the nature, scope, and timing of the activity related to the maximum future exploration commitment of c.\$30 million.

#### CASH RECEIPTS 2016



- Taq Taq - 125
- Tawke - 82



Appropriate expenditure remains a key priority for Genel. As such, investment at both Taq Taq and Tawke will keep pace with the payments that we receive.





### Outlook

We have very clear priorities for the coming year. We will look to maximise recovery from our oil fields while controlling costs, with an overall aim of generating positive cash flow from operations. As ever, we continue to keep a close eye on our financial position, cost control is key across the business, and investment will match the payment environment.

We are encouraged by the frequency of payments in early 2017 and look forward to that continuing over the balance of 2017. We are focused on working with the KRG to accelerate the recovery of the receivable for the oil that we have produced in recent years. The KRG has already stated that an increase in the oil price would lead to an increase in the allocation of netback revenues paid to IOCs each month, and the improvement we have seen in their economic situation bodes well in this regard. The receipt of full cash entitlements remains our focus, although there are other options available.

2017 is a very important year for Genel and especially the development of the gas business. We are working with the KRG and in discussions with counterparties to move things rapidly forward, promising an improved future for Genel and the KRI.

**Murat Özgül**  
Chief Executive Officer



We are encouraged by the frequency of payments in early 2017 and look forward to that continuing over the balance of 2017. We are also focused on working with the KRG to accelerate the recovery of the receivable for the oil that we have produced in recent years.



## Our business model

### HOW WE CREATE VALUE

We create value by finding and monetising natural resources. To achieve this we must execute exploration campaigns, deliver selective development projects, maximise our production over the life of field, and monetise at all points of the cycle, ensuring that we are suitably financed through a mix of diverse funding options and portfolio management.

1

#### EXPLORATION AND APPRAISAL

Execute high-impact E&A programmes, mitigating environmental impact, with a view to increasing reserves and resources.

##### Key focus

Genel continues to prioritise near-term spend on our KRI production and development assets, while our refocused exploration strategy targets low-cost onshore opportunities.

##### 2016 activity

Appraisal work in the KRI in 2016 focused on Chia Surkh, and the Peshkibir-2 well at Tawke, which discovered additional oil in the Cretaceous horizon in early 2017.



2

#### DEVELOPMENT AND PRODUCTION

Safely deliver selective development projects for the benefit of both Genel and the communities in which we operate. The key aim is to maximise production of natural resources over the life of field and increase cash flow.

##### Key focus

Genel is concentrating on assets in the KRI, where production costs are amongst the lowest in the world.

##### 2016 activity

An increase in regularity of payments allowed work programmes to resume at Taq Taq and Tawke. The mid-stream pre-FEED for Miran and Bina Bawi gas fields was completed.



## Our strategy

### HOW WE OPERATE

Our business model illustrates our value creation story, and is guided by our strategy. As we pursue our strategy, the way in which we conduct ourselves with our host communities and governments is crucial to our success as a business, and underpins everything that we do. Our record on health, safety and the environment is a source of pride for Genel, and we strive to ensure that our operations provide benefits for those communities in which we operate.

1

#### MAXIMISE THE POTENTIAL OF OUR KRI OIL ASSETS AND COMMERCIALISE OUR KRI GAS BUSINESS

Oil production in the KRI is managed to ensure long-term value creation, maximising production over the life of the field and investing at an appropriate level to the external environment. Our Miran and Bina Bawi fields contain an estimated 11 tcf of mean raw gas resources, the commercialisation of which has the potential to be transformational for both Genel and the KRI.

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P8

2

#### CREATE VALUE WITH THE DRILL BIT

We are committed to realising the value in our portfolio through a focused drilling programme, exploring, appraising and developing our assets, with the flexibility in our portfolio allowing us to manage expenditure appropriately.

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3

### FINANCE AND PORTFOLIO MANAGEMENT

Manage financial and business assets to provide flexibility in our capital structure in order to pursue strategic objectives and underpin future growth.

#### Key focus

Managing the portfolio in an appropriate way for the external environment, minimising expenditure and managing our level of debt.

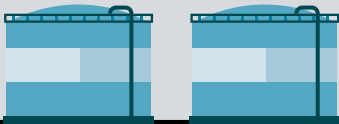
#### 2016 activity

Capital expenditure was reduced by 61%, and a successful bond buy-back in March 2016 helped reduce debt and bolster the balance sheet, while regular payments from the KRI stabilised the receivable.

#### Our oil reserves

Oil production in the KRI provides ongoing cash generation. Our reserves are being produced at some of the lowest costs in the industry, making our assets cash flow breakeven at a Brent oil price of less than \$20/bbl. A payment mechanism announced in February 2016 helped provide clarity over export receipts, and over \$200 million was received by Genel in 2016.

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#### The KRI gas development

The Miran and Bina Bawi gas project will benefit from an industry leading cost structure, helping Turkey both diversify and lower the cost of energy imports. Underpinned by a government backed gas sales agreement between Turkey and the KRG, our gas assets provide a unique opportunity. The signing of documentation signalled renewed momentum in 2017.

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3

### PURSUE SELECTIVE, ACCRETIVE M&A OPPORTUNITIES

We continue to look to leverage the skills and knowledge of the management team and identify upstream assets that would add to reserves and/or resources and complement the existing KRI position.

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4

### MAINTAIN THE HIGHEST LEVEL OF CORPORATE GOVERNANCE

The strength of our management team, and an experienced Board, provides the expertise to grow the business and the governance necessary to maintain the integrity of the Company and effectively manage risk.

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5

### RETURN EXCESS CASH TO SHAREHOLDERS

The Company aims to retain a strong balance sheet and flexibility in our capital structure in order to pursue its strategic objectives and underpin future growth. We continue to evaluate and evolve our capital structure to reflect the needs of the business, with a view to returning capital to investors when appropriate.

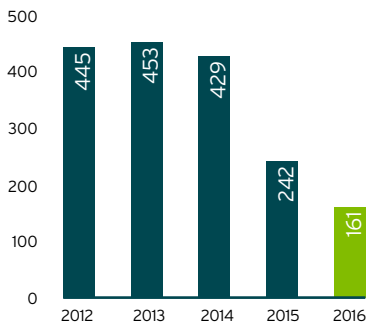
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P24

## Measuring our progress

### NET 2P RESERVES

161 ↓

(net mmbbls)  
 2015: 242 mmbbls



#### Definition

2P reserves are proved plus probable reserves.

#### Performance

Gross 2P reserves at Tawke were 504 MMbbls at the end of 2016, compared to 543 MMbbls at the end of 2015, with the difference being field production in the year. At Taq Taq, a reassessment of gross rock volume and fracture porosity in the undrained Shiranish formation resulted in a reduction in gross 2P reserves from 172 MMbbls at the end of 2015 to 59 MMbbls at the end of 2016. Note that end-2015 reserves have been restated, from 264 MMbbls to 242 MMbbls, following the Tawke reserves update announced on 18 March 2016.

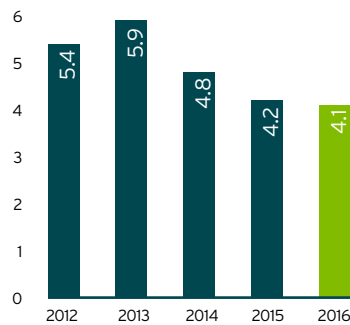
#### Relevance to strategy

Our strategy is to enhance the value of our existing 2P reserves through active reservoir management and cost effective development. The Company also looks to replace 2P reserves through a combination of maturing contingent resource to commerciality, exploration for new sources of hydrocarbons and M&A activity.

### TOTAL NET RESERVES AND UNRISKED RESOURCES

4.1 ↓

(bnboe)  
 2015: 4.2 bnboe



#### Definition

Net reserves and resources include 3P reserves, 2C contingent resources and prospective resources.

#### Performance

Net reserves and unrisked resources remained largely unchanged in 2016. Further maturation of the Sidi Moussa prospect inventory added 449 MMbbls of unrisked prospective resource, notably through the addition of a series of Cretaceous prospects. This was offset by the removal of the Miran Deep prospect, a block wide reassessment of Chia Surkh volumes subsequent to the CS-12 well result, and the reduction of 3P reserves at Taq Taq.

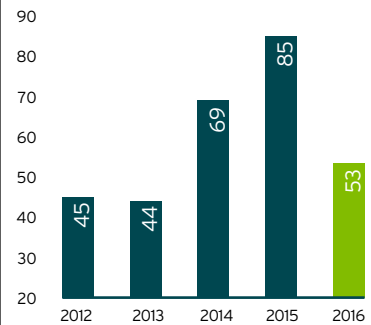
#### Relevance to strategy

Prospective resources are those quantities of hydrocarbons estimated to be potentially recoverable from undiscovered accumulations by application of future development projects, and have the potential to drive long term growth.

### NET PRODUCTION

53,000 ↓

(bopd)  
 2015: 85,000 bopd



#### Definition

Production is measured in barrels of oil produced per day.

#### Performance

The 2016 development programme at Taq Taq failed to offset natural decline, with production at the field down 48% compared to 2015. Production at Tawke was also lower compared to 2015, a result of reduced investment made in the prior year as regular payments were not forthcoming. A scaled back work programme in 2016 has helped to mitigate against field decline.

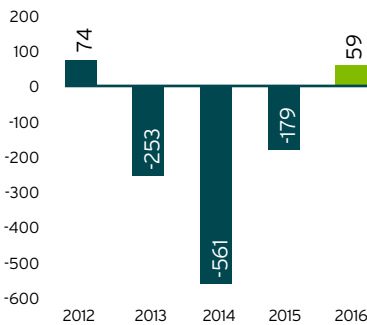
#### Relevance to strategy

Production from our fields provides Genel's revenue generation, and is a key measure of our operational performance. Our oil production in the KRI is managed to ensure long-term value creation, with production maximised over the life of the field.



**FREE CASH FLOW**

59 ↑

(\$ million)  
2015: (\$179) million**Definition**

Cash flow generated from operating activities, minus capital expenditure.

**Performance**

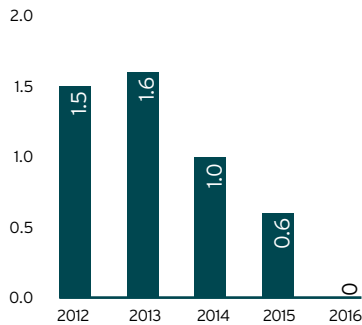
The receipt of over \$200 million in payments for oil exports, and a 61% reduction in capital expenditure, led to positive free cash flow generation in 2016.

**Relevance to strategy**

Production from operating activities forms Genel's revenue generation. Net cash illustrates the success of monetisation of these activities, reflecting both money received and the minimisation of operating costs. Free cash flow has replaced capital expenditure as a KPI, which did not reflect Genel's focus on cash generation.

**LOST TIME INCIDENTS**

0 ↓

Hours lost due to injury  
per million work hours  
2015: 0.6**Definition**

Lost time incident frequency measures the number of lost time incidents per million work hours.

**Performance**

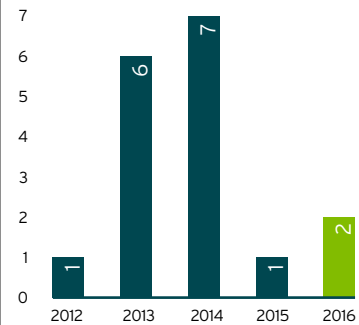
2016 was a landmark year, as we achieved our target of zero injuries across both TTOPCO and Genel operations. We continue to review processes and make improvements where possible in order to strive to repeat this performance in coming years.

**Relevance to strategy**

The safety of our workforce remains of paramount importance. Genel is committed to running safe and reliable operations across our portfolio, aiming at zero fatalities and no lost time incidents.

**SPILLS - LOSS OF PRIMARY CONTAINMENT**

2 ↑

Incidents where there has been  
a loss of primary containment  
2015: 1**Definition**

Loss of primary containment records any unplanned or uncontrolled release of material from a piece of equipment (such as a pipe, vessel, or tank) used for containment of potentially harmful or hazardous substances and products.

**Performance**

There were two fluid releases at Taq Taq, one totalling five litres of hydraulic lift fluid, the other c.1000 litres of diesel from an onsite generator. Clean up was undertaken, and there was no lasting harm to the environment. As always, a full investigation of both incidents was undertaken and lessons learned.

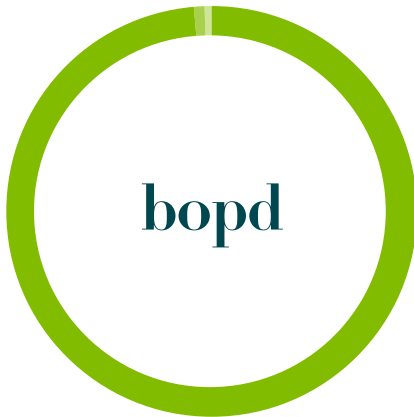
**Relevance to strategy**

Part of our commitment to being a sustainable business is for the impact on the environment around our operations to be minimised. Asset integrity is a major priority for Genel and we plan and execute the operations of our business and our engagement of subcontractors so as to minimise risk and mitigate potential impact.

## Tawke ultimate recovery unchanged, new discovery at Peshkabir

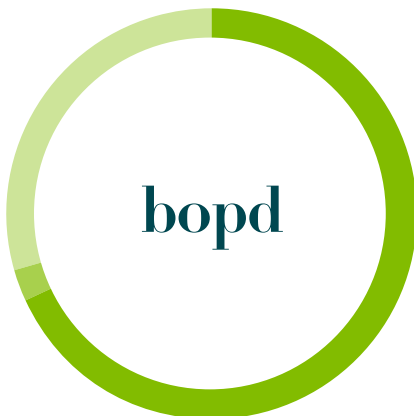
Paul Schofield  
COO

TAWKE SALES ROUTE 2016



- Export via pipeline - 105,500
- Domestic sales - 1,000
- Refinery sales - 400

TAQ TAQ SALES ROUTE 2016



- Export via pipeline - 41,000
- Domestic sales - 1,600
- Refinery sales - 17,600

### Production and sales

Net working interest production in 2016 averaged 53,300 bopd, at the lower end of the Company's 53-60,000 bopd guidance range, which was revised from 60-70,000 bopd in July 2016. Production declined by 37% year-on-year, with the underperformance versus initial guidance primarily a result of greater than anticipated declines at Taq Taq during the year.

Following a hiatus in drilling activity in the second half of 2015, development activity at both Taq Taq and Tawke resumed in early 2016 as the KRG's payment announcement provided confidence of ongoing cash receipts. Investment at Tawke helped to offset natural well declines at the field, with drilling activity at Taq Taq only partially mitigating natural well decline.

During 2016, the majority of production from both fields was exported by the KRG through the KRI-Turkey pipeline. The Taq Taq field also continued to supply the domestic Bazian refinery. Small volumes from both fields were also supplied into the domestic market, principally during downtime in the KRI-Turkey pipeline. All sales routes from both fields are currently invoiced at the same price under the terms of the February 2016 payment mechanism. The Company continues to expect that the majority of production from both fields will be exported by the KRG through the KRI-Turkey pipeline. The KRI domestic market does provide a secondary

sales route in the event of meaningful disruptions to KRI-Turkey pipeline uptime.

The Company announced on 28 March 2017 that previous guidance for 2017 Taq Taq gross average production of 24-31,000 bopd had been removed given the ongoing uncertainties in reserves estimation and future production from the field. Consequently, the previous 35-43,000 bopd 2017 production guidance for the Company has also been removed.

Average 2017 year to date production for the Company is 40,000 bopd, representing its net share of Taq Taq and Tawke production.

### Reserves and resources

At 31 December 2016, Genel's proven plus probable (2P) net working interest reserves were 161 MMbbls. In the 2015 Annual Report and Accounts, end-2015 2P net reserves were reported as 264 MMbbls. Shortly after publication of the Company's 2015 results, the Tawke operator updated its assessment of end-2015 Tawke reserves and resources, leading to a revision of the Company's end-2015 net 2P reserve position to 242 MMbbls (as stated in the table below). Compared to this latter figure, end-2016 net 2P reserves represent a 33% year-on-year reduction.

Year-end 2016 gross Tawke 2P reserves were estimated by the operator, DNO ASA, at 504 MMbbls, compared to 543 MMbbls at year-end 2015. The year-on-year change is explained by production in 2016 of 39 MMbbls. Genel's net share of Tawke 2P reserves at



end-2016 is 126 MMbbls. At the Peshkabir field, gross 2P reserves at year-end 2016 were unchanged at 32 MMbbls (8 MMbbls net to Genel).

On 29 February 2016, the Company announced that the 2P initial gross recoverable reserves (referred to in the industry as Estimated Ultimate Recovery, or EUR) for the Taq Taq field had been downgraded from 683 MMbbls to 356 MMbbls. On 28 March 2017 the Company announced a further downward revision of Taq Taq 2P EUR to 267 MMbbls, implying gross 2P reserves of 61 MMbbls at year-end 2016 (from 172 MMbbls at year-end 2015). Genel's net share of Taq Taq 2P reserves at year-end 2016 is 27 MMbbls. The further reduction of 2P EUR for Taq Taq is a consequence of a reassessment of the gross rock volume above the oil water contact and fracture porosity in the undrained Cretaceous Shiranish reservoir, following an analysis of reservoir surveillance data and well performance from 2016 and the first two months of 2017.

Following a technical and commercial review of development planning for the Miran oil discovery, and capital allocation decisions across Genel's business, the Company has decided that it would be prudent to move Miran oil volumes from reserves to resources pending clarity on the nature and timing of partner(s) for the KRI gas business. This reduced 2P reserves by 23 MMbbls (net).

At 31 December 2016, Genel's 2C net contingent resources were 1,549 MMboe. In the 2015 Annual Report and Accounts, 31 December 2015 net 2C resources were reported as 1,252 MMboe. Shortly after

publication of the Company's 2015 results, the Tawke operator updated its assessment of end-2015 Tawke reserves and resources, resulting in the Company's end-2015 2C net resources position being upgraded to 1,284 MMboe. Furthermore, a decision has been taken to include KRI gas business resource estimates on a raw gas instead of sales gas basis at end-2016. This, amongst other factors, results in a comparable end-2015 2C resource number of 1,552 MMboe. Compared to this latter figure, 31 December 2016 2C net resources were practically unchanged year-on-year.

In 2016, 2C resources attributable to the Chia Surkh PSC were reduced following a block wide assessment of volumes following the CS-12 drilling results. Elsewhere, net Peshkabir 2C resources of 12 MMboe were added following the Cretaceous discovery in early 2017. Net Miran oil 2C resources of 39 MMbbls were added to 2C following their removal from 2P reserves.

#### **KRI oil assets**

##### **Tawke PSC (25% working interest)**

The Tawke field produced a gross average of 107,000 bopd in 2016, compared to 135,000 bopd in 2015, representing a 21% decline year-on-year. The majority (98%) of sales from the field were by the KRG through the KRI-Turkey pipeline, with the remainder either being refined at the Tawke field or sold in the domestic market. A total of 33 development wells have been drilled at the field, with 28 of these currently producing. Surface facilities capacity is currently 200,000 bopd with water handling capacity of up to 16,000 bpd.

Following the KRG's February 2016 payment announcement, well intervention and drilling

activity at Tawke field recommenced. In the first half of 2016, a workover programme on eight existing wells was implemented, which helped offset natural well declines. In the second half of the year, four new production wells were drilled, three of which were in the shallow Jeribe reservoir and the fourth in the main Cretaceous reservoir. Combined, these development wells added in excess of 10,000 bopd (sum of initial well rates) of new production for investment of \$11 million, again offsetting declines from the existing well stock.

The firm programme for Tawke in 2017 includes two further development wells (T-35 and T-21N) in the main Cretaceous reservoir and two shallow Jeribe wells. Workovers of existing wells are also planned. Additional activity in 2017, which includes further Cretaceous and Jeribe wells, is contingent on reservoir performance and regular payments from the KRG for current sales and unpaid entitlements.

The Tawke field has produced an average of 111,000 bopd in 2017 year to date and is currently producing 108,000 bopd. The Company expects that the average Tawke production in 2017 will be around year to date production levels, in line with operator guidance.

	Remaining reserves (MMboe)				Resources (MMboe)					
	1P		2P		Contingent				Prospective	
	Gross	Net	Gross	Net	1C		2C		Gross	Net
31 December 2015	447	123	777	242	1,065	798	2,186	1,552	3,433	1,994
Production	(61)	(19)	(61)	(19)	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-	-	-	-	-
Extensions and discoveries	-	-	-	-	-	-	48	12	-	-
New developments	-	-	-	-	-	-	-	-	-	-
Revision of previous estimates	(11)	(5)	(119)	(62)	15	13	(82)	(15)	492	317
31 December 2016	375	99	597	161	1,080	811	2,152	1,549	3,925	2,311

**Taq Taq (44% working interest, joint operator)**

The Taq Taq field produced an average of 60,000 bopd in 2016, a 48% year-on-year decline. A total of 28 development wells have been drilled at the Taq Taq field.

During the year, 68% of field output was sold by the KRG through the KRI-Turkey pipeline, with a further 29% trucked to the domestic Bazian refinery and the remainder sold into the domestic market.

During 2016, three existing production wells were side-tracked. All three sidetracks (TT-27x, TT-07z and TT-16y) were contributing a total of 9,000 bopd at year-end 2016, most of which was from the TT-16y well. Production rates from the other two sidetracks were lower than anticipated due to the well completions being compromised as a result of drilling and completion problems.

Notwithstanding the contribution from the side-track wells drilled in 2016, Taq Taq field production underperformed expectations in the year, primarily as a rising oil water contact in the Shiranish reservoir reduced the productivity from key wells. Following the analysis of reservoir surveillance data and well performance from 2016, and the first two months of 2017, assumptions on gross rock volume above the oil water contact and fracture porosity in the undrained Shiranish formation were reassessed. This resulted in a further reduction in gross proven and probable (2P) EUR from 356 MMbbls at end-2015 to 267 MMbbls at end-2016. These changes have been supported by McDaniel & Associates in its updated Competent Person's Report (CPR) dated 28 March 2017.

In addition, the Company has been working on an updated Field Development Plan ('FDP') for the Taq Taq field. The scope of this activity has been extended to incorporate the results of recent well performance and will be further refined on the back of future development activity. The strategy at Taq Taq is to maximise recovery from the field while controlling costs, with an overall aim of generating positive cash flow from operations.

The Taq Taq field has produced an average of 28,000 bopd in 2017 to date. The Company has previously stated that the field is reliant on production from a limited number of key wells - production is currently 19,000 bopd from 15 wells, with five of these wells accounting for 77% of field production. Recently, key producing wells have exhibited high rates of decline as a result of water breakthrough, exacerbating the decline rate across the field. Taq Taq field water production is currently 13,000 bpd, representing a water cut of c.40%, significantly less than total water handling

capacity of 55,000 bwpd. The Company currently intends to announce Taq Taq field production on a monthly basis going forward.

The TT-29z well is currently drilling at the field and aims to reduce the uncertainty on the free water level in the north flank, which in turn will give better understanding on remaining reserves at this location. TT-29 will also target a shallower Tertiary anomaly which could add new reserves if successful. Operations on the well are scheduled to complete in mid-2017. In addition, the firm 2017 programme for Taq Taq comprises two sidetracks of existing Cretaceous producers, further development of the Pilaspi reservoir and ESP/jet pump installation.

The Company remains of the view that Taq Taq is under drilled on the flanks of the field. Accordingly, an opportunity register, which consists of new development well locations



Paul Schofield and Simon Lockett at Taq Taq



Genel continued to work towards the commercialisation of the significant resource base at the Miran and Bina Bawi fields, currently estimated at 11 tcf (gross 2C basis) of raw gas.



and remedial work on existing wells, is being prepared. The Company is working with its partner in the field to determine the optimal forward development programme. The partners have agreed to further refine the future activity as the results of ongoing development activity are known. Future activity levels at Taq Taq are also subject to the continuation by the KRG of regular payments for crude sales and historical receivables.

#### **KRI gas assets**

##### **Miran and Bina Bawi fields (100% working interest, operator)**

In 2016, Genel continued to work towards the commercialisation of the significant resource base at the Miran and Bina Bawi fields, currently estimated at 11 tcf (gross 2C basis) of raw gas. The focus during 2016 was on finalising the upstream PSCs and terms of gas supply to the midstream processing facilities. At the asset level, the focus was on preliminary engineering studies, with both the upstream Gas Development Plan and midstream pre-FEED awarded in mid-2016.

In February 2017, the Company announced that it had finalised Amended and Restated Production Sharing Contacts and Gas Lifting Agreements for the Miran and Bina Bawi fields. As a result, Genel's interests in both Miran and Bina Bawi increased to 100% (from 75% and 80% respectively). These changes are not reflected in year-end 2016 reserves and resources as they occurred after the reporting date of 31 December 2016.

The GLAs contain conditions precedent, which, inter alia, include the execution of final agreements on the midstream gas processing facilities and pipeline transportation, the execution of the financing documents and the completion of updated competent person's reports for Miran and Bina Bawi.

Both Genel and the KRG have the option to terminate the GLAs by February 2018. If the conditions precedent are not satisfied within 12 months, the KRG has a right to terminate the GLAs. In the event of termination, and a subsequent failure to conclude new gas lifting agreements within one year period, the KRG can also terminate the Miran and Bina Bawi PSCs. During the three year period following such a termination, Genel would have a right of first refusal to participate in the development of the Miran and Bina Bawi gas fields with a 49% working interest on the same terms offered to any third party. With this part of the gas documentation finalised, Genel is now focused on the next step of concluding negotiations with potential partners.

In mid-2016, the Company awarded the pre-Front End Engineering Study ('FEED') contract for the midstream facilities to Fluor

and Gas Development Plan ('GDP') to Baker Hughes RDS. The midstream pre-FEED was completed in early 2017 and has identified a number of potential sites for the processing facilities at both Miran and Bina Bawi. In addition, an option to process gas from Miran and Bina Bawi at one plant located close to the Taq Taq field is under consideration. The next step in the midstream development planning entails a full FEED study and Environmental Impact Assessment.

The GDP, which has now been completed, has focussed on dynamic reservoir modelling, production profiles, drilling locations, well completion concepts and the subsurface reservoir management plan for Miran and Bina Bawi. The GDP is broadly supportive of the findings of the existing third party CPRs for Miran and Bina Bawi with respect to the level of contingent resources at both fields.

Capital expenditure estimates for the upstream development and midstream processing facilities are still at a very preliminary stage. In particular, further subsurface work may be needed at both Miran and Bina Bawi to refine the distribution of resources across the fields, potential well locations, and well deliverability. The Company envisages that this activity, if implemented, would be funded as part of a farm-down of its 100% upstream interest in both fields. As a result, the Company believes that is appropriate that updated cost estimates for the gas project await finalisation of the partnership structure for both the upstream and midstream.

In 2016, the Company formally relinquished its 40% interest in the Dohuk licence.

#### **Exploration and appraisal**

Cost effective onshore E&A activity, both in the KRI and internationally, is an important part of the Company's growth strategy. This strategy yielded tangible success in early 2017 with the Cretaceous discovery at Peshkabr-2. Further appraisal of Peshkabr will be the focus in 2017, in addition to committed activity on the Africa exploration portfolio.

#### **KRI**

The Peshkabr-2 well was spudded in October 2016 to both appraise the 2012 Jurassic discovery and explore Cretaceous prospectivity 18 km to the west of the Tawke field. In January 2017, the Tawke partners announced that oil had been discovered in the Cretaceous, with the well flowing at a stable rate of 3,800 bopd of 28° API oil. The well has reached a planned depth of 3,500 metres and was completed to facilitate rigless testing of the Jurassic, during March and April 2017. The Tawke partners plan to appraise the Cretaceous discovery with the Peshkabr-3 well later in 2017, as well as investigate the

potential for early production from Peshkabr-2 via the existing Tawke facilities. The Tawke operator's initial estimate of gross 2C contingent resources for the Peshkabr Cretaceous discovery is 48 MMboe.

The CS-12 exploratory appraisal well on the Chia Surkh licence spudded on 30 March 2016, with a view to refining the resource potential of the licence after the successful CS-10 and CS-11 wells in 2013. Genel was carried on its share of the CS-12 well costs by its partner Petoil. The well was drilled to a measured depth of 2,500 metres ahead of time and budget. The primary Oligocene and Eocene objectives proved to be water bearing. A testing programme in the previously proven Miocene section established a modest level of oil resources.

Following consideration of the well results and a review of the prospectivity on the licence, the Company signed a Sales and Purchase Agreement in January 2017 to transfer its 40% interest in the Chia Surkh licence to its partner, Petoil, which remains subject to approval by the Ministry of Natural Resources. Petoil will pay Genel an initial consideration of \$2 million, and an additional \$25 million in staged payments contingent on future crude oil production from a commercial development at Chia Surkh.

As part of a portfolio high-grading exercise, the Company's 40% working interest in the Ber Bahr licence is in the process of relinquishment.

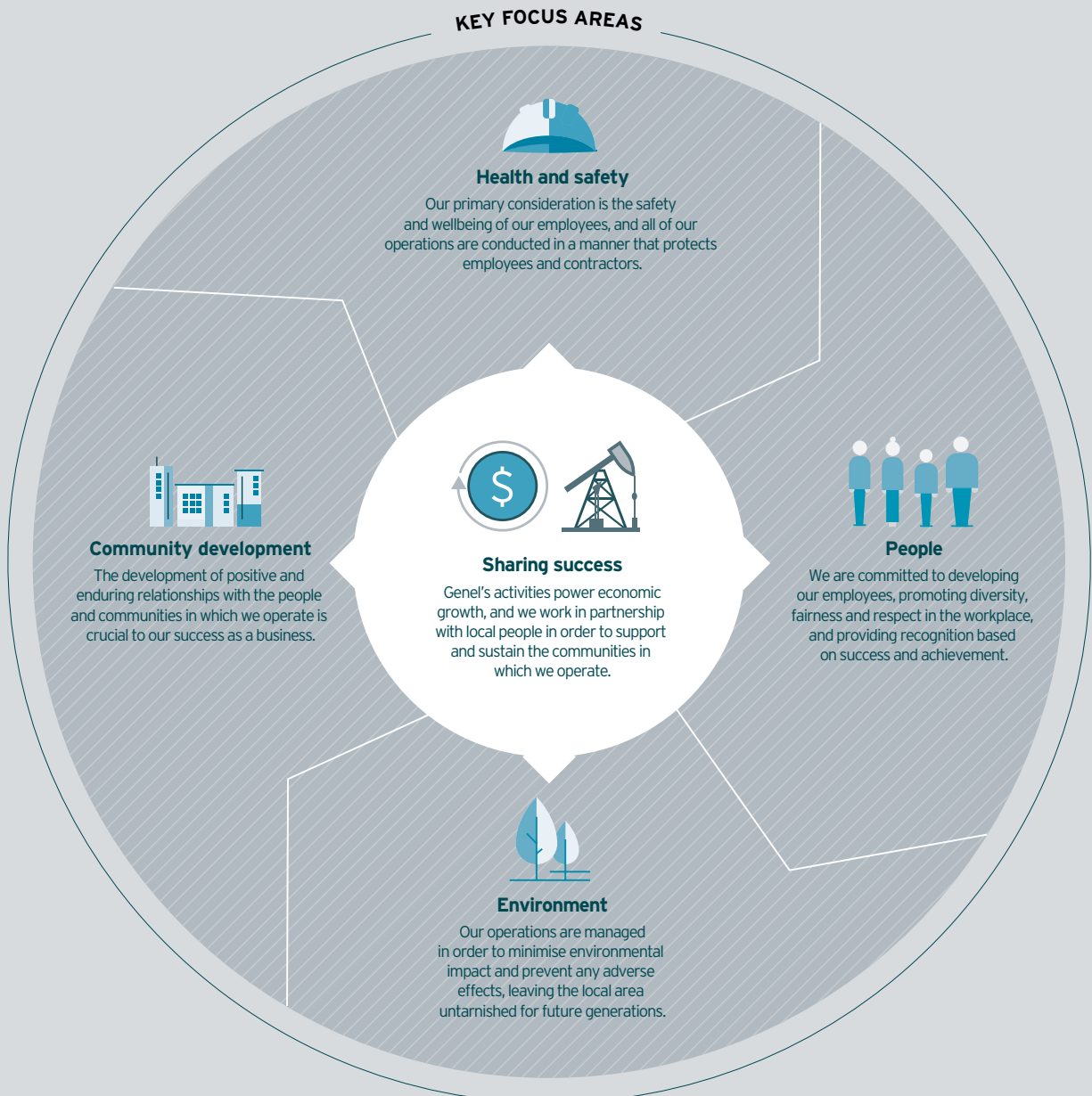
#### **Africa**

Onshore Somaliland, the acquisition of 2D seismic data on the Odewayne (Genel 50%, operator) and SL-10B/13 (Genel 75%, operator) blocks commenced in March 2017. The data will be acquired as part of a Somaliland government owned speculative 2D seismic acquisition project, with the Company purchasing the associated data from the government. This new data is expected to deliver a step change in the company's understanding of this highly prospective but underexplored area. The current 2D seismic will satisfy the outstanding commitment in the current exploration phase on both licences. Any further activity beyond the current exploration phase is discretionary.

The Company is currently in discussions with the Moroccan government over the nature, scope and timing of the activity related to the maximum future exploration commitment of c.\$30 million.

## Making a positive contribution to communities

Supporting and sustaining the communities in which we operate is fundamental to Genel Energy's success. Natural resources should be a boon to a region, and it is imperative that local people share the benefits of the resources found in their area. As well as providing economic benefits for a country as a whole, we strive to directly support local communities through providing opportunities, while leaving the environment untarnished for future generations.





### 10 YEARS OF DRILLING BY TTOPCO AT TAQ TAQ



## \$25m

spent on local community projects



## 390

local people given vocational training



## 206m

barrels of oil produced



## \$12bn

value of total Taq Taq oil sales



## 400

people employed from the local community



## 178

social projects funded, including a library, nursery, art school, refugee camp, and road



## 5,800

medical visits made to local people in 15 local villages



## 11

local companies established to provide services to Taq Taq



## Providing lasting benefits



We are committed to conducting all of our operations in a manner that protects Genel's employees and contractors from injuries and illnesses, as well as having regard to the healthy and safety of the general public and the protection of the environment.

### Health and safety

A safe workplace is a priority for Genel, and we are proud of our performance in this area. 2016 was a landmark year, as we achieved our target of zero injuries across both TTOPCO and Genel operations. This achievement reflects the progress made in our safety culture and performance.

We are also proud of the fact that there has never been a Genel or TTOPCO fatality, and we continue to take proactive steps to keep it this way.

In 2016 we introduced improved signage across our sites to help raise awareness of potential dangers. At Taq Taq, TTOPCO took on a new HSE overseer, bolstering our efforts

to run the safest possible site. The employee permit to work was also updated, tightening procedures and making clear to all what their responsibilities are.

The development of life-saving rules was finalised in June, following discussion with employees and contractors. Based around three core areas - process safety, personal safety, and driving - training has been rolled out to all employees across the business. New rules have been instigated in all Genel operated fields, with contractors made aware of their obligations.

### People

Our talented, experienced and motivated staff are key to the success of our Company.

At 31 December 2016, Genel employed 128 people. Of these, 68 are based in Ankara, 19 in London, 17 in the Kurdistan Region of Iraq, and 24 in our African operations. Reaffirming our commitment to providing opportunities for local people, TTOPCO employed 507 people, of whom 78% (395 employees) are from the local area.

Our commitment to employing a diverse and balanced workforce enables us to build an effective and talented workforce at all levels of the organisation, including the Board.

The value we place on equal opportunities and diversity of ideas, skills, knowledge, experience, culture, ethnicity and gender is evident in our daily operations as well as formalised in our policies and procedures.

Our recruitment policy is to appoint individuals based solely on their skills, experience and suitability to the role. 30% (39 employees) of our workforce are women. Of those, 13% (5 employees) hold senior management positions within our organisation.

### Environment

Our operations are managed in accordance with our policy of minimising environmental impacts and potential adverse effects. This includes a focus on effective design, efficient operation, and responsible energy use.

Fluor completed the pre-Front End Engineering Design study relating to the Miran and Bina Bawi fields around the end of 2016. This included the environment design basis, environmental aspect identification, and scope of work for the environment impact assessment, for which a consultant will shortly be selected.

We continue to report our greenhouse gas ('GHG') emissions in accordance with the requirements of the UK's Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, for all Genel operated assets or facilities.

## GENDER DIVERSITY

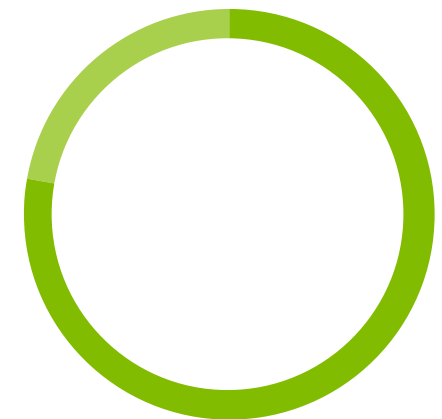
### EMPLOYEES



● Female - 30%  
● Male - 70%

## LOCAL EMPLOYMENT

### TTOPCO



● From the local area - 78%  
● Outside local area - 22%



The majority of energy and fuel data collected has been based on actual, measured consumption. 0.45% of emissions (5.2 tonnes of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e)) has been extrapolated from actual consumption figures. Emissions are calculated using appropriate conversion factors sourced from: the Defra/DECC UK Government Conversion Factors for Company Reporting 2015 and the IEA CO<sub>2</sub> Emissions from Fuel Combustion Highlights 2013 Edition.

According to the methodologies outlined above, our total reportable scope 1 emissions in 2016 were 808 tCO<sub>2</sub>e, which included the combustion of diesel and LPG. Our total reportable scope 2 emissions were 348 tCO<sub>2</sub>e, attributable to purchased electricity at our offices and field operations. Our total reportable scope 1 and 2 emissions were therefore 1156 tCO<sub>2</sub>e, normalised to 9.97 tCO<sub>2</sub>e per employee (based on the 2016 monthly average number of employees).

The GHG emissions from facilities we operate were 1156 tCO<sub>2</sub>e in 2016, which is lower than those reported (1605 tonnes tCO<sub>2</sub>e) in 2015. The main reasons for this decrease were the Ber Bahr block relinquishment and lower level of field maintenance activities at Miran and Bina-Bawi blocks in Kurdistan Region of Iraq.

#### Community development

We partner with and invest in communities close to our operations to achieve mutual long-term benefits, and we see it as our responsibility to help local people develop the skills to thrive and play a part as we unlock the potential of our host countries' natural resources.

Natural resources form the bedrock of the KRI economy, and our contributions through infrastructure construction, capacity building payments, and employee and contractor wages have a direct and material impact on development. As well as bringing these general benefits to the KRI, we work with communities and the KRG in order to support pressing local needs.

To date 178 projects have been carried out by TTOPCO, at a cost of over \$25 million. Projects include the building of educational facilities, provision of medical support, and the addition of infrastructure including sewerage, electricity lines, roads, and telecommunication towers. Away from Taq Taq, \$22.5 million has been spent by Genel on a further 38 community investment projects.

Tri-partite conversations, working with local communities and the government, help to prioritise investment where it is most needed. In 2016 the KRI continued to suffer economic hardship, and so the priority was on providing opportunities for economic empowerment. Genel, with its partners in TTOPCO, launched



the Local Communities Economic Development Programme for the Taq Taq area. The project aims to assist and promote an improvement of skills for individuals and families situated in rural areas by training them to develop attributes that provide the potential to generate their own private income and increase their general employability status.

The programme encompassed a number of strands, including vocational training courses for residents of villages close to Taq Taq. These courses included agriculture, needlework, and hairdressing. The courses have been underway since August, with 190 people having been trained. A similar project in the Miran area saw 148 people receive vocational training. The TTOPCO training centre has also been the venue for English language and IT training for 79 local people.

In addition to work done to improve economic prospects, we have continued to carry out those activities that make a positive difference to day to day lives. Daily waste collection takes place from nine villages surrounding Taq Taq, and villages are also provided with piped water and medical support. Since this initiative began, 5,800 medical visits have been made.

Land and crop compensation is also an important aspect of community relations, helping to retain support through the effective reimbursement for any people adversely impacted by the Company's operations. To date, in line with the policy of the Ministry of Natural Resources, Genel and

TTOPCO have helped landowners to receive appropriate compensation in a timely manner, with over £2 million paid to landowners to date, of which \$643,000 has been paid to 44 farmers to date near Taq Taq, and \$455,000 to 48 farmers in the vicinity of Miran.

The Kurdistan Region of Iraq is continuing the fight against ISIS, and the KRG is accommodating significant numbers of Internally Displaced Persons seeking sanctuary in the region, with almost two million people now sheltering in the KRI. Following the construction of the Koya refugee camp in 2015, and work with Save the Children, over 1500 children are benefiting from the building of child friendly spaces in four camps across the KRI. In 2016 we continued to support IDPs and poor families, and 668 families around Taq Taq were provided with essential items.

Outside the KRI, Somaliland suffered from a severe and widespread drought in 2016. Working with Hon. Hussein Abdi Dualeh, Minister of Energy and Minerals, Genel distributed food and water to affected families. Food and 60 tankers of water were delivered, providing vital support to over 1500 families based in the Waridad and Bali Arrale districts. As operations in Somaliland move forward, our social programme will similarly increase, addressing key community needs.

## Managing cash flows

Ben Monaghan  
Chief Financial Officer



We have flexibility in our capital expenditures and are able to moderate spend on our producing assets to match payment flows.



2016 was a challenging year for the oil sector globally as the price of Brent crude fell to \$27/bbl in January before recovering to \$55/bbl at the end of the year. These financial challenges were particularly felt by the KRI, with the oil price drop deepening its ongoing economic crisis, while the war with ISIS and the influx of displaced persons had an ongoing impact on the KRG's financial position, and in turn the ability to pay oil companies, including Genel, for both current production and past receivable balances. Despite these challenges significant progress was made during 2016 towards establishing a working payment system and, despite the macro headwinds and the decline in production at Taq Taq, the Company delivered positive free cash flow in the year..

This achievement is due to a combination of factors:

### The resumption of regular payments for oil deliveries by the KRI

We received \$153.4 million from the KRG for oil delivered by Genel during 2016. Whilst arrears remained outstanding for October, November and December deliveries at the end of the year, and the temporary payment system does not reflect our view of our entitlement, receiving nine payments for both Taq Taq and Tawke sales during 2016 represents significant progress from the 2015 payment backdrop. Since year-end the

outstanding arrears for 2016 deliveries have been settled in full.

### The initiation of payments towards recovery of the receivable

Total payments of \$53.9 million were received by Genel towards repayment of the receivable during 2016. Whilst this initial payment stream is limited in comparison to the amount outstanding, we welcome both the initiation of the payment flows and the KRG's public commitment to increase the quantum as their financial situation improves.

### Our low cost asset base and the structure of the Production Sharing Contracts

Our oil assets remain amongst the lowest cost in the world, with operating costs of less than \$2.0/bbl in 2016. These low operating costs combine with efficient capital expenditure and appropriate fiscal terms to fairly balance risk and reward at different oil prices between the oil producers and the KRG.

### The flexible nature of our capital expenditure

We have flexibility in our capital expenditures and are able to moderate spend on our producing assets to match payment flows, with our capital expenditure accordingly dropping 61% year-on-year. We have no committed capital in our gas business and so have also been able to match spending to the pace of the project.

<b>RESULTS SUMMARY (\$ MILLION UNLESS STATED)</b>	<b>2016</b>	2015
Production (bopd, working interest)	<b>53,300</b>	84,900
Revenue	<b>190.7</b>	343.9
EBITDAX <sup>1</sup>	<b>130.7</b>	279.4
Depreciation	<b>(128.9)</b>	(172.5)
Impairment of exploration assets	<b>(779.0)</b>	(144.1)
Exploration expense	<b>(36.1)</b>	(28.9)
Impairment of property, plant and equipment	<b>(218.3)</b>	(1,038.0)
Impairment of receivables	<b>(191.3)</b>	-
Operating loss	<b>(1,222.9)</b>	(1,104.1)
Cash flow from operating activities	<b>131.0</b>	71.2
Capital expenditure <sup>2</sup>	<b>61.2</b>	157.2
Free cash flow <sup>3</sup>	<b>59.1</b>	(179.2)
Cash <sup>4</sup>	<b>407.0</b>	455.3
Net debt <sup>5</sup>	<b>241.2</b>	238.8
KRG receivable	<b>253.5</b>	422.9
EPS (¢ per share)	<b>(448.60)</b>	(417.30)

1. EBITDAX is earnings before interest, tax, depreciation, amortisation, exploration expense and impairment which is operating loss adjusted for the add back of depreciation (\$128.9 million), exploration costs written off (\$36.1 million) and any impairments (\$1,188.6 million)

2. Capital expenditure is additions of intangible assets and additions of property, plant and equipment (oil and gas assets only)

3. Free cash flow is net cash generated from operating activities less cash outflow due to purchase of intangible assets and purchase of property, plant and equipment (oil and gas assets only)

4. Cash reported at 31 December 2016 excludes \$19.5 million of restricted cash

5. Net debt is reported debt less cash

#### **A continued focus on costs across the business**

We have maintained a tight control on costs and continue to ensure that we are structured and resourced appropriately for the external environment. Total headcount has fallen from 223 at the end of 2014 to 129 at the end of 2016, and total general and administrative costs have reduced from \$47.0 million to \$26.0 million over the same period.

There are some elements of the 2016 accounts that warrant further comment:

#### **Impairments to our producing assets**

The further reduction in reserves and amended production outlook for Taq Taq, together with an increase in the discount rate applied to our impairment testing as a result of the continued regional financial challenges, has led to an impairment of \$180.8 million. Our oil price assumptions for impairment purposes are set out on page 23 and we have provided sensitivities on the two key estimates in the relevant note. The change in discount rate and oil price has also impacted our carrying value of Tawke, resulting in an impairment of \$37.5 million.

#### **Impairments to our exploration assets, including the gas business**

Genel has invested over \$1.4 billion in the acquisition and early development of the Miran and Bina Bawi fields. They represent a very attractive and low cost gas project, close to market with a governmental buyer in place,

with the potential to generate significant value for both the KRG and Genel. In light of a revised timing and phasing of the project to reflect slower progress towards a final investment decision than previously anticipated, we have reviewed our carrying value for gas for impairment purposes. This revised timing, together with the revisions to our discount rate and oil price assumptions detailed above, has resulted in an impairment charge of \$581.3 million. We have also impaired Chia Surkh by \$197.7 million following the CS-12 well result and the expected completion of the subsequent sale of our interest to Petoil.

#### **Impairment to the receivable**

We have again provided substantial disclosure around the accounting approach taken in relation to the receivable. Our accounting follows the commercial judgment that the KRG intends to repay the debt and has the capability to do so over time, given a rising oil price. The current mechanism of repayment is linked to a percentage of field netback revenues, and we have used an assumption of this percentage multiplied by forecast field production and oil price to calculate future cash flows and a present value. Given the higher oil price has not yet resulted in a higher percentage being applied by the KRG to field revenue we have reduced our future assumptions to a flat 5% payment for impairment purposes, in line with current

levels. This assumption, together with the reduction in forecast Taq Taq production and amended oil prices results in a book impairment of \$191.3 million. This has no impact whatsoever on our right to recover the amount due from the KRG, which we are entitled to recover in full, which is the nominal value of \$515.9 million.

As we look to 2017 there is a clear set of financial priorities for the Company:

- Continue to press the KRG for timely and full payments for oil deliveries, and for a transparent mechanism for reconciliation and recovery of the receivable
- Secure equity and debt investment into the gas assets, thereby progressing the project towards first gas
- Continue to focus on all aspects of the Company's cost base, whether capital, operating or administrative expenditure
- Manage liquidity appropriately ahead of the 2019 maturity of the Company's bond debt

**Financial results for the year**
**Income statement**

Production of 53,300 bopd was significantly reduced compared to last year (2015: 84,900 bopd). The combination of lower production, lower oil price and lower capex reducing cost oil by 44%, resulted in a 45% reduction in revenue to \$190.7 million (2015: \$343.9 million) and a 53% reduction to EBITDAX of \$130.7 million (2015: \$279.4 million).

Despite lower production, production costs of \$35.1 million were broadly in line with last year (\$36.3 million) as a result of lower capitalisation of costs due to lower capital activity. Lower production reduced depreciation of oil assets to \$127.8 million (2015: \$172.0 million).

Impairment of exploration assets includes \$581.3 million relating to the Miran and Bina Bawi gas assets and the write-off of \$197.7 million relating to the Chia Surkh licence following the drilling of CS-12. In addition, \$36.1 million has been accrued relating to expenditures in the current year on exploration activity and exit/relinquishment of exploration licences.

Impairment of property plant and equipment was \$218.3 million in 2016 (2015: \$1,038.0 million relating to Taq Taq).

General and administrative costs were \$26.0 million (2015: \$28.7 million).

Finance income of \$16.2 million (2015: \$1.3 million) was comprised of \$14.2 million discount unwind on trade receivables and \$2.0 million of bank interest income. Finance expense of \$61.0 million (2015: \$57.8 million) was comprised of \$51.0 million of bond interest together with non-cash discount unwind expense of \$10.0 million.

In the KRI, the Company is either exempt from tax or tax due has been paid on its behalf by the KRG from the KRG's own share of revenues, resulting in no tax payment required or expected to be made by the Company. Tax presented in the income statement of \$0.4 million relates to taxation of the Turkish and UK service companies.

**Capital expenditure**

Capital expenditure in the year was \$61.2 million (2015: \$157.2 million). Cost recovered development spend of \$40.3 million (2015: \$109.2 million) was incurred on the producing assets in the KRI with spend on exploration and appraisal assets amounting to \$20.9 million (2015: \$48.0 million), principally incurred on the Miran and Bina Bawi PSCs.



DEBT	YE2016
Net debt/EBITDAX < 3.0	1.8
Equity ratio > 40%	60%
Minimum liquidity > \$75m (>\$100m from May 2018)	407

#### Cash flow and cash

Net cash flow from operations was \$131.0 million (2015: \$71.2 million). This was positively impacted by \$53.9 million (2015: nil) of proceeds being received for the KRG receivable, and \$153.4 million (2015: \$148.2 million) received for current sales. Operating expense, exploration expense and corporate costs amounted to a cash outflow of \$56.3 million (2015: \$87.0 million), with net payment of creditors resulting in a cash out flow of circa \$20 million (2015: inflow circa \$10 million).

Cash flows for capital spend on Taq Taq and Tawke was \$51.2 million (2015: \$120.2 million), with \$20.7 million (2015: \$130.2 million) cash out flow on exploration and evaluation assets - principally Miran and Bina Bawi.

Free cash flow was \$59.1 million compared to a cash outflow of \$179.2 million last year. After which, \$35.4 million was used to buy back bonds with nominal value of \$55.4 million and \$52.0 million (2015: \$46.1 million) was paid on bond interest expense.

\$19.5 million of cash is restricted and therefore excluded from reported cash of \$407.0 million (2015: \$455.3 million). Overall there was a net decrease in cash of \$47.8 million compared to a decrease of \$33.0 million last year, which included bond issuance proceeds of \$196.2 million.

#### Debt

The Company has \$730.0 million of bonds maturing in 2019 in issuance, of which \$55.4 million are held by the company resulting in total externally held debt of \$674.6 million (2015: \$730.0 million) and net debt of \$241.2 million (2015: \$238.8 million).

The bond has three financial covenant maintenance tests, which are summarised in the table above.

#### Receivables

At 31 December 2016, the reported KRG receivable was \$253.5 million (2015: \$422.9 million), detailed disclosure is provided on this balance in the significant accounting estimates and judgements section of note 1 and in note 10 to the financial statements.

#### Net assets

Net assets at 31 December 2016 were \$1,333.4 million (2015: \$2,574.8 million) and consist primarily of oil and gas assets of \$1,537.1 million (2015: \$2,602.1 million), trade receivables of \$253.5 million (2015: \$422.9 million) and net debt of \$241.2 million (2015: \$238.8 million).

#### Liquidity/cash counterparty risk management

The Company monitors its cash position, cash forecasts and liquidity on a regular basis. The Company holds surplus cash held in government gilts or treasury bills or on time deposits with a number of major financial institutions. Suitability of banks is assessed using a combination of sovereign risk, credit default swap pricing and credit rating.

#### Dividend

No dividend (2015: nil) will be paid for the year ended 31 December 2016.

#### Going concern

The directors have assessed that the cash balance held provides the Company with adequate headroom over forecast operational and potential acquisition expenditure for the 12 months following the signing of the annual report for the period ended 31 December 2016 for the Company to be considered a going concern.



**Ben Monaghan**  
Chief Financial Officer



As we look to 2017 there is a clear set of financial priorities for the Company.



## The changing environment reinforces the need for careful monitoring across all our operations

**Ongoing uncertainty in the environment in which we operate, both in the global oil industry and in the Kurdistan Region of Iraq, makes the management of risk a key focus and integral to Genel's success as a business.**

Clearly defined executive accountability allows key risks to be carefully monitored, with information flowing up to the Board through appropriate channels and allowing informed decisions to be made.

It is the responsibility of the Board to:

- accurately identify and assess the principal risks to the business
- mitigate controllable risks to an acceptable level; and
- where possible, build resilience to accepted non-controllable risks

The Board is responsible for Genel's risk management, which it does primarily by:

- Setting the overall risk appetite of the Company
- Assessing what level of risk is acceptable to bear
- Providing oversight of appropriate risk management systems and internal control processes

The Board ensures that Genel's risk appetite is appropriate to the external environment and the situation of the Company.

The risk management systems and internal control processes are designed to support the Board in identifying key risks and associated judgements, enabling them to make effective, timely and appropriate decisions.

### THE BOARD AND ITS COMMITTEES

The Board is supported by its Committees, which apply their expertise to the assessment and management of certain risks. The Committees report findings and/or recommendations to the Board. The allocation of risks to the appropriate Committees is summarised in the table below:

<b>Board and Committees</b>	<b>Responsibility</b>
<b>BOARD</b>	<ul style="list-style-type: none"> <li>• Overall responsibility for risk oversight</li> <li>• Overall responsibility for all principal risks</li> </ul>
<b>AUDIT COMMITTEE</b> READ MORE P44	<ul style="list-style-type: none"> <li>• Risk management and internal control systems</li> <li>• Financial controls</li> </ul>
<b>REMUNERATION COMMITTEE</b> READ MORE P50	<ul style="list-style-type: none"> <li>• Compensation and reward</li> <li>• Board composition</li> </ul>
<b>NOMINATION COMMITTEE</b> READ MORE P46	<ul style="list-style-type: none"> <li>• Board composition</li> </ul>
<b>HSSE COMMITTEE</b> READ MORE P48	<ul style="list-style-type: none"> <li>• Health and safety risks</li> <li>• Security risks</li> <li>• Environmental risks</li> </ul>

## RESPONSIBILITIES

### Board

- Identifies and assesses the potential impact, likelihood and sensitivity of the principal risks of the business
- Identifies new risks or changes in the nature, probability or impact of existing risks
- Makes effective, appropriate and timely decisions on how principal risks are managed or accepted
- Ensures that decisions taken are appropriately executed throughout the business through appropriate delegation of authorities and policies
- Where appropriate, approves policies on key risks and provides direction on risk management and appropriate risk mitigation
- Monitors the effectiveness of controls in place through reporting, assurance and detailed reviews in order to assess where action is required
- Identifies where controls are not appropriate or not operating effectively

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### Executive Committee

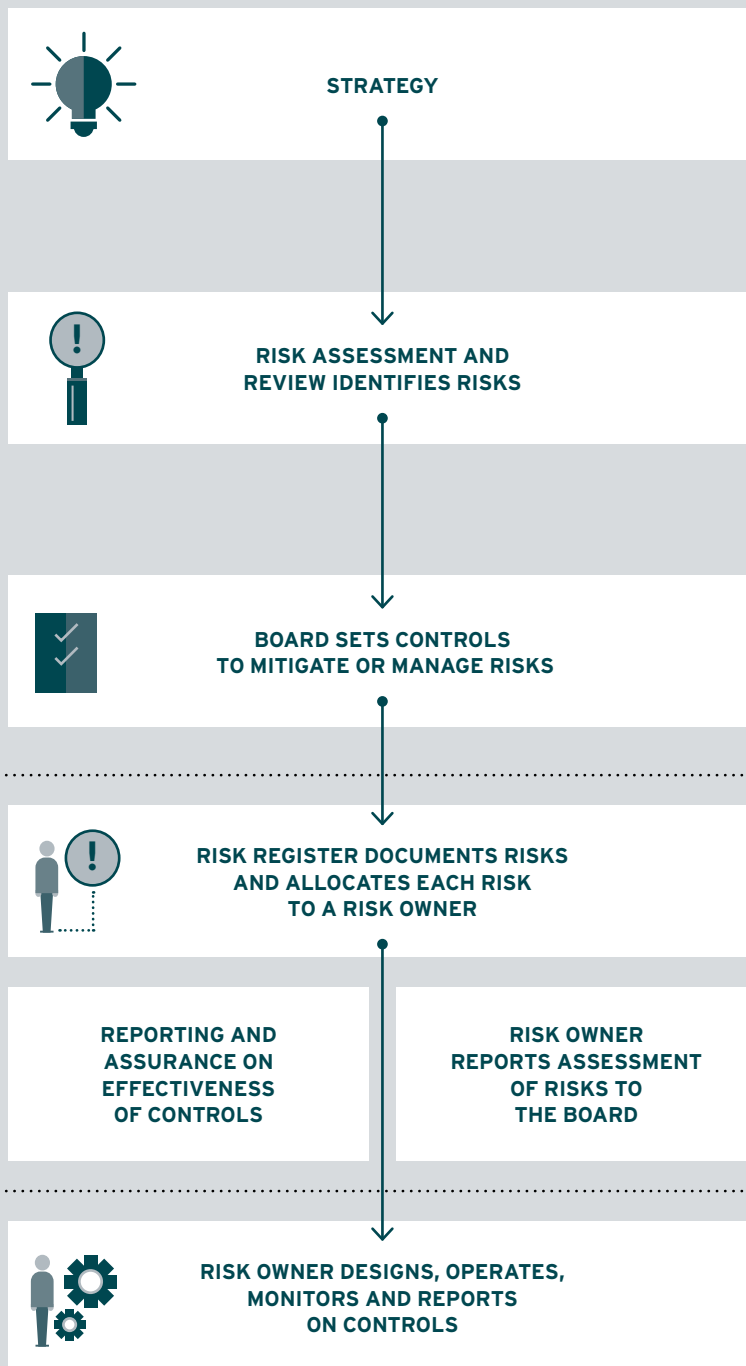
- Leads the identification, understanding and assessment of risks to the business for review and discussion by the Board
- Assigns risks to relevant Executive Committee members as risk owners

[READ MORE P38](#)

### Risk owners

- Put in place processes and procedures that execute the decision taken by the Board as to what is the appropriate management or mitigation of each principal risk
- Assess and report risk and monitor the design and operating effectiveness of any mitigating controls and procedures
- Provide oversight of the daily operations of the key areas of the business

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The principal risks and uncertainties set out on the following pages represent the Board's assessment of the most significant risks that may seriously affect the performance, future prospects or reputation of the Company and may threaten its business model, future performance, solvency or liquidity. They do not comprise all the risks and uncertainties faced by the Company - risks that are generally part of normal activity as an E&P company are identified, assessed, managed and monitored at the functional level with close oversight and reported to the Board by a member of the Executive Committee.

## STRATEGIC REPORT

### PRINCIPAL RISKS AND UNCERTAINTIES

RISK	TREND	APPROACH
<b>Board</b>		
<b>DEVELOPMENT AND RECOVERY OF OIL RESERVES AND RESOURCES IN THE KRI</b> Paul Schofield, COO  <b>READ MORE</b> P16		Genel aims to realise the value in the portfolio through a focused drilling programme to explore, appraise and develop our assets. Genel continues to build appropriate technical capability to assess reservoir potential and future performance.
<b>COMMERCIALISATION OF KRI GAS BUSINESS</b> Murat Özgül, CEO  <b>READ MORE</b> P8		The development and commercialisation of Genel's gas assets in the KRI is a key focus, with the potential to generate material and stable cash flow once onstream.
<b>M&amp;A ACTIVITY</b> Ben Monaghan, CFO  <b>READ MORE</b> P24		The pursuit of selective, value accretive M&A opportunities is part of the Company strategy.
<b>KRI NATURAL RESOURCES INDUSTRY</b> Pars Kutay, Head of Government Affairs  <b>READ MORE</b> P6		The Company is dependent on its strong relationship with the KRG in order to realise the value of its principal oil and gas assets.
<b>RECOVERY OF AMOUNTS OWED FOR EXPORT SALES</b> Murat Özgül, CEO  <b>READ MORE</b> P11		Genel is owed \$515.9 million by the Kurdistan Regional Government for unpaid exports.
<b>REGIONAL RISK</b> Pars Kutay, Head of Government Affairs  <b>READ MORE</b> P6		There is a history of political and social instability in the areas in which the Company operates.
<b>CORPORATE GOVERNANCE FAILURE</b> Murat Özgül, CEO  <b>READ MORE</b> P34		The Company's strategy is to maintain high standards of corporate governance



**Key**

Increased



Unchanged



Decreased

OPPORTUNITIES	THREATS	MITIGATING ACTIONS
<ul style="list-style-type: none"> <li>Successful exploration and appraisal activity increases Company reserves</li> <li>Reservoir management increases recoverable volumes</li> <li>Progress on gas business unlocks resource value</li> </ul>	<ul style="list-style-type: none"> <li>Capital constraints lead to reduced work programme, impacting recovery</li> <li>Poor reservoir performance</li> </ul>	<ul style="list-style-type: none"> <li>COO appointed to focus on producing assets</li> <li>Engagement of third party to carry out independent review on Taq Taq reservoir</li> <li>CPR updated for Taq Taq and Tawke</li> <li>Successful appraisal activity ongoing at Peshkabir</li> </ul>
<ul style="list-style-type: none"> <li>Progress on the gas business moves Miran and Bina Bawi towards development and transformational monetisation</li> </ul>	<ul style="list-style-type: none"> <li>Project reliant on key milestones beyond the control of the Company</li> <li>Failure to engage a farm-in partner would lead to increased exposure to costs and threaten viability of project</li> </ul>	<ul style="list-style-type: none"> <li>Level of expenditure maintained at an appropriate level</li> <li>Pre-FEED and upstream Gas Development Plan studies complete</li> <li>PSC amendments and gas lifting agreement signed</li> <li>Ongoing discussions with potential partners</li> </ul>
<ul style="list-style-type: none"> <li>Execution of a transaction that positively impacts the Company's valuation, asset quality, and equity story, among other factors</li> </ul>	<ul style="list-style-type: none"> <li>Execution of a transaction adversely impacts the Company's liquidity, balance sheet, valuation, asset quality, and equity story, among other factors</li> </ul>	<ul style="list-style-type: none"> <li>An experienced Board oversees and signs off on all M&amp;A decisions</li> <li>Established process to ensure that an appropriate level of due diligence is performed</li> </ul>
<ul style="list-style-type: none"> <li>Ongoing strong relationship facilitates further opportunity in the KRI</li> </ul>	<ul style="list-style-type: none"> <li>Deterioration in the relationship with the KRG or a change in policy by the KRG results in a significant loss of value for the Company</li> </ul>	<ul style="list-style-type: none"> <li>The Company has a long history of cooperation with the KRG, maintaining a regular dialogue and seeking to work collaboratively with them, local communities, local suppliers and subcontractors to achieve mutually beneficial objectives</li> </ul>
<ul style="list-style-type: none"> <li>Improved financial position of the KRG allows the quantum of regular payments to increase, reducing the receivable and increasing Company liquidity</li> </ul>	<ul style="list-style-type: none"> <li>Payments from the KRG become less regular, reducing the Company's ability to manage debt and carry out its strategic priorities</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing dialogue with the KRG</li> </ul>
<ul style="list-style-type: none"> <li>Stable environment for operations allows Genel to pursue strategic objectives</li> </ul>	<ul style="list-style-type: none"> <li>Increased instability in Turkey impacts the relationship with the KRG and the monetisation route for KRI oil and gas</li> <li>Security situation in Somaliland precludes further activity</li> </ul>	<ul style="list-style-type: none"> <li>Active monitoring of developments in Turkey, Iraq, the KRI, and Somaliland, including dialogue with key political figures</li> </ul>
<ul style="list-style-type: none"> <li>Good corporate governance is proven to provide benefits to business and value to shareholders</li> </ul>	<ul style="list-style-type: none"> <li>Corporate governance failure would likely negatively impact investor perception of the Company</li> </ul>	<ul style="list-style-type: none"> <li>New risk management policies and procedures were introduced in 2016</li> </ul>

## STRATEGIC REPORT

## PRINCIPAL RISKS AND UNCERTAINTIES continued

RISK	TREND	APPROACH
<b>Audit Committee</b>		
<b>CAPITAL STRUCTURE AND FINANCING</b> Ben Monaghan, CFO  <b>READ MORE</b> P24		The Company aims to retain a strong balance sheet and flexibility in our capital structure in order to pursue its strategic objectives and underpin future growth.
<b>HSSE Committee</b>		
<b>LOCAL COMMUNITIES</b> Pars Kutay, Head of Government Affairs  <b>READ MORE</b> P20		Supporting and sustaining the communities in which we operate is fundamental to Genel's success.
<b>HEALTH AND SAFETY RISKS</b> Paul Schofield, COO  <b>READ MORE</b> P22		The safety of employees is a primary consideration across all Genel operations.

## Viability statement

In accordance with provision C.2.2. of the 2014 revision of the Code, the Directors have assessed the prospects and viability of the Company over a longer period than the 12 months required by the 'Going Concern' provision.

### Choice of assessment period

The Directors extended their viability statement to the five-year period up to March 2022 which, although inevitably introducing cash flow uncertainty given the inherent volatility in long-term oil price, cost and production forecasting, was felt to be an appropriate period for the following reasons:

- The production assumptions are supported by recent external reserve reports on both existing producing assets
- It captures the maturity of the Company's \$675 million unsecured bonds, due in 2019
- It captures the timetable for the anticipated farm out and final investment decision on the Company's gas project

### Review of financial forecasts

In reviewing the expected evolution of the company's business, associated cash flows and capital structure over the review period the Directors took into account:

- The Company's latest life of field cash flow projections for the oil producing assets on a proven and probably basis and the potential impact of the recent Peshkibir oil discovery
- Projections of the rate of recovery of the receivable from the KRG
- The potential value of the Company's gas business and other potential asset portfolio management opportunities
- The Company's outstanding bond and the refinancing options ahead of its maturity in May 2019 together with forecast results of interim covenant tests
- The potential evolution of debt capital market appetite for KRI risk and associated refinancing capacity
- The oil price forecast set out in our accounting policies note

**Key**

Increased



Unchanged



Decreased

OPPORTUNITIES	THREATS	MITIGATING ACTIONS
<ul style="list-style-type: none"> <li>Improved financial situation for the KRG leads to increased payments and increased liquidity</li> </ul>	<ul style="list-style-type: none"> <li>Capital constraints lead to reduced investment, impacting value of Company assets</li> </ul>	<ul style="list-style-type: none"> <li>Reduction in spend on capital activities</li> <li>Ongoing reduction of G&amp;A costs</li> <li>Bond buy-back reduced debt levels and interest expense</li> </ul>
<ul style="list-style-type: none"> <li>Strong local relationships continue to facilitate Genel's pursuit of strategic objectives</li> </ul>	<ul style="list-style-type: none"> <li>A loss of local community support could give rise to disruption to projects or operations, or cause material reputational damage, which could in turn affect the Company's revenues, operations, and cash flows</li> </ul>	<ul style="list-style-type: none"> <li>An ongoing community investment and education programme, and commitment to providing local employment</li> </ul>
<ul style="list-style-type: none"> <li>Continued strong performance enhances Company reputation</li> </ul>	<ul style="list-style-type: none"> <li>Failure of safety procedures leads to injuries and/or fatalities, adverse environmental impact, and material reputational damage</li> </ul>	<ul style="list-style-type: none"> <li>Appointment of new HSE overseer by TTOPCO</li> <li>Employee permit to work updated</li> <li>Signage at sites improved</li> </ul>

A range of sensitivities were run on the assumptions set out above to reflect different scenarios including, but not limited to, changes to production profiles, commodity price assumptions and receivable recovery rates.

**Consideration of principal risks**

The principal assumptions underlying the forecasts above were reviewed in the context of the risks and mitigating actions set out in the Principal Risks on pages 30 to 33 including in particular those that specifically relate to the company's viability including:

- Recovery of amounts owed for export sales
- Development and recovery of reserves and resources
- Major capital projects
- KRI natural resources industry
- Regional risk

**Viability assessment**

Based on their review of these assumptions and sensitivities in the context of the funding options and risks referred to above, the Directors found that there was a reasonable expectation that the company will be able to continue in operation and manage its liabilities as they fall due over the five year period to March 2022.

Our 2016 strategic report, from pages 1 to 33 has been reviewed and approved by the Board of Directors on 29 March 2017.

**Murat Özgül**  
Chief Executive Officer

## Committed to high standards of corporate governance

Tony Hayward  
Chairman



I am pleased to present my second Corporate Governance Report to shareholders as your Chairman.

2016 has been a year of change at Board level which has resulted in the reduction of the number of Directors from ten to nine. These changes have also driven a comprehensive review of our committee structures.

In January 2016, as part of the on-going refreshing of the Board, Simon Lockett was appointed as an Independent Non-Executive Director. Since his appointment Simon has undergone a comprehensive induction programme which has included meeting with key department heads in both London and Ankara and visits to our operational sites in the KRI.

Jim Leng and Sir Graham Hearne retired as Directors at the conclusion of the 2016 AGM.

Simon Lockett was appointed Chairman of the HSSE Committee where his deep understanding of the industry brings significant insight to the Committee deliberations. Chakib Sbiti was appointed Chairman of the Remuneration Committee where his previous international experience in the industry would inform the discussions on remuneration. All Independent Non-Executive Directors were appointed to the Nomination Committee. Succession planning and Board composition are vital to ensuring the formation of a high performing Board that ultimately leads to the success of the Company. Accordingly it is appropriate for all Independent

Non-Executive Directors to have input to the appointment recommendations put forward to the whole Board for approval.

During 2016 the Company was pleased to have attracted a new Turkish shareholder in Bilgin Grup Dođal Gaz A.Ş. who currently hold 15.09% of the Company's shares making them our second largest shareholder. This entry on the register continues to demonstrate the strong support and confidence in the Company within Turkey. In March 2017 we announced the appointment of Tolga Bilgin as a Non-Executive Director. Tolga is CEO of Bilgin Energy and brings with him extensive experience in the Turkish energy sector.

In March 2016 we launched a bond buy-back offer to holders of our senior unsecured bonds and successfully repurchased \$55.4 million worth of bonds in issue, thereby reducing our outstanding debt and strengthening the Company's balance sheet. We have continued with this strategy having announced a further bond buy-back at the time of publishing our 2016 results.

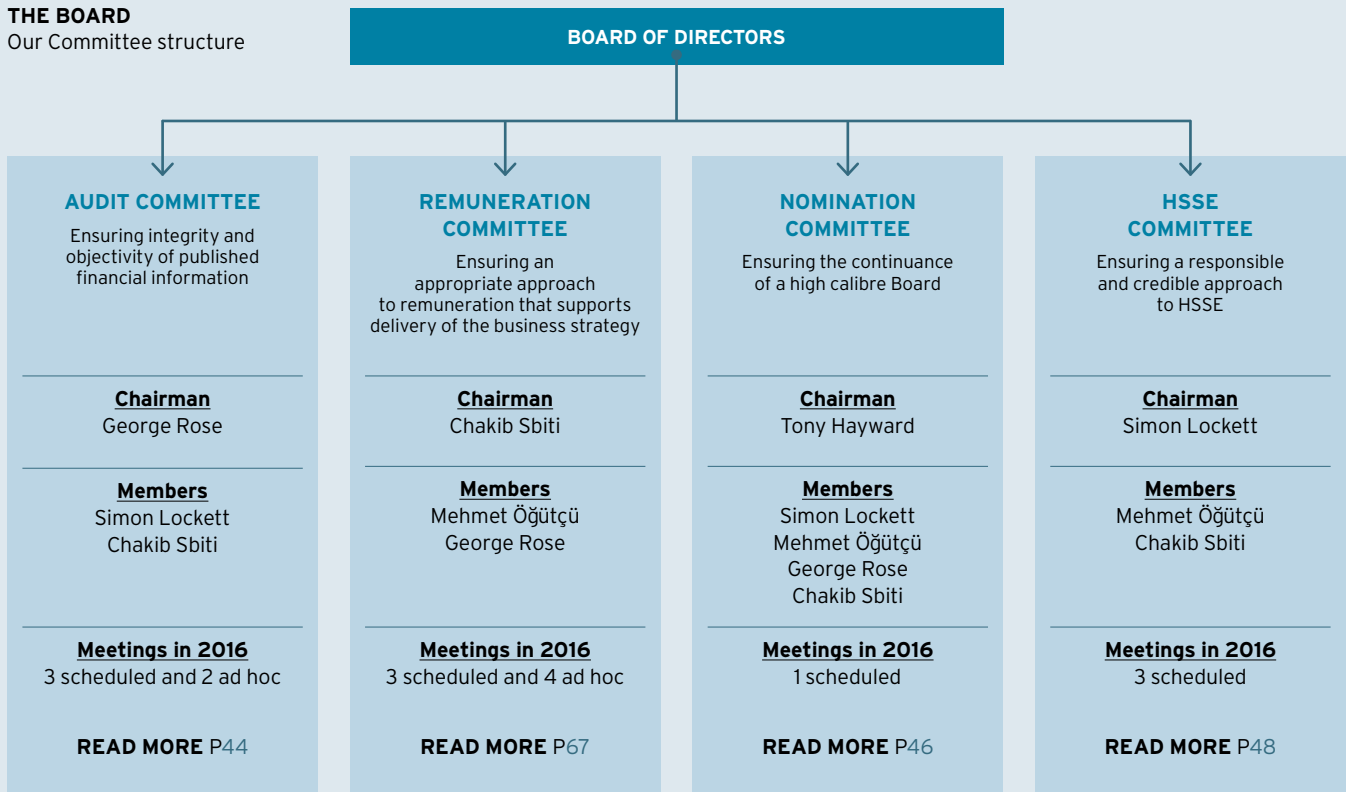
During these challenging times for both the Company and the industry we remain committed to ensuring we operate to high standards of corporate governance and support the Company in delivering on its business objectives. To that end we continue to comply with the UK Corporate Governance Code as is appropriate to our Company.

The Board, assisted by the work of the Audit Committee, keeps under review the governance framework, risk management and internal controls. You can read more about the enhancements we have made to our risk oversight in the Audit Committee report on pages 44 and 45.

We have continued to monitor our performance as a Board and have completed an internal effectiveness review for 2016. More details of the findings and our improvement programme are set out in this report on page 43.

Tony Hayward  
Chairman

**THE BOARD**  
Our Committee structure



**BOARD COMPOSITION**

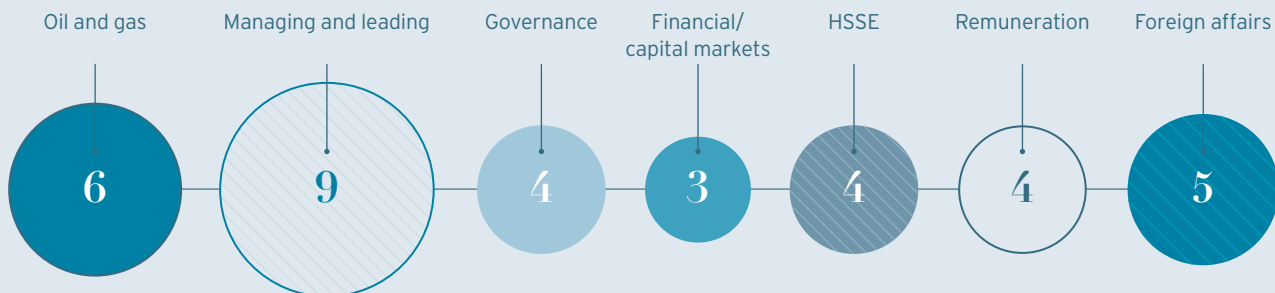


**INTERNATIONAL DIVERSITY**  
Number of Directors



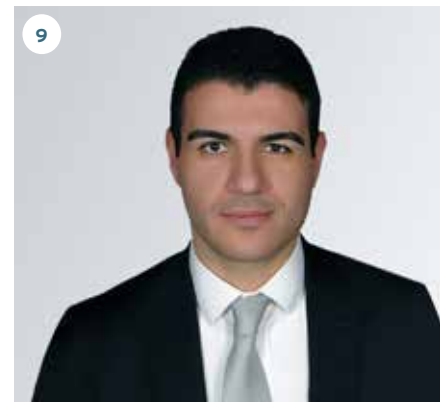
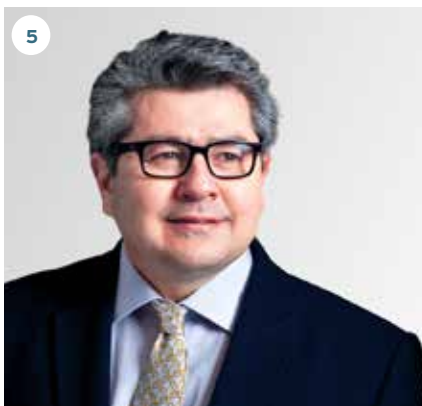
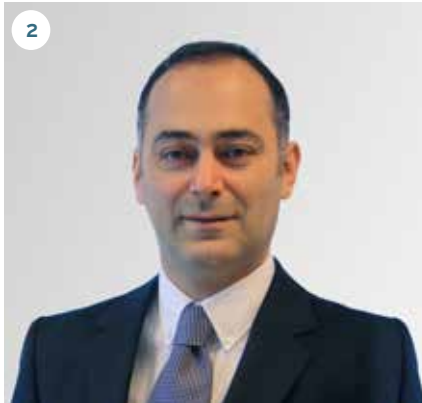
**SKILLS AND EXPERIENCE OF THE BOARD**

Number of Directors



Total number of Directors = 9

## A strong board with demonstrable skills and experience in international oil and gas markets



**SARAH ROBERTSON**  
 Company Secretary

**Appointed:** 25 July 2013

**Skills and experience:** Sarah was Deputy Company Secretary at Misys plc prior to joining Genel in July 2012. Previously she was Regional Head of Secretariat EMEA & the Americas for Standard Chartered Bank plc and had also held senior positions in the secretariat at RSA plc and Telewest Communications plc (now Virgin Media).

Sarah is a Fellow of the Institute of Chartered Secretaries and Administrators and holds an MSc in corporate governance.

## 1 TONY HAYWARD (59) Chairman

**Appointed:** as Non-Executive Director on 2 June 2011 and as an Executive Director and Chief Executive Officer on 21 November 2011. Tony stepped down as Chief Executive Officer and was appointed as Chairman of the Board on 12 July 2015.

**Committee memberships:** Chairman of the Nomination Committee.

**Key skills and experience:** Tony has extensive leadership experience and knowledge of the global oil and gas industry both at a macro and micro level having previously acted as Group Chief Executive of BP plc from 2007 to 2010. He was Chief Executive for BP plc's upstream activities and a member of the main board of BP plc from 2003. Prior to this, in 2000, he was appointed BP's Group Treasurer where he gained significant experience in financial markets.

**Current external appointments:** Tony is the Non-Executive Chairman at Glencore plc and a Partner and member of the Advisory Board of AEA Capital.

**Previous relevant experience:** Tony has also served on the boards of TNK-BP, Corus and Tata Steel.

## 2 MURAT ÖZGÜL (44) Chief Executive Officer

**Appointed:** as an Executive Director and Chief Executive Officer 12 July 2015

**Key skills and experience:** Murat Özgül joined Genel in 2008 as Chief Commercial Officer and was responsible for leading its merger with Vallares PLC in 2011. From his roles within Genel Murat brings his experience within the industry, leadership, and foreign affairs to the Board.

**Previous relevant experience:** Prior to joining the Company, Murat was the CEO of INTA Spaceturk, an imaging satellite operating company, and held engineering and managerial positions at Roketsan and INTA Defense.

## 3 GEORGE ROSE (65) Senior Independent Non-Executive Director

**Appointed:** 02 June 2011

**Committee memberships:** Chairman of the Audit Committee and member of the Remuneration and Nomination Committees.

**Key skills and experience:** George brings with him recent and relevant financial experience. Until March 2011 George served as the Group Financial Director and member of the Board of BAE Systems plc a position he held for 13 years. George is also a Fellow of the Chartered Institute of Management Accountants and has a wealth of experience in governance to draw on from his former appointment as Non-Executive Chairman of the Audit Committee of Laing O'Rourke plc amongst other appointments.

**Current external appointments:** George is the Senior Independent Non-Executive Director of Experian plc and on 16 February 2016 George was appointed as a Non-Executive Director of EXPO 2020 LLC.

**Previous relevant experience:** George retired from the Board of National Grid plc in July 2013, where he served as a Non-Executive Director and was Chairman of the Audit Committee. Other past Non-Executive Directorships include Orange plc and Saab AB. He was previously a member of the UK's Financial Reporting Review Panel and the Industrial Development Advisory Board. George's earlier career consisted of several financial management positions in the automotive sector, at Ford Motor Company, Leyland Vehicles Ltd and the Rover Group.

## 4 CHAKIB SBITI (62) Independent Non-Executive Director

**Appointed:** 19 April 2012

**Committee memberships:** Chairman of the Remuneration Committee and member of the Audit, Nomination and HSSE Committees.

**Key skills and experience:** Chakib has over 30 years' experience in the oil and gas industry through various roles held at Schlumberger, an international oilfield services company. Chakib was the Executive Vice President of Oilfield Services from 2003 to 2010 and President Asia from 1999, a role which was expanded to include the Middle East for the period 2001 to 2003. He has also been special adviser to the Chairman and Chief Executive Officer of Schlumberger (since 2010) and held various senior operational roles prior to 1999. Through the various roles Chakib has held at Schlumberger he has gained extensive experience in HSSE, foreign affairs and managing and leading an international business.

**Current external appointments:** Chakib is an Independent Director of SNC-Lavalin.

## 5 MEHMET ÖĞÜTÇÜ (55) Independent Non-Executive Director

**Appointed:** 21 November 2011

**Committee memberships:** Member of the Remuneration, Nomination and HSSE Committees.

**Key skills and experience:** Mehmet brings with him his expertise in foreign affairs and the oil and gas industry having previously served as Director for International Government and Corporate Affairs at BG Group (2005-2011) and as a Turkish diplomat in Ankara, Beijing, Brussels and Paris (1986-1994).

**Current external appointments:** Mehmet is currently Chairman of Global Resources Partnership, a natural resources strategy group. In February 2016 Mehmet was appointed as a Non-Executive Director of Saudi Crown Holding. He was also appointed as an Independent Board member of Şişecam Group in April 2015 and as the Energy Charter Secretary - General's special envoy for the MENA region in March 2013. Since September 2013 he has led the Bosphorus Energy Club, a gathering of top energy, investment and geopolitical executives in Eurasia, MENA and Southeast Europe.

**Previous relevant experience:** Mehmet served as the head of the OECD's global forum on international investment and regional outreach programmes (2000-2005) and the Principal Administrator for Asia-Pacific and Latin America at the International Energy Agency (1994-2000).

## 6 SIMON LOCKETT (52) Independent Non-Executive Director

**Appointed:** 19 January 2016

**Committee memberships:** Chairman of the HSSE Committee and member of the Audit and Nomination Committees.

**Key skills and experience:** Simon has recent experience within the industry having formerly held the position of Chief Executive Officer of Premier Oil plc between 2005 and 2014. Prior to being appointed as CEO Simon held a number of senior operational roles at Premier Oil including Operations Director between 2003 and 2005. Through his experience and ongoing external appointments Simon provides additional insight into the international oil industry, governance, financial and HSSE matters.

**Current external appointments:** Simon is currently a Non-Executive Director of Triyards Holdings Limited where he also serves as the Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. He is also a Non-Executive Adviser to the Board and CEO of Pico Petroleum Limited, a privately owned exploration and production company based in Cairo.

**Previous relevant experience:** Until May 2016 Simon was the Chairman and a member of the Audit, Nomination and Remuneration Committee of Loysz Energy Limited.

## 7 THE HONOURABLE NATHANIEL ROTHSCHILD (45) Non-Executive Director

**Appointed:** 19 May 2011

**Key skills and experience:** Nathaniel brings with him extensive experience in financial markets and in managing and leading global businesses.

**Current external appointments:** Nathaniel was appointed Executive Chairman of Volex plc in November 2015 following his appointment to the Board as a Non-Executive Director in October 2015. Nathaniel is a member of the Belfer Center's International Council at the John F. Kennedy School of Government at Harvard University.

**Previous relevant experience:** Until January 2013, Nathaniel was a Non-Executive Director of Barrick Gold Corporation, the world's largest gold company. He was previously Co-Chairman of Asia Resource Minerals plc.

## 8 GULSUN NAZLI KARAMEHMET WILLIAMS (39) Non-Executive Director

**Appointed:** 21 November 2011

**Key skills and experience:** Nazli has experience in managing and leading large corporations. Between 2004 and August 2014 Nazli worked at Digiturk, a leading satellite broadcasting network. She was Chief Content Officer between 2007 and August 2014, with primary responsibility for overseeing all content acquisitions, production and creative services (including on-air promotion and print TV guides) and overall content strategy.

**Previous relevant experience:** Until 2013 Nazli was also a board member of Turkcell İletişim Hizmetleri A.Ş. a leading GSM operator in Turkey. Turkcell's shares trade on the Istanbul (IMKB) and New York Stock Exchanges (NYSE).

## 9 ÜMIT TOLGA BILGIN (42) Non-Executive Director

**Appointed:** 16 March 2017

**Key skills and experience:** Tolga has current experience within the energy sector as CEO and Deputy Chairman of Bilgin Enerji Yatırım Holding A.Ş. having held this position since 2014. Bilgin Energy is one of the largest companies within the Turkish renewable energy sector. Through his current role and various positions held at Bilgin Energy including managing the development of wind, hydro and thermal energy projects, Tolga brings experience in management, leadership and project financing to the Board.

**Current external appointments:** Since 2006 Tolga has served as the Chairman of the Wind Power and Hydropower Plants Businessmen's Association.

## Experienced in the industry and the KRI

### **1 BEN MONAGHAN** Chief Financial Officer

Ben Monaghan joined Genel as CFO in 2015. Prior to joining the Company he was Head of European Oil and Gas Investment Banking at J.P. Morgan in London, where he worked for 20 years raising equity and debt capital and advising on mergers, acquisitions, joint ventures and divestitures in the global energy sector. Ben also has two years' experience as an auditor with Arthur Andersen in the UK, Russia and France, and holds an MA degree from Cambridge University.



### **2 STEPHEN MITCHELL** General Counsel

Stephen Mitchell has practiced as a lawyer for over 35 years. Prior to joining the Company he was Vice President - Group Legal with BHP Billiton plc and prior to that he was Group General Counsel and Head of Risk Management at Reuters Group plc, in which he advised on a broad range of matters including mergers and acquisitions, joint ventures, corporate governance and compliance. Stephen was a partner in Freehills in Australia for six years prior to joining Reuters and holds a BEC and LLB from Monash University in Australia.

### **3 PARS KUTAY** Head of Government & Public Affairs

Pars Kutay joined Genel in December 2010. Pars is responsible for developing, co-ordinating and implementing policies on government and public affairs in countries where we operate. Pars was a partner at AB Consultancy and Investment Services from 1995 to 2010. Between 1984 and 1995 he served in Turkey's Undersecretariat of Treasury and Foreign Trade. He is a graduate of Law from Ankara University and holds degrees in International Finance and Environmental Law from Ankara University.

### **4 PAUL SCHOFIELD** Chief Operating Officer

Paul has 35 years' management and technical experience encompassing all aspects of the upstream oil and gas business. He started his petroleum engineering career at Shell in 1981, subsequently working with Enterprise Oil, Tuscan Energy and Hess. Paul joined Hess in 2006, holding a number of senior roles. Immediately prior to



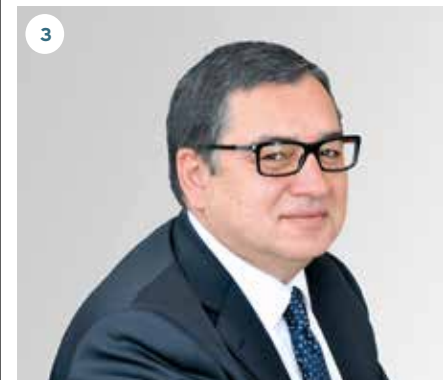
joining Genel, Paul was the most senior Hess representative in the management team for the Carigali Hess Operating Company, a significant Malaysian joint venture company operating in the Malaysia-Thailand joint development area. Paul holds a BSc Honours degree in Chemistry from Bristol University, and is a member of the Society of Petroleum Engineers.

### **5 ELLIOT MILNE** Commercial Director

Elliot Milne joined Vallares PLC in 2011 and advised on the merger with Genel that year, following which he has worked at Genel in a variety of commercial roles. Prior to joining Vallares, Elliot worked in Ethiopia for 12 months as a consultant to the Coffee Initiative Project, established by the Bill Gates Foundation. From 2006 to 2010 he worked at Goldman Sachs in their leveraged finance and natural resources M&A team in Australia. Elliot holds a BEC and LLB from the University of Sydney.

### **6 GOZDE TUTANC** Head of Human Resources

Gozde has over 20 years' experience in the telecom, consultancy, FMCG and media sectors. She joined Genel in 2014 as Head of Human Resources for Turkey and the Kurdistan Region of Iraq. Prior to joining the Company, Gozde worked in different HR management roles at Turkcell, a leading Turkish telecoms company, and held HR positions at DDI-Development Dimensions International and Coca-Cola. Gozde holds a BSc in Psychology from the Middle East Technical University in Ankara, and an Executive-MBA certification from the Koc University in Istanbul.





## CORPORATE GOVERNANCE

### **Corporate governance**

Our objective remains to create long-term value for shareholders through the exploration, development and production of our oil and gas resources. We have low-cost oil producing assets and large-scale gas development assets that are important to the growth of the KRI.

We operate to a high level of governance within a culture that values ethical standards, personal and corporate integrity and respect for others. The Board governs the Company consistent with our business strategy and commitment to a transparent and high-quality governance system.

Our view is that governance is not just a matter for the Board and that a strong governance culture must be fostered throughout the organisation. Our expectations of our employees and of those with whom we conduct business are set out in our code of conduct, which is summarised below and is available on our website at [www.genelenergy.com](http://www.genelenergy.com).

This report aims to provide shareholders with a comprehensive summary of our governance arrangements and an explanation of how the Company has approached the main principles of the UK Corporate Governance Code (the 'Code') during 2016.

Genel Energy plc is a Jersey incorporated company with a standard listing on the London Stock Exchange. Notwithstanding our standard listing, we are committed to complying with the regulatory requirements in both Jersey and the UK. We are in full compliance with the provisions of the Code with the exception of B.6.2. which provides that the evaluation of the Board of FTSE 350 companies should be externally facilitated every three years. Given the size of the Company it was considered more appropriate to conduct an internal review of the Board's effectiveness which was facilitated by the Company Secretary. A copy of the Code can be found at [www.frc.org.uk/corporate/ukcgcode.cfm](http://www.frc.org.uk/corporate/ukcgcode.cfm)

As corporate governance principles continue to evolve, we will continue to adopt best practice guidelines as appropriate to our business.

### **Market Abuse Regulations**

In 2016, the Company introduced a new share dealing policy and supporting procedures in response to the enactment of the Market Abuse Regulations which came into force on 3 July 2016.

The Board is responsible for taking all proper and reasonable steps to ensure full compliance with the Market Abuse Regulations, including

ensuring that staff are fully trained and understand their obligations under the new regime. Face-to-face training was provided to employees impacted by the new arrangements during June and July 2016.

In addition to the adoption of the new share dealing policy we have also updated our tight well policy and procedures and introduced a new market sounding policy. A disclosure committee has been established and is made up of the CFO, the General Counsel, the Head of Investor Relations and the Company Secretary. The CEO is invited to attend as appropriate. The objectives of the disclosure committee are the timely identification of inside information and to assist the Company with the reporting to the market in accordance with the Market Abuse Regulations.

### **Code of conduct**

Our code of conduct defines what we stand for as a Company and sets out the principles that guide all of our business activities. All staff have received training on how to represent Genel in accordance with the principles of the code of conduct. We strive for operational excellence and aim to conduct our business in a responsible, ethical and safe manner with high standards of financial reporting, corporate governance, and compliance with applicable laws. The code of conduct sets guidelines by which we conduct our business and how we expect our board, employees, suppliers, partners and others to behave. As a result, being able to demonstrate behaviours aligned with the code of conduct forms part of the performance objectives for every employee.

### **SpeakUp**

All employees are encouraged to raise any concerns they may have and to report any suspected or known violations of the code of conduct without fear of retaliation. We operate an independently run and confidential 'SpeakUp' hotline. All issues raised via this route are investigated and reported to the Audit Committee.

### **Business conduct**

We conduct our business in an open, honest and ethical manner. We do not tolerate any form of bribery. We aim to ensure that all financial and non-financial information we create is complete and accurate, and we strive to provide accurate and timely information to external stakeholders, including governments, in the locations in which we operate. We take steps to protect against inappropriate use of confidential and privileged information and we aim to protect and use our business assets appropriately.

Our policy is not to make political donations and we have not done so in the period under review (2015: nil).

### **Conflicts of interest**

We seek to avoid conflicts of interest wherever possible. We believe it is important that the decision making process is not impaired by an individual being conflicted by either an actual or a potential conflict. However, we recognise that from time to time situations may arise which could result in actual or potential conflicts and, accordingly, we have a formal system in place enabling Directors and members of senior management to declare any such conflicts and for those conflicts to be reviewed and, if appropriate, authorised by the Board. A register of conflicts is maintained by the Company Secretary. The Audit Committee and the Board have applied the principles and processes set out above during 2016 and confirm that they have operated effectively.

### **Third parties**

We maintain high standards of business conduct in our dealings with all third parties in order to promote mutually beneficial relationships and protect our reputation. We do not seek to win or maintain business by acting illegally or contrary to our contractual agreements. Our relationships with third parties are conducted on a fair and honest basis. We expect our third parties to maintain the same standards of business conduct as we adhere to.

### **Communities and environment**

Protecting and sustaining the communities and environment in which we operate is fundamental to maintaining our operating licences and to creating a long-term sustainable business. We strive to maintain high standards of environmental protection and we do not compromise our environmental values for profit or production. We seek to maintain proactive and constructive engagement with the local communities affected by our operations and assets, and invest to help them develop in a sustainable manner. We contribute to socio-economic development and provide transparency in respect of our contributions and their impact. Further information on how we engage with communities can be found in the community engagement and investment section of this report on page 20.

## CORPORATE GOVERNANCE

### CORPORATE GOVERNANCE continued

#### BOARD ATTENDANCE

Date	January	February	February	March	April	July	August	September	November	December	Attendance <sup>5</sup>
Scheduled/Ad hoc	Scheduled	Scheduled	Ad-hoc	Ad-hoc	Scheduled	Scheduled	Ad-hoc	Scheduled	Scheduled	Ad-hoc	Scheduled
Tony Hayward	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Murat Özgül	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
George Rose	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Chakib Sbiti <sup>1</sup>	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓	100%
Simon Lockett <sup>2</sup>	✓	✓	✗	✗	✓	✓	✓	✓	✓	✓	100%
Mehmet Öğütçü	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Nathaniel Rothschild	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Gulsun Nazli Karamehmet Williams <sup>3</sup>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	100%
Jim Leng <sup>4</sup>	✓	✓	✓	✓	n/a	n/a	n/a	n/a	n/a	n/a	100%
Sir Graham Hearne <sup>4</sup>	✓	✓	✓	✓	n/a	n/a	n/a	n/a	n/a	n/a	100%

1. Chakib Sbiti was unable to attend the ad-hoc Board meeting held in August 2016 due to prior commitments
2. Simon Lockett was unable to attend the ad-hoc Board meetings held in February and March 2016 due to prior commitments
3. Gulsun Nazli Karamehmet Williams was unable to attend the ad-hoc Board meeting held in December 2016 due to prior commitments
4. Jim Leng and Sir Graham Hearne both retired as Directors of the Company on 27 April 2016
5. Denotes the attendance percentage at scheduled Board meetings by each Director

#### BOARD TIME SPENT



- Business strategy - 40%
- Corporate governance/ risk management - 15%
- Financial management - 20%
- Projects - 25%

#### The role of the Board

The Board's role is to provide leadership in delivering on the long-term success of the Company within a framework of prudent and effective controls. It is responsible for approving the Company's strategy and business plan and keeping under review the financial and operational resources of the Company. It monitors the performance of the business and management against those strategic objectives with the overall

objective of creating and delivering value to shareholders.

The performance of the Board and the contributions of Directors to the Board's decision making processes are essential to fulfilling this role. The Directors may exercise all the powers of the Company subject to the provisions of relevant law, the Company's articles and any special resolution of the Company in the furtherance of their role.

The Board has reserved certain matters for its own consideration and decision making. Authorities have been delegated to Board Committees and these are set out clearly in each Committee's terms of reference which are reviewed regularly to ensure that they remain appropriate and relevant. Copies of the terms of reference are available on our website.

Specific matters reserved for the Board include setting the Company's objectives and business strategy and its overall supervision. Significant acquisitions, divestments and other strategic decisions will all be considered and determined by the Board in accordance with the Company's delegated authorities.

The Board reviews the matters reserved for its decision annually, subject to the limitations imposed by the Company's constitutional documents and applicable law.

The Board and its Committees have access to the advice and services of the Company Secretary and the General Counsel and may

seek advice from independent experts at the expense of the Company as appropriate. Individual Directors may also seek independent legal advice at the expense of the Company, in accordance with the Board's agreed procedure.

In addition, the Board has extensive access to members of senior management, who attend Board meetings by invitation, and present regularly to the Board on the performance of the business.

#### Board composition

There are nine Directors on the Board, of whom one is Executive and eight (including the Chairman) Non-Executive. Four are independent under the Code and four are not considered independent (excluding the Chairman who was not independent on appointment).

#### Skills, knowledge, experience and attributes of Directors

The Board considers that a diversity of skills, background, knowledge, experience, perspective and gender is required in order to govern the business effectively. The Board and its Committees work actively to ensure that the Executive and Non-Executive Directors continue to have the right balance of skills, experience, independence and group knowledge necessary to discharge their responsibilities in accordance with the highest standards of governance.

The Non-Executive Directors bring with them international and operational experience gained both in the sectors in which we operate

and in other areas of business and public life. Murat Özgül brings additional perspectives to the Board's work through a deep understanding of the business and the region within which it operates. Together they oversee the strategy of the Group and monitor the pursuit of the corporate strategy. All Directors are required to devote sufficient time and demonstrate commitment to their role.

Further details of the Directors' skills and experience are set out on pages 36 to 37 of this Annual Report.

#### **Independence of the Board**

The Independent Non-Executive Director's (George Rose, Chakib Sbiti, Simon Lockett and Mehmet Ögütçü) are responsible for ensuring appropriate challenge of management and the decisions of the Board.

The Non-Executive Directors who are not considered independent comprise two of the founders of the Company (Nathaniel Rothschild, Non-Executive Director and Tony Hayward, Chairman), plus Gulsun Nazli Karamahmet Williams who has been nominated for appointment to the Board by Focus Investments Limited in accordance with the relationship agreement between the

Company and Focus and Ümit Tolga Bilgin who was appointed on 16 March 2017.

The Independent Directors and the Chairman meet regularly in private session after Board meetings and on other occasions over dinner.

The Board recognises that following Tolga Bilgin's appointment as a Director that there is a majority of Non-Independent Directors on the Board however it considers that there is an appropriate balance between Executive and Non-Executive, Independent and Non-Independent Directors, with a view to promoting shareholder interests and governing the business effectively. The Board will monitor this closely to ensure that the independent thinking of the Board is not compromised. It is the intention of the Board to return to an equal balance of independent versus non-independent directors as soon as practicably possible.

#### **Meetings of the Board**

The Board meets approximately six times each year and schedules other meetings as necessary to fulfil its role. During the year the Board held ten meetings in total in various locations, four of which were in addition to those scheduled. In recognition of the

challenging operating environment the Directors felt it appropriate to meet more regularly during 2016 to monitor developments at Taq Taq and receive frequent updates on the gas business.

There are detailed agendas for each Board meeting which are developed by the Chairman and the Company Secretary. The Board also has an annual rolling agenda that sets out the key topics for consideration at each meeting.

In addition to scheduled meetings of the Board, Directors receive updates from management in-between meetings on the performance of the business against the agreed strategy and on its operations.

#### **Operation of the Board**

The Chairman is responsible for ensuring that the Board operates effectively. The Board has an open style of communication and debates issues openly and constructively within an environment that encourages healthy debate and challenge both inside and outside the boardroom.

The Directors receive board papers and other relevant information in a timely manner ahead of meetings. Board papers are delivered through an electronic portal that enables

#### **Roles and responsibilities**

It is important to ensure that there is a clear division of roles between the Chairman, Chief Executive Officer and Senior Independent Director of the Company.



**TONY HAYWARD**  
Chairman

Tony Hayward is the Chairman. The Chairman reports to the Board and is responsible for the leadership and overall effectiveness of the Board, overseeing the strategy of the Company and for setting the Board's agenda. Specific responsibilities of the Chairman include ensuring the effective running of the Board, ensuring that the Board agenda is forward-looking with an emphasis on strategic issues and ensuring the performance of the Board and its Committees is effective and in line

with best practice. A culture of openness and debate is encouraged by the Chairman through ensuring constructive relations between Executive and Non-Executive Directors and ensuring effective communication between the Company and its shareholders. The Chairman's other significant commitments are included in his biography on page 37. There have been no changes to these during 2016.



**MURAT ÖZGÜL**  
Chief Executive Officer

Murat Özgül is the Chief Executive Officer. The Chief Executive Officer is responsible for all executive management matters of the Group. He reports to the Chairman and to the Board directly. Specific responsibilities include the day-to-day management of the Group within delegated authority limits, identifying and executing strategic

opportunities, managing the risk profile and ensuring appropriate internal controls are in place, maintaining a dialogue with the Chairman and the Board on important and strategic issues, ensuring the proper development of senior management and succession planning for executive positions.



**GEORGE ROSE**  
Senior Independent  
Non-Executive Director

George Rose is the Senior Independent Director. The Senior Independent Director is available to shareholders who have concerns that cannot be addressed through the normal channels of the Chairman or the Chief Executive Officer. He chairs the Nomination Committee when it is considering

succession to the role of Chairman and acts as a sounding board for the Chairman and an intermediary for other Directors if and when necessary.

Directors to access them wherever they are in the world. The timely provision of relevant information to Directors is vital in ensuring they are able to fulfil their role of effective oversight and challenge and for enabling the Board to make effective decisions.

#### **Directors' induction and ongoing development**

In order to govern the Group effectively, Non-Executive Directors must have a clear understanding of the overall strategy, together with a sound knowledge of the business and the industry within which it operates.

The Chairman, together with the Company Secretary, is responsible for ensuring that all new Directors receive a full, formal and tailored induction upon appointment to the Board. This includes a detailed overview of the Company and its governance practices and meetings with key personnel from across the Group in order to develop a full understanding of the business, its strategy and business priorities in each area.

Upon his appointment Simon Lockett received a full and comprehensive induction on the operations, processes, policies and procedures across the business. The induction included a comprehensive schedule of meetings with senior management in London and Ankara to develop his understanding of the business.

In addition, Chakib Sbiti received a full induction on the Company's approach to remuneration strategy and practices upon his appointment as Chairman of the Remuneration Committee.

As part of ongoing board development Directors attended a detailed half-day education session on the gas project in July 2016.

#### **Risk monitoring and reporting**

The Group keeps under review the major risks to which its operations in all regions are exposed by leveraging its local expertise, industry knowledge and strategic relationships. In particular, the Group continues to have a regular dialogue with its key stakeholders in the Kurdistan Region of Iraq, such as the KRG, the Turkish government and other regional public bodies. We maintain similar relationships within the Africa region to ensure the risks across the organisation as a whole are fully understood and mitigated appropriately and within the Group's tolerance for risk.

During the year, the Group's risk management approach was reviewed and enhanced culminating in the adoption of an updated risk management policy and procedures. Our risk management procedures facilitate the identification of the key risks and key risk indicators, the controls by which these are managed and mitigated, and how these controls are monitored. The senior management review and update the risk management process and keep under constant review the risks identified. The Board undertakes a robust assessment of

the principal risks facing the Company at least annually. It focuses its assessment on those risks that could impact our business model, solvency, liquidity or future performance. The Board also reviews and monitors the risk management and internal control systems and each such review covers all material controls, including financial, operational and compliance controls.

Further details of the principal risks and uncertainties to which the Group's operations are exposed, and the framework within which these risks are managed, are set out on pages 28 to 33.

#### **Internal controls**

The Board is responsible for maintaining and reviewing the effectiveness of the Group's system of internal control. This system is designed to identify, evaluate and manage the significant risks to which the Group is exposed. The Board has established processes to meet the obligations placed on listed companies and the expectations of the UK Corporate Governance Code to publish a long-term viability statement and to continually monitor systems of risk management and internal control. These processes include having clear lines of responsibility, documented levels of delegated authority and appropriate operating procedures. We recognise that the system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against misstatement or loss. Our long term viability statement can be found on pages 32 to 33.

The Audit Committee supports the Board in the performance of its responsibilities by reviewing those procedures that relate to risk management processes and financial controls. The Audit Committee considers the reports of the internal audit function and the external auditor and reports to the Board on such matters as it feels should be brought to the Board's attention.

A detailed budget is produced annually in accordance with our financial processes and reviewed and approved by the Board. Operational reports are provided to the Executive Committee on a monthly basis and performance against the budget kept under regular review in accordance with the Group's financial procedures manual. The CEO reports to the Board on performance and key issues as they arise.

The assessment of controls and risk management processes provides a reasonable basis for the Board to make proper judgements on an ongoing basis as to the financial position and prospects of the Group.

The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2016 and up

to the date of the signing of the financial statements, and is satisfied that it remains appropriate to the business.

#### **Communication with stakeholders**

Part of the Group's code of conduct sets a framework for how it partners with, and invests in, communities (local, regional and global) to achieve mutual long-term benefits. The Group contributes to socio-economic development through taxes, royalties and other local payments and donations. Further details of our community programmes can be found on pages 20 to 23.

#### **2017 AGM**

The 2017 AGM will be held on Tuesday, 6 June 2017 at J.P. Morgan, 60 Victoria Embankment, London EC4Y 0JP, UK at 11.00am. The Notice of AGM accompanies this Annual Report and sets out the business to be considered at the meeting. The AGM will provide an opportunity for shareholders to meet with the Directors and senior management. Both this Annual Report and the Notice of AGM are available on our website at [www.genenergy.com](http://www.genenergy.com)

#### **Communication with institutional investors**

We communicate on a regular basis with our shareholders via presentations and calls as part of our annual investor calendar. We also liaise with them on an ad-hoc basis as and when questions arise.

Our major shareholders are also encouraged to meet with the Chairman to discuss any matters that they would like to raise outside the formal investor calendar.

The Board receives investor relations updates at each scheduled Board meeting covering key investor meetings and activities, as well as shareholder and investor feedback.

We also engage with our shareholders at our AGM and via our website at [www.genenergy.com](http://www.genenergy.com)

During the year we also communicated with our bondholders via calls and scheduled meetings.

#### **2016 Investor relations activity**

<b>Q1</b>
2 conferences in the UK Investor meetings in the UK and Middle East
<b>Q2</b>
2 conferences in the UK Investor meetings in the UK US investor roadshow Investor visit to KRI and Ankara
<b>Q3</b>
Investor meetings in the UK 3 conferences in the UK
<b>Q4</b>
Investor meetings in the UK 4 conferences in the UK

### Board committees

The Board has established four committees: the Audit Committee, the Remuneration Committee, the Nomination Committee and the Health, Safety, Security and Environment Committee.

These Committees have adopted terms of reference under which authority is delegated by the Board and copies of which are available on our website at [www.genenergy.com](http://www.genenergy.com). Each Committee consists only of Independent Non-Executive Directors (with the exception of the Nomination Committee, which is chaired by Tony Hayward who was not independent upon his appointment as Chairman).

A Reserves Committee has also been established which is made up of Tony Hayward, Simon Lockett and Chakib Sbiti. The objective of this Committee is to provide oversight of the assessment of the Company's reserves and resources and report to the Audit Committee on its findings.

### Board effectiveness

As in previous years the Board effectiveness review was facilitated internally by the Company Secretary. Whilst this is not in compliance with B.6.2 of the UK Corporate Governance Code, which requires that an externally facilitated effectiveness review is undertaken every three years, given the size of the Company this approach is considered appropriate.

Actions from the 2015 effectiveness review	Progress made against the actions
<p><b>Board development</b></p> <p>Given the significance of the gas development to the Company, the Board would focus its development plan for the year on the development cycle of the gas project, including project financing.</p>	<p>The Board discussed the gas project at the majority of Board meetings held during the year. More specifically, an in depth education session was held in July 2016. This covered the commercial structure, the process to reach FID, the development programme, including the HSE aspects of the project, the economics, political influences and investor perception of the project.</p>
<p><b>Board effectiveness</b></p> <p>It was recognised that following the changes to Board composition during the year, the need to ensure that the new Board operated effectively was a priority for 2016.</p>	<p>Additional meetings outside of the usual Board cycle were held during the year to ensure that the Board remained fully informed on matters of significance during the year.</p>
<p><b>Political Risk</b></p> <p>in 2015, the Political Risk Committee was disbanded as it was felt that given the importance of political risk to the Company, this should be a matter for the whole Board. As this is a complex region in which to operate regular updates would be provided to Directors from appropriate commentators.</p>	<p>An external speaker attended the November Board dinner over which the political landscape in the region was discussed in detail and the opportunity provided for Directors to ask questions and broaden their understanding of the turmoil in the KRI region. In addition the Head of Government and Public Affairs, Pars Kutay, presents a political update at every scheduled Board meeting.</p>
<p><b>Remuneration</b></p> <p>Whilst the Remuneration Committee reviews in detail management targets when considering remuneration payouts to the executives, it will pay particular attention to this area given the difficult economic environment the Company is operating in.</p>	<p>The Committee has completed periodic reviews of the bonus targets to ensure that they remain relevant and appropriate in the current operating environment.</p>

Actions arising from the 2016 effectiveness review	
<b>Development</b>	As the gas business develops, Directors should continue to be educated on the complex project inputs throughout 2017 and beyond
<b>Effectiveness</b>	As in 2015, and following further changes to board composition during the year, the directors should continue to focus on its operational effectiveness during 2017 and the induction process for new Directors
<b>Financing</b>	The Board, supported by the Audit Committee, will focus on maintaining the financial strength of the Company in the lead up to the refinancing in 2019
<b>Underlying business</b>	The Directors recognise the need to focus on the achievement of core business targets and the need to support management in that regard

The review of the performance of each of the Directors has been undertaken by the Chairman and the Senior Independent Director led the review of the Chairman's performance. Following these performance reviews, the Board considers that each of the Directors continue to make an effective and valuable contribution and demonstrate their commitment to the role.

## Ensuring integrity and clarity of published financial information

### AUDIT COMMITTEE

Chairman	Members	Meetings in 2016
George Rose	Chakib Sbiti Simon Lockett	3 scheduled 2 ad hoc



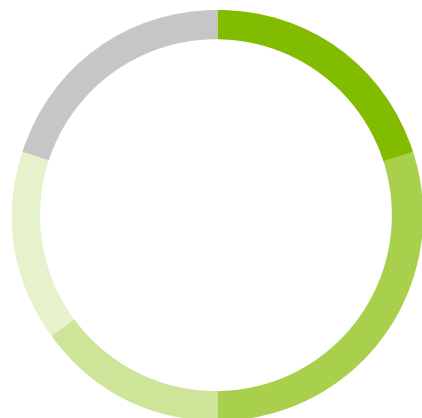
Objective	Progress
To increase shareholder confidence by ensuring the integrity and objectivity of published financial information	<p>Scrutinised areas involving significant judgement, estimation or uncertainty in particular impairments and the receivable</p> <p>Reviewed reserves, resources and revenue</p> <p>Reviewed and received reports from the external auditors on the annual financial statements and other published financial information</p> <p>Ensured compliance with financial reporting standards and relevant financial and governance requirements</p>
To advise the Board on whether the Annual Report taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy	<p>Considered the quality and appropriateness of the accounting policies and practices and financial reporting disclosures, in particular in respect of revenue recognition and impairment of receivable</p> <p>Considered the Annual Report as a whole including the basis for the going concern assumption, the viability statement and underlying assumptions. Assessed the Annual Report in the context of whether, taken as a whole, it is fair, balanced and understandable</p>
To assist the Board in meeting its financial reporting, risk management and internal control responsibilities	<p>Monitored compliance with financial reporting standards and relevant financial and governance requirements</p> <p>Kept under review the risk register and retained oversight of the Group risk framework and by doing so supports the Board on assessing the Company's tolerance for risk</p> <p>Kept key accounting policies and practices under review to ensure that they remain appropriate</p>
To assist the Board in ensuring the effectiveness of the internal accounting and financial controls of the Company	Kept under review the effectiveness of the systems of internal control, including the adherence to company policies, internal audit outputs and the compliance programme including the 'SpeakUp' arrangements and the anti-bribery and corruption processes and procedures
To monitor the Company's treasury and financing arrangements	<p>Monitored the cash position of the Company in a difficult economic environment and kept the treasury policy under review to ensure it remains appropriate and aligned with the Company's cash position</p> <p>Reviewed the long-term financing requirements of the Company including initial plans for the refinancing of the Company debt</p>
To strengthen the independent position of the Company's external auditors by providing channels of communication between them and the Non-Executive Directors	Monitored the effectiveness and independence of the external auditor and compliance with the non-audit services policy
To review the performance of the Company's internal and external auditing arrangements	<p>Monitored the effectiveness and independence of the external auditor and compliance with the non-audit services policy</p> <p>Received regular updates from the Head of Internal Audit on the annual audit programme and reviewed the outputs from the programme, keeping any actions identified under review</p>

## AUDIT COMMITTEE ATTENDANCE

Date	February	March	March	July	November	Attendance <sup>5</sup>
Scheduled/Ad hoc	Scheduled	Ad-hoc	Ad-hoc	Scheduled	Scheduled	Scheduled
George Rose	✓	✓	✓	✓	✓	100%
Chakib Sbiti <sup>1</sup>	✓	✗	✓	✓	✓	100%
Simon Lockett <sup>2</sup>	n/a	n/a	n/a	✓	✓	100%
Mehmet Ögütçü <sup>3</sup>	✓	✓	✓	n/a	n/a	100%
Jim Leng <sup>4</sup>	✓	✓	✓	n/a	n/a	100%

1. Chakib Sbiti was unable to attend an ad-hoc Audit Committee meeting in March 2016 due to prior commitments
2. Simon Lockett was appointed as a member of the Audit Committee on 27 April 2016
3. Mehmet Ögütçü stepped down as a member of the Audit Committee on 27 April 2016
4. Jim Leng retired as a Director on 27 April 2016
5. Denotes the attendance percentage at scheduled Audit Committee meetings

## AUDIT COMMITTEE TIME SPENT



- Governance and audit - 20%
- Financial reporting - 30%
- Financing - 15%
- Reserves and resources - 15%
- Risk management and internal control - 20%

All the members of the Committee are Independent Non-Executive Directors. The Chairman, George Rose, has recent and relevant financial experience and both Chakib Sbiti and Simon Lockett are industry experts.

The Committee relies on information and support from management to enable it to carry out its duties and responsibilities effectively. The Audit Committee has detailed terms of reference which set out its areas of responsibility. The Company also operates an independent 'SpeakUp' hotline for all staff and the Committee reviews annually matters reported and the outcome of any investigations.

The significant issues considered by the Committee in relation to the 2016 accounts and how these were addressed were:

- Reserves and resources - the Committee considered the underlying processes and judgements made, including the output from the Reserves Committee process, when considering the assessment of reserves and resources for the purposes of the financial statements.
- Impairment of oil and gas assets - the Committee considered the process for review, key inputs and judgements made along with the supporting evidence when

completing the assessment of the recoverable values of assets and the sensitivities applied.

- Impairment of receivable - as well as the process, key inputs and judgements made in respect of the assessment of the recoverable value of the KRG receivable the Committee also considered the supporting evidence underlying the judgements made in respect of the recoverability of the receivable.
- During the year the FRC Conduct Committee raised a number of points on the Company's 2015 Annual Report. As a result of the correspondence, additional disclosures have been included in the 2016 financial statements in respect of the Group's reporting of the trade receivables balance.
- Risk reporting - the Committee considered and recommended to the Board an enhanced risk management policy and underlying procedures. The updated policy and procedures built on the existing risk management framework, further embedding risk management and oversight processes within the business.

**Internal audit**

The Board recognises that an effective internal audit function is vital to delivering a strong governance culture. Each year the Committee approves an internal audit plan for the year ahead which is aligned to the Group's risk profile. In November 2016 the Committee reviewed the outcome of the internal audit work performed in accordance with the 2016 internal audit plan. There had been no significant findings during the year and the Head of Internal Audit confirmed that management had worked openly and collaboratively during the audit process. The Committee held a private meeting with the Head of Internal Audit at that meeting.

**External audit**

The effectiveness and the independence of the external auditor are key to ensuring the integrity of the Group's published financial information. Prior to the commencement of the audit, the Committee reviews and approves the external auditor's audit plan. PwC present to the Committee their proposed plan of work which is designed to ensure that there are no material misstatements in the financial statements.

The Committee monitors and approves the provision of non-audit services by the Company's external auditors in accordance with the policy on non-audit services. The provision of non-audit services is generally limited to services that are closely connected to the external audit or to projects that require a detailed understanding of the Group (for example taxation advice) which require pre-authorization by the Committee under the terms of the policy.

In 2016, the level of non-audit fee paid was \$0.1 million, further details of which can be found on page 93 of the notes to the financial statements. These fees reflect the services and advice provided by PwC in respect of tax and accounting advice received during the year. PwC have been appointed as the Company's auditors for the past five years following a tendering process in 2011. In 2016 the Audit Partner was rotated and Michael Timar was appointed as the Senior Statutory Auditor to the Company. When considering the re-appointment of the Company's external auditors, the Committee reviews the external auditor's independence and objectivity. In November 2016 the Committee reviewed the effectiveness of the external audit process. It reviewed papers from both management and the external auditors, including the planning and execution of the audit process. The Audit Committee met privately with the external auditors in the absence of management. Following this review, the Committee was satisfied that the external auditor remains both effective and fully independent and on that basis their reappointment will be proposed and recommended at the forthcoming AGM.

The Committee reviewed its own effectiveness during the year. The transition to the new Audit Partner during the year had been a success. The review had identified some areas for focus in 2017 including supporting the Board in the lead up to the 2019 re-financing, ensuring close scrutiny of the areas of judgement made during the year and to increase time allocated by the Committee on the work of Internal Audit.

The Committee has also reviewed its terms of reference to ensure they reflect its responsibilities in the context of the review of internal financial control systems and financial risk management systems. The Committee terms of reference can be found on our website at [www.genelenergy.com](http://www.genelenergy.com).

## CORPORATE GOVERNANCE NOMINATION COMMITTEE

### Ensuring a high calibre Board



#### NOMINATION COMMITTEE

Chairman	Members	Meetings in 2016
Tony Hayward	Simon Lockett Mehmet Ögütçü George Rose Chakib Sbiti	1 scheduled

Objective	Progress
Review the structure, size and composition of the Board, having due regard to the Company's strategic, operational and commercial requirements and overall diversity of Board members	The size of the Board has been reduced from ten Directors to nine. Continued to keep under review potential candidates as part of the ongoing refresh of the Board
Annually reviewing the time required from Non-Executive Directors and making recommendations as to their reappointment at the AGM	Reviewed the performance of the CEO and each of the Non-Executive Directors and made recommendations for their re-appointment at the 2017 AGM. The review of the Chairman's performance was carried out by the Senior Independent Director
Keeping under review succession arrangements for Directors and other senior executives	Board succession was discussed at each Non-Executive Director meeting held during the year
Review Board Committee membership	A comprehensive review of Committee composition was undertaken during the year following which the composition of the Committees was changed

#### NOMINATION COMMITTEE

Date	February	Attendance <sup>3</sup>
Scheduled/Ad hoc	Scheduled	Scheduled
Tony Hayward	✓	100%
Mehmet Ögütçü	✓	100%
George Rose	✓	100%
Chakib Sbiti <sup>1</sup>	n/a	-
Simon Lockett <sup>1</sup>	n/a	-
Sir Graham Hearne <sup>2</sup>	✓	100%

1. Chakib Sbiti and Simon Lockett were appointed to the Nomination Committee on 27 April 2016

2. Sir Graham Hearne retired as a Director on 27 April 2016

3. Denotes the attendance percentage at scheduled Nomination Committee meetings



### NOMINATION COMMITTEE TIME SPENT



- Effectiveness - 30%
- Succession - 70%

All the members of the Nomination Committee, with the exception of Tony Hayward, are Independent Non-Executive Directors.

The Nomination Committee assists the Board in ensuring that the Board consists of high-calibre individuals whose background, skills, experience and personal characteristics will augment the present Board and meet its future needs and diversity aspirations.

The Nomination Committee is aware of the need to align the Board's composition with the Company's strategy and to ensure the Board has the necessary skills to ensure that Company's long-term success.

Currently there is one female Director on the Board and, when the opportunity arises we will consider candidates based on merit and against objective criteria and with due regard for the benefits of diversity on the Board. The Committee has spent time considering whether additions were needed to the Board following the retirement of Jim Leng and Sir Graham Hearne on 27 April 2016 but it was felt that a smaller board was more appropriately aligned to the size of the ongoing business. That said in March 2017 the Committee recommended the appointment of Tolga Bilgin as a Non-Executive Director. Tolga's experience in the Turkish energy market aligns with the Company's next stage of its development of the gas business.

In the year ahead, the Nomination Committee will keep under review the composition and balance of the Board to ensure the appropriate experience and skills to delivery the Company's strategy.

When considering candidates for appointment to the Board, the Committee undertakes a comprehensive search process using Spencer Stuart, an independent external search agency. Spencer Stuart were not engaged on the appointment of Tolga Bilgin.

During 2016 the Committee continued to work with Spencer Stuart to assist with the refreshing of the Board over time. As part of their remit they have been asked to provide a pool of candidates from a diverse range of backgrounds and with due regard to gender diversity. Spencer Stuart have no other connection with the Company.

## Ensuring a focused approach to HSSE

### HSSE COMMITTEE

Chairman	Members	Meetings in 2016
Simon Lockett	Chakib Sbiti Mehmet Öğütçü	3 scheduled



Objective	Progress
To ensure that the Company maintains a responsible and credible approach to HSSE matters (including asset integrity and major hazard risk management), in line with international best practice and emerging legal requirements	Received updates on developments both from a regulatory and operational perspective  Monitors the collaboration of the operators in the region to develop a common approach to mitigating and managing the risks associated with oil field operations
To assist the Company in maintaining its relationships with the communities in which it operates, including through social investment and development activities	The environmental impact arising from our operations is reviewed regularly and any areas of concern are reviewed by the Committee
To assist the Board and other committees in assessing HSSE risks, in determining, implementing and reviewing the Company's HSSE strategy and processes	Risks allocated to the Committee under the risk management system were reviewed in detail and a report provided to the Audit Committee on the effectiveness of the HSSE controls and risk mitigation processes
To ensure the quality of the Company's reporting and disclosure (both internally and to shareholders) in relation to HSSE matters	Monitored performance against the HSE KPI targets and LTI targets  Reviewed and monitored the GHG emissions output and disclosure made in the Annual Report in accordance with the GHG Protocol
To assist the Company in developing the HSSE culture	Endorsed and sponsored the Genel 'HSE Golden Rules' and the launch of the Genel Life Saving Rules  Received regular updates on the approach to safety culture and security across the organisation particularly in the aftermath of the failed coup in Turkey and the battle to regain control of Mosul  Provided feedback to the Remuneration Committee on the HSSE performance elements of the 2016 annual bonus performance targets

## HSSE COMMITTEE

Date	February	July	November	Attendance <sup>5</sup>
Scheduled/Ad hoc	Scheduled	Scheduled	Scheduled	Scheduled
Simon Lockett <sup>1</sup>	✓	✓	✓	100%
Chakib Sbiti <sup>2</sup>	✓	✓	✓	100%
Mehmet Ögütçü <sup>3</sup>	✓	✓	✗	66%
Sir Graham Hearne <sup>4</sup>	✓	n/a	n/a	100%

1. Simon Lockett was appointed as a member of the HSSE Committee on 19 January 2016 and as HSSE Committee Chairman on 27 April 2016

2. Chakib Sbiti stepped down as Chairman of the HSSE Committee on 27 April 2016

3. Mehmet Ögütçü was unable to attend a HSSE Committee Meeting in November 2016 due to flight delays

4. Sir Graham Hearne retired as a Director on 27 April 2016

5. Denotes the attendance percentage at scheduled HSSE Committee meetings

## HSSE COMMITTEE TIME SPENT



- Culture - 20%
- Planning and monitoring - 50%
- Risk monitoring and mitigation - 20%
- Security - 10%

Genel's HSSE policy reflects international best practice including but not limited to the IFC Performance Standards and ICMM Sustainable Development Framework. At each meeting of the Committee an update is received from management on the progress made against the HSSE strategic plan which it approves at the beginning of each year. In 2016 the plan contained actions in the following areas: leadership and culture, contractor management, operational readiness, HSE management system, health, environment and HSE safety performance.

During the course of the year progress was made against each of these areas including the launch of the Genel Life Saving Rules which complements our emergency response and crisis management procedures that were also reviewed and updated during the year. Various crisis and emergency management exercises were completed in order to ensure preparedness in the event of a crisis. During the year across the organisation 39 HSSE training sessions were held on topics including but not limited to H<sub>2</sub>S awareness, process safety and administering first aid with 91% of employees attending two or more sessions. Operations activities included engaging and supporting Petoil on HSE matters during the drilling of the CS-12 well and providing pre-FEED deliverables on the Miran and Bina Bawi gas development project.

In line with the UK Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 the Company prepares and reports our greenhouse gas emissions which can be found in our corporate responsibility section on pages 20 to 23. The Committee reviewed the greenhouse gas emissions occurring from operations in 2016 and is pleased to note a year-on-year reduction of 28%.

In recognition of the importance of HSSE to our business the 2016 annual bonus objectives contain an element specifically allocated to HSSE. The Committee reviewed progress against the 2016 HSSE objectives and made recommendations to the Remuneration Committee on these elements the details of which may be found on page 63 of the Annual Report on Remuneration.

The Committee reviewed its own effectiveness during the year. During 2016 good progress had been made on enhancing the already strong HSE culture within the business. The Committee agreed to focus on the following areas during 2017:

- HSSE aspects of the gas project;
- HSSE culture across the organisation; and
- Increased site visits by Committee members

The Committee reviews its terms of reference annually, which can be viewed at [www.genelenergy.com](http://www.genelenergy.com). All the members of the Committee throughout the year have been Independent Non-Executive Directors.

## Remuneration Committee Chairman's statement



### REMUNERATION COMMITTEE

Chairman	Members	Meetings in 2016
Chakib Sbiti	George Rose Mehmet Ögütçü	3 scheduled 4 ad hoc

**On behalf of the Remuneration Committee, I am pleased to present Genel's Directors' Remuneration Report for the year ended 31 December 2016, my first Report as Remuneration Committee Chairman.**

As a Jersey registered company we are not required to prepare a remuneration report in accordance with UK legislation. However, as in previous years it remains the policy of Genel to comply with high standards of corporate governance. As such we have once again prepared our Directors' Remuneration Policy Report and Annual Report on Remuneration in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

#### Remuneration Policy

As we have chosen to comply with UK remuneration reporting regulations, at our 2017 AGM we are seeking shareholder approval for our new Remuneration Policy (the 'Policy'). Our last policy was approved by shareholders in 2014 and will shortly be reaching the end of its three-year term. Therefore, during 2016 we reviewed our Policy to ensure that our approach to remuneration remains appropriate and aligned with the Company's strategy in the new challenging energy business environment.

We believe that the remuneration structure set out in the current Policy remains clear, transparent, and simple and aligned with our strategic priorities while also promoting behaviours which are in the best interests of our shareholders. We are therefore proposing some small changes to the Policy to align it with the way good practice for UK listed companies has evolved in recent years:

- We were an early adopter of post-performance period holding periods on PSP awards, and our policy approved in 2014 included a three-year holding period. Holding periods are now more common for UK listed companies and it has become established that a two-year holding period is expected. We are therefore proposing to bring our Policy in line with this practice
- We introduced clawback provisions in 2015, however these will now be formally included in the Policy. For PSP awards these clawback provisions will apply during the holding period

The Policy, if approved by shareholders, will apply from the 2017 AGM. The vote on the Policy will not be binding as we are not covered by the same statutory protections afforded UK companies. However the Committee's intention is to operate within the Policy for a three-year period following its approval. The Policy is set out on pages 52 to 59.

#### Remuneration for 2016

Full details of the Remuneration Committee's decisions for 2016 are set out in the Annual Report on Remuneration on pages 61 to 68.

In the 2015 Annual Report we stated that the intention was to measure performance for Murat Özgül's 2016 annual bonus against a scorecard which would include 30% based on individual performance. However, during 2016 the Committee reviewed the bonus framework and decided that following the write down of reserves at Taq Taq and given the importance of the delivery of the gas, financial, safety and environment and operational business objectives, the individual performance element should be removed and the weightings for these business objectives be increased to 35.8%, 21.4%, 21.4% and 21.4% respectively, a total of 100% on company performance.

Further details of the 2016 annual bonus performance objectives and how they were assessed can be found on pages 62 and 63.

The performance period for PSP awards granted in 2014 ended on 31 December 2016. These awards will lapse as Genel's relative TSR ranking was below median of the peer group.

**2016 PSP award**

Genel is currently operating in a challenging environment and the Company is focussing on ensuring payment continuity with the KRG, maximising the value of oil assets, delivering the value of the KRI gas business and growing our resource base. The Committee considers that Murat Özgül is critical to the achievement of these objectives and to growing shareholder value.

Therefore, to enhance Murat's alignment with shareholders to deliver these objectives over the key period of the next three years, the Committee increased his PSP grant for 2016 on a one-off basis to 225% of salary. His 2017 PSP award will revert to the normal level of 150% of salary.

**Approach to remuneration in 2017**

Details of how we intend to apply our Policy over the coming year are set out on pages 66 and 67. The Committee determined that Murat Özgül's base salary will not be increased for 2017.

The Committee also decided that, while relative TSR is an important measure of long-term performance, the current focus of the Company is on absolute long-term value creation through developing our oil assets, recovering monies owed for past exports and establishing the gas business. Therefore, 2017 PSP awards will be assessed 50% on relative TSR against our peer group, and 50% against absolute TSR targets. Details of the targets are set out on pages 66 and 67. The Committee considers that these targets are appropriately stretching and that maximum vesting would represent significant value creation.

**2017 AGM**

Together with my fellow Committee members and Board colleagues, I will be available at our 2017 AGM to answer any questions regarding our Policy on executive remuneration and the activities of the Committee. On behalf of the Committee I would welcome any feedback and look forward to receiving your support for our Policy and our Annual Report on Remuneration.



**Chakib Sbiti**  
Chairman of the Remuneration Committee

**REMUNERATION COMMITTEE**

Date	February	February	April	April	July	September	November	Attendance <sup>5</sup>
Scheduled/Ad hoc	Scheduled	Ad-hoc	Ad-hoc	Ad-hoc	Scheduled	Ad hoc	Scheduled	
Chakib Sbiti <sup>1</sup>	n/a	n/a	n/a	✓	✓	✓	✓	100%
George Rose	✓	✓	✓	✓	✓	✓	✓	100%
Mehmet Ögütçü <sup>2</sup>	n/a	n/a	n/a	✓	✓	✓	✗	50%
Simon Lockett <sup>3</sup>	✓	✓	✓	n/a	n/a	n/a	n/a	100%
Jim Leng <sup>4</sup>	✓	✓	✓	n/a	n/a	n/a	n/a	100%
Sir Graham Hearne <sup>4</sup>	✓	✓	✓	n/a	n/a	n/a	n/a	100%

1. Chakib Sbiti was appointed Chairman of the Remuneration Committee on 27 April 2016
2. Mehmet Ögütçü was appointed as a member of the Remuneration Committee on 27 April 2016 and was unable to attend a Remuneration Committee Meeting in November due to a flight delay
3. Simon Lockett was appointed a member of the Remuneration Committee on 19 January 2016 and stepped down as a member of the Committee on 27 April 2016
4. Jim Leng and Sir Graham Hearne both retired as Directors of the Company on 27 April 2016
5. Denotes the attendance percentage at scheduled Remuneration Committee meetings

Objective	Progress
To determine the Remuneration Policy for the Chairman, CEO, CFO and broad framework for remuneration for members of the Executive Committee	Reviewed and updated the Remuneration Policy ahead of submission to shareholders for approval at the 2017 AGM and proposed a limited number of changes to align with UK practice
To review and have regard to remuneration practices across the Company	Considered remuneration practices across the Company including management recommendations for salary increases, bonus payments and share awards
In respect of performance related elements of the Remuneration Policy formulate suitable performance related criteria and monitor their operation	Completed a mid-year review of performance against bonus targets, re-aligning the targets for the CEO to 100% of target to be measured on Company performance for 2016  Reviewed the 2014 PSP performance against relative TSR of a comparator group which resulted in no shares vesting under the award
To review all aspects of any equity incentive plans operated or to be established by the Company	The Committee considered alternative approaches to the equity incentive plans. As a result of the review it was agreed to review the performance measures for the 2017 PSP award. Further details are set out on pages 66 and 67
To have regard in the performance of its duties to any published guidelines or recommendations regarding the remuneration of directors of listed companies and formation and operation of share schemes	As part of its deliberations during the year, governance updates were received from both Deloitte and the Company Secretary to ensure that any decisions taken and recommendations made were done so in the context of the wider remuneration landscape whilst remaining appropriate for the specific challenges facing the Company
To ensure that provisions regarding the disclosure of information, including pensions, as set out in The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations and the UK Corporate Governance Code, are fulfilled.	Reviewed and updated the Company's Remuneration Policy to be put forward to shareholders under a binding vote at our 2017 AGM  Reviewed the Annual Report of Remuneration for 2016 prior to submission to shareholders for a non-binding vote at the AGM

## CORPORATE GOVERNANCE

### REMUNERATION POLICY REPORT

#### REMUNERATION POLICY REPORT

This part of the report sets out our Directors' Remuneration Policy (the 'Policy'). This Policy will be put forward for binding shareholder approval at the 2017 AGM as outlined above in the letter from the Chairman of the Remuneration Committee. The new Policy, if approved, will replace the previous Remuneration Policy approved at the 2014 AGM. The effective date of the Policy is the date on which the Policy is approved by shareholders (i.e. the date of our 2017 AGM, 6 June or at any adjournment thereof). Further details regarding the operation of the Policy can be found on pages 61 to 68.

The Committee will keep the Policy under review to ensure that it continues to promote the attraction, retention and motivation of the high-performing executive talent required to deliver the business strategy. It is the Committee's intention that the Policy be put to shareholders for approval every three years. Should any changes be required before the end of the three-year period, the amended Policy will be put to shareholders, following shareholder consultation as appropriate.

The proposed policy includes a number of changes from the previous policy approved by shareholders at the 2014 AGM:

- The holding period for PSP awards will be reduced from three years to two years in line with established market practice
- The clawback provisions introduced in 2015 have been included in the policy

#### REMUNERATION POLICY TABLE

##### Fixed remuneration

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
<b>Salary</b>	<ul style="list-style-type: none"> <li>• To provide fixed remuneration which is balanced, taking into account the complexity of the role and the skills and experience of the individual</li> </ul>	<ul style="list-style-type: none"> <li>• The Committee takes into account a number of factors when setting salaries, including:               <ul style="list-style-type: none"> <li>- scope and complexity of the role</li> <li>- the skills and experience of the individual</li> <li>- salary levels for similar roles within the international industry</li> <li>- pay elsewhere in the Group</li> <li>- Salaries are reviewed, but not necessarily increased, annually with any increase usually taking effect in January</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• While there is no defined maximum opportunity, salary increases are normally made with reference to the average increase for the Company's wider employee population</li> <li>• The Committee retains discretion to make higher increases in certain circumstances, for example, following an increase in the scope and/or responsibility of the role or the development of the individual in the role</li> </ul>	None
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• To provide a simple and broadly market competitive benefit cash allowance</li> </ul>	<ul style="list-style-type: none"> <li>• A cash supplement is provided in lieu of benefits (including pension)</li> <li>• The cash supplement is not included in calculating bonus and long-term incentive quantum</li> </ul>	<ul style="list-style-type: none"> <li>• Cash supplement is set as a percentage of base salary and paid in lieu of all benefits (including pension)</li> <li>• While there is no defined maximum opportunity, the cash supplement is currently 25% of base salary</li> <li>• Should an individual participate in the Mandatory Pension Scheme provided by the Company to all UK based employees the cash supplement will be reduced in line with the Company contribution made</li> <li>• The Committee keeps the benefit policy and level of cash supplement under review. The Committee may adjust cash supplement levels in line with market movements</li> </ul>	None

The Company is incorporated in Jersey rather than the UK. Accordingly, the Company does not have the benefit of the statutory protections afforded by the UK Companies Act 2006 in the event that there were to be any inconsistency between this Policy and any contractual entitlement or other rights of a Director. Therefore, in the event that there were to be any payment which was inconsistent with this Policy, the Company would not have the statutory right, under section 226E of the UK Companies Act 2006 to recover such payments from its Directors.

#### Variable remuneration

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
<b>Annual bonus</b>	<ul style="list-style-type: none"> <li>To incentivise and reward the achievement of annual financial, operational and individual objectives which are key to the delivery of the Company's short-term strategy</li> </ul>	<ul style="list-style-type: none"> <li>Awards are based on objectives set by the Committee over a combination of goals which may include financial, operational and individual goals measured over one financial year</li> <li>Objectives and the mix of goals are set annually to ensure that they remain targeted and focused on the delivery of the Company's short-term goals</li> <li>The Committee sets targets which require appropriate levels of performance, taking into account internal and external expectations of performance</li> <li>As soon as practicable after the year-end, the Committee meets to review performance against objectives and determines payout levels</li> <li>Bonus payments are made in cash, although there is the flexibility to pay in shares</li> <li>No part of the bonus is currently subject to deferral, although the Committee retains the flexibility to apply deferral to all or part of the bonus (in cash or shares) in the future should it be considered appropriate</li> </ul>	<ul style="list-style-type: none"> <li>Maximum award opportunity for Executive Directors is 150% of base salary for each financial year</li> </ul>	<ul style="list-style-type: none"> <li>At least 70% of the award will be assessed against Group metrics including financial, operational, safety and environment, and CSR performance. Any remainder of the award will be based on performance against individual objectives</li> <li>A sliding scale of between 0% and 100% of the maximum award is paid dependent on the level of performance</li> </ul>

**CORPORATE GOVERNANCE**  
**REMUNERATION POLICY REPORT** continued

**REMUNERATION POLICY TABLE** continued

**Variable remuneration**

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
<b>Performance share plan ('PSP')</b>	<ul style="list-style-type: none"> <li>To incentivise and reward the creation of long-term shareholder value</li> <li>To align the interests of the Executive Directors with those of shareholders</li> </ul>	<ul style="list-style-type: none"> <li>Awards granted under the PSP (normally in the form of conditional share awards or nil-cost options) vest subject to achievement of performance conditions measured over a period of at least three years</li> <li>Awards can be reduced or cancelled in certain circumstances as set out below</li> <li>Any shares that vest may benefit from the value of dividends (if any) which would have been paid during the period between award and vesting and may assume reinvestment in the Company's shares</li> <li>Shares that vest are normally subject to a holding period of two years from the vesting date although the Committee retains the discretion to apply a different holding period, or no holding period</li> <li>Any vested options must be exercised within ten years of the date of grant</li> </ul>	<ul style="list-style-type: none"> <li>The usual maximum award opportunity in respect of a financial year is 200% of base salary</li> <li>However, in circumstances that the Committee deems to be exceptional, awards of up to 300% of base salary may be made</li> </ul>	<ul style="list-style-type: none"> <li>Vesting of awards is dependent on financial, operational and/or share price measures, as set by the Committee, which are aligned with long-term strategic objectives of the Company. No less than half of an award will be based on share price measures. The remainder will be based on either financial, operational or share price measures</li> <li>At the minimum level of acceptable performance, no more than 30% of the award will vest rising to 100% for maximum performance</li> </ul>
<b>Restricted share plan ('RSP')</b>	<ul style="list-style-type: none"> <li>Normally used to buy out awards forfeited by new Executive Directors on recruitment</li> <li>Murat Özgül will not receive grants under this scheme following his appointment as CEO</li> </ul>	<ul style="list-style-type: none"> <li>The Committee will where possible make buy-out awards on a like-for-like basis as set out in the recruitment policy</li> <li>Awards can be reduced or cancelled in certain circumstances as set out below</li> <li>Awards will vest on a date determined by the Committee at grant, subject to the individual's continued employment and, if the Committee considers appropriate, performance conditions</li> <li>Any shares that vest may benefit from the value of dividends paid (if any) during the period between award and vesting which may assume reinvestment in the Company's shares</li> </ul>	<ul style="list-style-type: none"> <li>The plan rules allow for a maximum award of 300% of base salary in respect of a financial year. Only in circumstances that the Committee deems to be exceptional will awards be made at this level</li> </ul>	<ul style="list-style-type: none"> <li>Awards will only be made to Executive Directors in recruitment scenarios</li> <li>The Committee may attach performance conditions to awards if appropriate</li> </ul>



**Notes to the policy table**

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the 2014 AGM (the date the Company's first shareholder-approved directors' remuneration policy came into effect); (ii) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

**Performance measures and targets****Annual bonus**

The annual bonus performance measures are designed to provide an appropriate balance between incentivising Executive Directors to meet financial targets for the year and to deliver a combination of specific strategic, operational and personal goals. This balance allows the Committee to review the Company's performance in the round against the key elements of our strategy and appropriately incentivise and reward Executive Directors.

Bonus targets are set by the Committee each year to ensure that Executive Directors are focused on the key objectives for the next twelve months. In doing so, the Committee takes into account a number of internal and external reference points, including the Company's business plan.

**PSP**

The ultimate goal of our strategy is to provide long-term sustainable returns to shareholders. The Committee currently considers that a mix of absolute and relative TSR is the most appropriate measure to assess the underlying financial performance of the business while creating maximum alignment with shareholders and encouraging long-term value creation.

**Malus provisions**

Under the PSP and RSP, prior to vesting, the Committee may cancel or reduce the number of shares awarded or impose additional conditions on an award in circumstances where the Committee considers it to be appropriate. Such circumstances may include a material misstatement of the Company's audited financial results, a material breach of health and safety regulations, a material failure of risk management or serious reputational damage to the Company.

The Committee has considered malus provisions in the context of the annual bonus and is satisfied that malus is appropriately taken into account at the time the Committee approves a bonus payment.

**Clawback provisions**

Clawback provisions apply to the annual bonus, PSP and RSP awards where it is considered appropriate. Such circumstances may include a material misstatement of the Company's audited results, misconduct of the individual and any error in the calculation of any performance condition. Clawback may be applied up to one year after payment for PSP and RSP awards.

**Plan rules**

The PSP and RSP shall be operated in accordance with the rules of the plans as approved by shareholders and amended from time to time in accordance with those rules. In particular:

- The plan rules provide for adjustments in certain circumstances, for example, awards may be adjusted in the event of variation of the Company's share capital, demerger, special dividend, re-organisation or similar event
- In the event of a change of control of the Company, existing share awards will vest in line with the plan rules to the extent the Committee determines, taking into account the extent to which any performance conditions (where applicable) have been satisfied and, unless the Committee determines otherwise, the time elapsed since that time. The Committee may, in the event of a winding-up of the Company, demerger, delisting, special dividend or other event which the Committee considers may affect the price of shares, allow awards to vest on the same basis

- The performance conditions may be replaced or varied if an event occurs or circumstances arise which cause the Committee, acting fairly and reasonably, to determine that a substituted or amended performance condition would be more appropriate (taking into account the interests of the shareholders of the Company) provided that the amended performance condition would not be materially less difficult to satisfy
- The Committee may elect, prior to vesting or exercise in the case of options, to deliver the value of vested awards as cash

**Remuneration arrangements throughout the Company**

The Remuneration Policy for Executive Directors is designed in line with the remuneration principles that underpin remuneration across the Company. When making decisions in respect of Executive Director remuneration arrangements, the Committee takes into consideration the pay and conditions for employees throughout the Company, including the local inflationary impact for the countries in which we operate. As stated in the policy table, salary increases are normally made with reference to the average increase for the wider employee population.

The Company places a significant focus on variable remuneration, ensuring that a meaningful proportion of remuneration across all employees is based on performance, through its operation of the annual bonus plan throughout the Company and participation in share incentive plans.

Genel is committed to strengthening and widening employee share ownership by the use of share incentives granted under our share plans. As a result approximately 90% of employees participate in our share plans.

The Committee does not directly consult with our employees as part of the process of determining executive pay. However, there is wide employee participation in our share plans.

**CORPORATE GOVERNANCE**  
**REMUNERATION POLICY REPORT** continued

**CHAIRMAN AND NON-EXECUTIVE DIRECTORS**

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
<b>Chairman fees</b>	<ul style="list-style-type: none"> <li>To provide an appropriate reward to attract and retain a high-calibre individual with the relevant skills, knowledge and experience</li> </ul>	<ul style="list-style-type: none"> <li>The fee for the Chairman is normally reviewed annually but not necessarily increased</li> <li>The remuneration of the Chairman is set by the Committee</li> <li>The Chairman receives a set fee for the role; no additional fees are payable for other Committee memberships</li> <li>The fee is payable in cash, although the Committee retains the right to make payment in shares</li> </ul>	<ul style="list-style-type: none"> <li>Whilst there is no maximum level, fees are set considering:               <ul style="list-style-type: none"> <li>market practice for comparative roles</li> <li>the time commitment and duties involved</li> <li>the requirement to attract and retain the quality of individuals required by the Company</li> </ul> </li> <li>Expenses reasonably and wholly incurred in the performance of the role of Chairman of the Company may be reimbursed or paid for directly by the Company, as appropriate, and may include any tax due on the expense</li> <li>The Chairman does not participate in any of the Group's incentive plans</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>
<b>Non-Executive Director (NED) fees</b>	<ul style="list-style-type: none"> <li>To provide an appropriate reward to attract and retain high-calibre individuals with the relevant skills, knowledge and experience</li> </ul>	<ul style="list-style-type: none"> <li>The fees for the Non-Executive Directors are normally reviewed annually but not necessarily increased</li> <li>The remuneration of the Non-Executive Directors is a matter for the Chairman and the Executive Directors</li> <li>Non-Executive Directors receive a standard basic fee. Where applicable, they also receive additional fees for Committee chairmanship and for the membership of two or more Committees</li> <li>Although no additional fee is currently paid for the role of the Senior Independent Director or the Chairman of the Nomination Committee, the Company retains the flexibility to pay such a fee if appropriate</li> <li>The fee is payable in cash, although the Committee retains the right to make payment in shares</li> </ul>	<ul style="list-style-type: none"> <li>Whilst there is no maximum level, fees are set considering:               <ul style="list-style-type: none"> <li>market practice for comparative roles</li> <li>the time commitment and duties involved</li> <li>the requirement to attract and retain the quality of individuals required by the Company</li> </ul> </li> <li>Expenses reasonably and wholly incurred in the performance of the role of Non-Executive Director of the Company may be reimbursed or paid for directly by the Company, as appropriate, and may include any tax due on the expense</li> <li>The Non-Executive Directors do not participate in any of the Group's incentive plans</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>

Non-Executive Directors may receive professional advice in respect of their duties with the Company which will be paid for by the Company. Non-Executive Directors are also covered by the Company's directors' and officers' insurance policy and provided with an indemnity.

### **Recruitment policy**

In determining remuneration for new appointments to the Board, the Committee will consider all relevant factors including, but not limited to, the calibre of the individual and their existing package, the external market and the existing arrangements for the Company's current Executive Directors, with a view that any arrangements offered are in the best interests of the Company and shareholders and without paying any more than is necessary.

Where the new appointment is replacing a previous Executive Director, salaries and total remuneration opportunity may be higher or lower than the previous incumbent. If the appointee is expected to develop into the role, the Committee may decide to appoint the new Executive Director to the Board at a lower than typical salary. Larger increases (above those of the wider employee population) may be awarded over a period of time to move closer to market level as their experience develops.

Benefits will normally be limited to those outlined in the remuneration policy table above. However, additional benefits may be provided by the Company where the Committee considers it reasonable and necessary to do so. Such circumstances may include where an Executive Director is required to relocate in order to fulfil their duties. In such cases, a cash payment higher than the 25% of salary that is ordinarily paid would normally be provided under the Company's standard expatriate policy in lieu of certain benefits, which may include the provision of a housing allowance, education support, health insurance, tax advice, a relocation or repatriation allowance and a home leave allowance.

It is expected that the structure and quantum of the variable pay elements would reflect those set out in the policy table above. However, the Committee recognises that, as an independent oil and gas company, it is competing with global firms for its talent. As a result, the Committee considers it important that the recruitment policy has sufficient flexibility in order to attract the calibre of individual that the Company requires.

Therefore:

- Under the annual bonus, the Committee reserves the right to provide either a one-off or ongoing maximum bonus opportunity of up to 200% of salary if this is required to secure an external appointment
- The Committee would also retain the discretion to flex the balance between annual and long-term incentives and the measures used to assess performance for

these elements, whilst maintaining the intention that a significant portion of variable pay would be delivered in shares

- Variable pay could, in exceptional circumstances, be delivered via alternative structures, again with the intention that a significant portion would be share-based, but in all circumstances subject to an ongoing over-riding cap of 600% of salary. This cap excludes any awards made to compensate the Director for incentive awards or any other remuneration arrangements forfeited from their previous employer (see below)

The above flexibility will only be used if the Committee believes such action is absolutely necessary to recruit and motivate a candidate from the global market. The Committee commits to explain to shareholders the rationale for the relevant arrangements following any appointment.

Where an Executive Director is appointed from within the Group, the normal policy of the Company is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an Executive Director is appointed following an acquisition of or merger with another company, legacy terms and conditions would be honoured.

The Committee retains the discretion to make appropriate remuneration decisions outside the standard policy to meet the individual circumstances of the recruitment, when an interim appointment to fill an Executive Director role is made on a short-term basis or a Non-Executive Director or the Chairman takes on an executive function on a short-term basis.

### **Buy outs**

In order to facilitate recruitment, the Committee may make a one-off award to 'buy out' incentive awards and any other compensation arrangements that a new hire has had to forfeit on leaving their previous employer. In doing so, the Committee will take into account all relevant factors including any performance conditions attached to the forfeited awards, the likelihood of those conditions being met, the proportion of the vesting/performance period remaining and the form of the award (e.g. cash or shares). Where possible, the forfeited awards will normally be bought out on an estimated like-for-like basis.

The Committee is at all times conscious of the need to pay no more than is necessary, particularly when determining any possible buy-out arrangements.

## CORPORATE GOVERNANCE

### REMUNERATION POLICY REPORT continued

#### **Recruitment of Chairman and Non-Executive Directors**

In the event of the appointment of a new Chairman and/or Non-Executive Director, remuneration arrangements will normally be in line with those detailed in the relevant table above.

#### **Executive Director service contracts**

The key employment terms and other conditions of the current Executive Director, as stipulated in his service contract, is set out below.

Element	Policy
<b>Notice period</b>	<ul style="list-style-type: none"> <li>12 months' notice by either the Company or the Executive Director. This is also the policy for new recruits</li> </ul>
<b>Termination payment</b>	<ul style="list-style-type: none"> <li>It is the Company's policy for new service contracts that it may terminate employment by making a payment in lieu of notice ('PILON') equivalent to (i) 12 months' base salary and (ii) the Executive Director's annual benefit allowance</li> <li>Upon termination by the Company, an Executive Director has a duty to mitigate, and use reasonable endeavours to secure alternative employment as soon as reasonably practicable. In Murat Özgül's service contract, there are specific provisions requiring a reduction in any phased PILON payments in the event that he finds alternative employment</li> </ul>
<b>Remuneration and benefits</b>	<ul style="list-style-type: none"> <li>Participation in all incentive schemes, including the annual bonus and the PSP, is non-contractual</li> <li>Outstanding awards will be treated in accordance with the relevant plan rules</li> </ul>

The service contract of an Executive Director may also be terminated immediately and with no liability to make payment in certain circumstances, such as the Executive Director bringing the Group into disrepute or committing a fundamental breach of their employment obligations.

Unless otherwise approved, an Executive Director may accept only one position as a Non-Executive Director (but not as a Non-Executive Chairman) of a FTSE 100 company that is not a competitor of the Company, subject to prior notification to the Chairman of the Company and the approval of the Board or duly authorised Committee thereof.

#### **Policy on payment for loss of office**

In the event that the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans.

The Company considers a variety of factors when considering leaving arrangements for an Executive Director, including individual and business performance, the obligation for the Director to mitigate loss (for example by gaining new employment) and other relevant circumstances (e.g. ill health). The Committee may make other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment.

If the Executive Director's employment is terminated by the Company, the Executive Director may receive a time pro-rated bonus, subject to Remuneration Committee discretion.

The treatment of outstanding share awards is governed by the relevant share plan rules. The following table summarises the leaver provisions of share plans under which Executive Directors may currently hold awards.

Plan	Leaver reasons where awards may continue to vest	Vesting arrangements	Treatment for any other leaver reason
<b>PSP and RSP</b>	<ul style="list-style-type: none"> <li>• Death</li> <li>• Injury, ill health or disability</li> <li>• Retirement</li> <li>• Sale of the Company or business by which the participant is employed outside the Group</li> <li>• Any other scenario in which the Committee determines good leaver treatment is justified (other than summary dismissal)</li> </ul>	<ul style="list-style-type: none"> <li>• Awards will vest to the extent determined by the Committee taking into account the achievement of any performance conditions at the relevant vesting date and, unless the Committee determines otherwise, the period of time which has elapsed between grant and cessation of employment</li> <li>• The vesting date for such awards will normally be the original vesting date, although the Committee has the flexibility to determine that awards can vest upon cessation of employment</li> <li>• In the event of death, all unvested awards will normally vest at that time to the extent determined by the Committee taking into account the achievement of any relevant performance conditions as at the date of death and, unless the Committee determines otherwise, the period of time that has elapsed since grant</li> </ul>	<ul style="list-style-type: none"> <li>• Awards lapse in full</li> </ul>

#### **Chairman and Non-Executive Director letters of appointment**

The Chairman and Non-Executive Directors have letters of appointment which set out their duties and responsibilities. They do not have service contracts with either the Company or any of its subsidiaries.

The key terms of the appointments are set out in the table below.

Provision	Policy
<b>Period</b>	<ul style="list-style-type: none"> <li>• In line with the UK Corporate Governance Code, the Chairman and all Non-Executive Directors are subject to annual re-election by shareholders at each AGM</li> <li>• After the initial three-year term, the Chairman and the Non-Executive Directors are typically expected to serve a further three-year term</li> </ul>
<b>Termination</b>	<ul style="list-style-type: none"> <li>• The appointment of the Chairman and Non-Executive Directors is terminable by either the Company or the Director by giving three months' notice</li> <li>• The Chairman and Non-Executive Directors are not entitled to any compensation upon leaving office</li> </ul>

## CORPORATE GOVERNANCE

### REMUNERATION POLICY REPORT continued

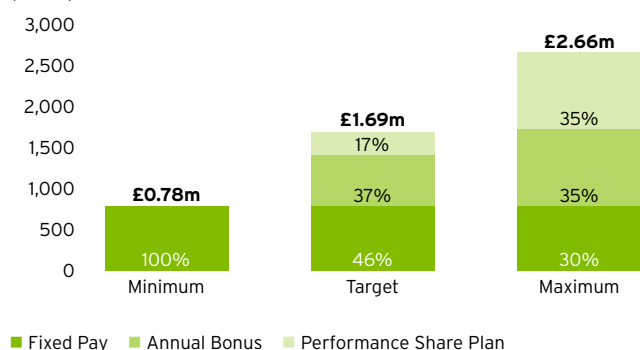
#### Illustration of the Remuneration Policy

The chart that follows provides illustrative values of the remuneration package for the Executive Director under three assumed performance scenarios. The chart is for illustrative purposes only and actual outcomes may differ from those shown.

#### Chief Executive Officer

##### Murat Özgül

(£'000)



■ Fixed Pay ■ Annual Bonus ■ Performance Share Plan

	Assumed performance	Assumptions used
FIXED PAY	All performance scenarios	<ul style="list-style-type: none"> <li>Consists of total fixed pay, consisting of base salary and cash supplement in lieu of benefits and pension</li> <li>Base salary - salary effective as at 1 January 2017</li> <li>Benefits - 25% of base salary</li> </ul>
	Minimum performance	<ul style="list-style-type: none"> <li>No pay-out under the annual bonus</li> <li>No vesting under the PSP</li> </ul>
VARIABLE PAY	Performance in line with expectations	<ul style="list-style-type: none"> <li>Two-thirds of the maximum pay-out under the annual bonus. This represents 100% of base salary for the CEO</li> <li>30% vesting under the PSP. This represents 60% of base salary for the CEO</li> <li>Value of awards under the PSP based on the 2017 award under the Policy of 150% of salary</li> </ul>
	Maximum performance	<ul style="list-style-type: none"> <li>The maximum pay-out under the annual bonus. This represents 150% of base salary for the CEO</li> <li>100% vesting under the PSP</li> <li>Value of awards under the PSP based on the 2017 award under the Policy of 150% of salary</li> </ul>

PSP awards have been shown at face value, with no share price growth, dividend accrual or discount rate assumptions.

#### Consideration of shareholder views

The Committee continues to be mindful of shareholder views when evaluating and setting ongoing remuneration strategy and we commit to consulting with shareholders prior to any significant changes to our Remuneration Policy.

It is the Committee's policy to correspond with shareholders that have engaged on remuneration matters during the year, which it has done and the Committee has considered their views at its meetings.

#### Minor Changes

The Committee may make minor amendments to the Policy set out above for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation without obtaining shareholder approval for that amendment.

## ANNUAL REPORT ON REMUNERATION

## ANNUAL REPORT ON REMUNERATION

This part of the Annual Report provides details of the implementation of the Directors' Remuneration Policy (the 'Policy') for the year ended 31 December 2016 and discusses how the Policy will be implemented in the 2017 financial year. Details of the Policy can be found on pages 52 to 59.

## Audited information

## Single total figure table showing remuneration for each Director

The following table sets out the total remuneration for Executive Directors and Non-Executive Directors for the period in office for the year ended 31 December 2016, and comparison figures for 2015.

Name	Salary/fees £'000		Benefits £'000		Bonus £'000		LTIP <sup>1</sup> £'000		Total £'000	
	2016	2015	2016	2015	2016	2015	2016	2015	2015	
<b>Executive Directors</b>										
Murat Özgül <sup>2</sup>	625	296	156	74	670	161	68	0	1,519	531
Tony Hayward <sup>3</sup>	-	374	-	94	-	0	-	0	-	468
Julian Metherell <sup>4</sup>	-	153	-	38	-	0	-	0	-	191

1. LTIP shares include shares under the Company's PSP and the RSP. The 2014 awards under the PSP lapsed following the announcement of the Company's results in 2017

2. Murat Özgül was appointed as a Director and CEO on 12 July 2015

3. Tony Hayward stepped down as CEO on 12 July 2015 and was subsequently appointed Chairman (see below)

4. Julian Metherell retired as a Director on 21 April 2015

Name	Salary/fees £'000		Benefits £'000		Bonus £'000		LTIP <sup>1</sup> £'000		Total £'000	
	2016	2015	2016	2015	2016	2015	2016	2015	2015	
<b>Non-Executive Directors</b>										
Tony Hayward <sup>1</sup>	208	122	-	-	-	-	-	-	208	122
George Rose	96	120	-	-	-	-	-	-	96	120
Simon Lockett <sup>2</sup>	82	-	-	-	-	-	-	-	82	-
Mehmet Ögütçü	80	100	-	-	-	-	-	-	80	100
Nathaniel Rothschild	64	80	-	-	-	-	-	-	64	80
Chakib Sbiti	92	115	-	-	-	-	-	-	92	115
Gulsun Nazil Karamahmet Williams	64	80	-	-	-	-	-	-	64	80
Rodney Chase <sup>3</sup>	-	204	-	-	-	-	-	-	-	204
Jim Leng <sup>4</sup>	37	115	-	-	-	-	-	-	37	115
Sir Graham Hearne <sup>4</sup>	33	100	-	-	-	-	-	-	33	100
Mark Parris <sup>5</sup>	-	46	-	-	-	-	-	-	-	46
Murat Yazici <sup>6</sup>	-	77	-	-	-	-	-	-	-	77

1. Tony Hayward was appointed Chairman on 12 July 2015

2. Simon Lockett was appointed as a Director on 19 January 2016

3. Rodney Chase resigned as a Director on 12 July 2015

4. Jim Leng and Sir Graham Hearne retired as Directors on 27 April 2016

5. Mark Parris retired as a Director on 21 April 2015

6. Murat Yazici resigned as a Director on 15 December 2016

7. Non-Executive Director fees were reduced by 30% effective from 1 May 2016

## CORPORATE GOVERNANCE

### ANNUAL REPORT ON REMUNERATION continued

#### Additional disclosures in respect of the single total figure table

##### Base salary

The table below shows base salaries which were effective during 2016.

	Base salary on 1 Jan 2016	Base salary on 1 Jan 2015 or at date of appointment
<b>Murat Özgül</b>	<b>£625,000</b>	£625,000
<b>Tony Hayward<sup>1</sup></b>	<b>n/a</b>	£705,000

1. Tony Hayward received a fee for his role as Chairman of £260,000 per annum with effect from 12 July 2015 (the date of his appointment); this was reduced to £182,000 with effect from 1 May 2016

Salary information for 2017 is provided on page 66.

##### Benefits

In line with the Committee's aim to provide a simple, transparent package, the CEO receives a cash supplement of 25% of base salary in lieu of all benefits, including pension, private health insurance, life assurance and company car provision. The cash supplement is not used in the calculation of bonus and long-term incentive quantum. In the event that the CEO participates in the Mandatory Pension Plan offered by the Company the cash supplement will be reduced by the amount contributed by the Company into the Mandatory Pension Plan.

Tony Hayward ceased to receive a benefit allowance upon his appointment as Chairman.

##### Annual bonus

The 2016 annual bonus scorecard was approved based on the Company's performance against key business objectives (with a weighting of 70%) and individual performance (with a weighting of 30%). During the year the Committee agreed that given the strategic importance of the targets set out on the annual bonus scorecard, the CEO's performance for 2016 would be measured 100% on the achievement on the business objectives. These included progress against the gas project (35.8%), financial targets (21.4%), operational targets (21.4%) and health and safety performance (21.4%).

Although Genel delivered strong performance against the specific operational, financial and health and safety performance targets, progress on the gas project during the year was slower than anticipated. We announced that documentation had been finalised on previously agreed terms of amended and restated production sharing contracts and gas lifting agreements and accordingly only 50% of the gas target was achieved. Inevitably, the Company's overall financial performance was impacted by the extremely difficult trading environment, both globally and in the KRI. Details of the Company's performance against each of the objectives are set out below.

	2016 bonus	As % of maximum
<b>Murat Özgül</b>	<b>£670,000</b>	71.4%

#### 2016 - Annual bonus, Remuneration Committee assessment of performance against targets

The 2016 annual bonus was assessed by the Committee based on the Company's performance against key business objectives. The Committee agreed at the mid-year review of progress against targets that the key business objectives were of such importance in securing the future strategic direction of the Company that the CEO should be measured 100% against delivery of those targets. Further detail is set out in the table below.

Bonus performance measure	Weighting	Performance target	Assessment of performance against metrics	Performance assessment
<b>Gas</b>	35.8%	To demonstrably progress the gas project towards project sanction	Whilst progress was made on the commercialisation of the gas project during 2016; it was not until early 2017 that definitive gas agreements were signed. Performance against this target was significantly impacted by the fiscal challenges in the region, the fight against ISIS and the move to liberate Mosul as well as the attempted coup in Turkey	17.9%
<b>Operational</b>	21.4%	Working interest production at above 60k bopd	New production guidance in the range of 53-60k bopd was published during the year with final production at the lower end of the revised guidance	0%
		Meet capital expenditure KPIs	Capital expenditure was managed within target	10.7%



Bonus performance measure	Weighting	Performance target	Assessment of performance against metrics	Performance assessment
<b>Financial</b>	21.4%	Secure the financial strength of the Company through receipt of cash payments, managing the business on a cash flow neutral basis and managing ongoing work obligations	During 2016 payments have regularised and the cash receipts have increased significantly year on year. This has enabled the business to operate on a cash flow neutral basis. Ongoing work commitments are being actively managed	21.4%
<b>Safety and Environment</b>	21.4%	Maintain existing safety performance	Strong performance with zero LTIs, no serious incidents and no spills reported in 2016	21.4%
		Strengthen internal capability and contractor management	Improvements made to the contractor management system and all contract activities were executed safely with onsite HSE supervision	
		Continue to develop a robust operating management system and enhance the existing HSE culture	During the year we continued to build on the positive HSE culture through development of Genel's Life Saving Rules and by revising and updating the crisis management procedures. HSE training and development was delivered across all sites and will remain ongoing, thereby embedding a positive HSE culture	

#### Performance share plan awards made in 2016

PSP awards are granted in the form of a nil-cost conditional share award over shares in the Company with the number of conditional awards granted determined by reference to a percentage of base salary. As discussed on page 51, given the exceptional circumstances during 2016, the 2016 awards were based on a face value of 225% of salary for the CEO (as shown below).

The Committee decided that, for the 2016 awards, it would continue to measure the performance of the Company against that of its sectoral peers using a relative TSR measure. This involves comparing the TSR of the Company over a three-year performance period with the TSR of each of the companies in the sectoral peer group below. At the end of the performance period the companies are ranked and awards made under the PSP vest in accordance with the schedule below depending on the Company's TSR performance over the three-year period. The Committee considered that TSR was the most appropriate measure to create maximum alignment with shareholders and encourage long-term value creation. The sectoral peer group for the 2016 PSP awards was reviewed in February 2016 to ensure that it remained appropriate.

BP	Enquest	Ophir Energy	Seplat Petroleum
Cairn Energy	Gulf Keystone	Premier Oil	SOCO International
DNO	Nostrum Oil & Gas	Royal Dutch Shell	Tullow Oil

Awards will vest according to the following schedule:

TSR ranking of the Company	Proportion of award vesting
Below median	0%
Median	30%
Between median and upper quartile	Straight-line basis
Upper quartile	100%

The following table provides details of the awards made under the PSP on 7 May 2016. Performance for these awards is measured over the three financial years from 1 January 2016 to 31 December 2018.

	Type of award	Face value (£)	Face value (% of salary)	Threshold vesting (% of face value)	Maximum vesting (% of face value)	End of performance period
<b>Murat Özgül</b>	Conditional share award	£1,406,250	225%	30% (median)	100% (upper quartile)	31 Dec 2018

Face value has been calculated using the average share price 10 dealing days, prior to the date of grant, of 123.88 pence.

## CORPORATE GOVERNANCE

### ANNUAL REPORT ON REMUNERATION continued

#### Share awards

The following table provides a summary of all share awards as at 31 December 2016. Further details of the Company's share plans are set out on page 103.

Scheme	Grant date	Exercise price	At 1 January 2016	Granted during the year	Vested during the year	Released during the year	Exercised during the year	Lapsed during the year	At 31 December 2016	Performance period end	Expiry date
<b>Murat Özgül<sup>2</sup></b>					-						
SOP	19/12/2011	787.58	31,764	-	-	-	-	-	31,764	19/12/2014	19/12/2021
PSP	01/03/2013	Nil	49,009	-	-	-	-	49,009	-	31/12/2015	01/03/2023
PSP	21/03/2014 <sup>1</sup>	Nil	34,588	-	-	-	-	-	34,588	31/12/2016	21/03/2024
PSP	15/04/2015	Nil	112,757	-	-	-	-	-	112,757	31/12/2017	15/03/2025
RSP	15/04/2015	Nil	260,210	-	-	65,052	-	-	195,158	n/a	15/04/2025
CEO award	21/08/2015	Nil	375,000	-	93,750	-	-	-	375,000	n/a	21/08/2025
PSP	07/05/2016	Nil	-	1,135,171	-	-	-	-	1,135,171	31/12/2018	07/05/2026
<b>Tony Hayward<sup>3</sup></b>											
PSP	29/05/2012	Nil	102,131	-	-	-	-	-	102,131	31/12/2014	29/05/2022
PSP	01/03/2013	Nil	134,352	-	-	-	-	134,352	-	31/12/2015	01/03/2023
PSP	21/03/2014 <sup>1</sup>	Nil	98,231	-	-	-	-	-	98,231	31/12/2016	21/03/2024
PSP	15/04/2015	Nil	212,030	-	-	-	-	-	212,030	31/12/2017	15/04/2025

1. The 2014 awards under the PSP will lapse following the announcement of the Company's results in 2017

2. Awards made to Murat Özgül prior to 12 July 2015 were made to him in his capacity as President, KRI and Turkey

3. Awards made to Tony Hayward prior to 12 July 2015 were made to him in his capacity as CEO

#### Payments to past Directors

In 2016, there were no payments made to past Directors during the year.

#### Payments for loss of office

In 2016, there were no payments to Directors for loss of office.

#### Statement of Directors' shareholding and share interests

The beneficial interests of the Directors in the Company's shares as at 31 December 2016 are shown in the table below. There have been no changes in the Directors' shareholdings and interests since 31 December 2016.

The Company does not currently operate a formal shareholding guideline as Executive Directors must normally hold any vested shares under the PSP for three years following vesting for share awards up to and including 2016 and for two years for awards made in 2017 and beyond. Executive Directors are expected to build up their holding over time.

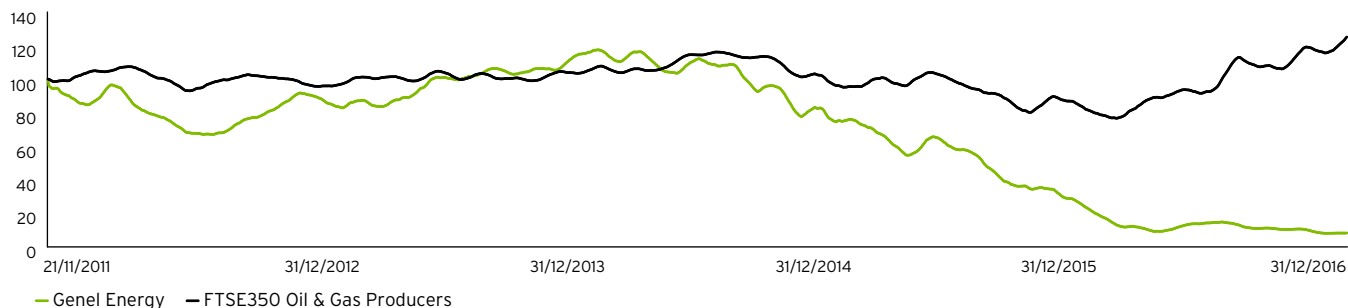
Director	Ordinary shares as at 31 December 2015 or date of leaving	Ordinary shares as at 31 December 2016 or date of leaving	Interest in share options granted under the Company share plans as at 31 December 2016
<b>Murat Özgül</b>	37,942	102,994	1,884,438
<b>Tony Hayward</b>	1,483,876	1,483,876	412,392
<b>Simon Lockett</b>	-	-	-
<b>Mehmet Ögütçü</b>	-	-	-
<b>George Rose</b>	90,000	90,000	-
<b>Nathaniel Rothschild</b>	22,119,970	22,119,970	-
<b>Gulsun Nazli</b>	-	-	-
<b>Karamehmet Williams</b>	-	-	-
<b>Chakib Sbiti</b>	80,100	80,100	-
<b>Jim Leng</b>	50,000	50,000	-
<b>Sir Graham Hearne</b>	90,000	90,000	-

This represents the end of the audited section of the report.

### Historical TSR performance and CEO remuneration outcomes

The following graph shows the Company's TSR since trading of Genel Energy plc's shares began on the London Stock Exchange on 21 November 2011 against the FTSE 350 Oil & Gas Producers Index. The Committee believes that the FTSE 350 Oil & Gas Producers Index remains the most appropriate Index as these companies are Genel's direct UK listed comparators.

#### TOTAL SHAREHOLDER RETURN



The table below summarises the CEO single figure for total remuneration, annual bonus pay-outs and LTIP vesting levels as a percentage of maximum opportunity over the period since listing to the end of the 2016 financial year.

	2011	2012	2013	2014	2015	2015	2016
<b>Chief Executive Officer</b>					Tony Hayward	Murat Özgül	
<b>CEO single figure remuneration (£'000)</b>	139	1,691	1,779	2,521	468	531	1,519
<b>Annual bonus pay-out (as a % of maximum opportunity)</b>	n/a	90%	95%	90%	0%	36.25%	71.4%
<b>Long-term incentive vesting out-turn (as a % of maximum opportunity)</b>	n/a	n/a	n/a	82.5%	0%	0% <sup>1</sup>	0%

1. The Committee exercised its discretion to reduce the vesting the 2013 PSP awards from 30% to 0%

#### Percentage change in remuneration of the Chief Executive Officer

The table below shows the percentage change in the Chief Executive Officer's salary, benefits and annual bonus between the financial years ended 31 December 2015 and 31 December 2016 compared to the average for permanent employees of the Group.

	% change in base salary 2016/2015	% change in benefits 2016/2015	% change in annual bonus 2016/2015
<b>Chief Executive Officer</b>	(6.7%)	(7.0%)	316.1%
<b>All employees</b>	3.0%	(4.0%)	44.3%

The percentage change in base salary and benefits for the CEO comparison data in 2015 includes data for Tony Hayward up to 12 July 2015 and Murat Özgül thereafter. Murat Özgül received no salary increase in 2016 and accordingly the percentage change for the CEO base salary and benefits is in real terms 0%.

The percentage change in annual bonus for the CEO compares 2016 outcomes against 2015. 2015 includes data for Tony Hayward up to 12 July 2015 and Murat Özgül thereafter. Tony Hayward did not receive a bonus in 2015 and Murat Özgül's bonus represented the six months during 2015 that he was CEO. Therefore the year-on-year change in bonus awards for the CEO overstates the difference in performance and bonus outcomes.

#### Relative importance of the spend on pay

The table below illustrates the current year and prior year overall expenditure on pay. The regulations require that we report distributions received by shareholders through dividends and share buy-backs. It is currently the Company's policy not to pay dividends. We did not buy back shares during 2016.

Remuneration paid to all employees	\$m
<b>2015</b>	41.0
<b>2016</b>	22.1

Remuneration paid to all employees represents total staff costs from continuing operations. The \$18.9 million decrease in staff costs relates to a decrease in the number of employees (28% reduction during 2016).

## CORPORATE GOVERNANCE

### ANNUAL REPORT ON REMUNERATION continued

#### Implementation of Remuneration Policy in 2017

This section provides an overview of how the Committee is proposing to implement our Remuneration Policy in 2017.

#### Base salary

In determining Executive Director salary increases for 2017, the Committee took into consideration a number of factors including:

- The individual's skills and experience
- Business performance
- Salary levels for similar roles within the industry
- Pay and conditions elsewhere in the Company

The Committee has decided that no salary increase would be made for Murat Özgül in 2017. The table below shows base salaries for 2017.

Base salary from 1 Jan 2017	
<b>Murat Özgül</b>	£625,000

#### Benefits

As outlined above, Murat Özgül receives a cash supplement in lieu of all benefits, including pension, private health insurance, life assurance and company car provision. The cash supplement is not included in calculating bonus and long-term incentive quantum.

For 2017, the cash supplement remains set at 25% of base salary.

2017 Benefits allowance	
<b>Murat Özgül</b>	£156,250

#### 2017 - Annual bonus targets

The target bonus for Murat Özgül for 2017 remains at 100% of base salary, with a maximum bonus of 150% of base salary.

For 2017, the performance of the Executive Director will be measured 70% against Company metrics and 30% against individual performance. The metrics have been changed to place a greater emphasis in 2017 on operational and financial performance and 35% of the bonus will relate to operational and financial performance (50% of Company metrics compared to 42.8% in 2016).

Bonus performance measures	Specific targets	Percentage
<b>Gas</b>	Progress the commercialisation of the gas business	20%
<b>Financial</b>	Secure the financial strength of the Company	20%
	Secure clarity on the mechanism for the recovery of the receivable balance	
	Manage the Group on a cash flow neutral basis	
<b>Safety and environment</b>	Develop contractor capability and management	15%
	Maintain existing zero performance rate on LTI's, high potential incidents, fatalities and spills	
	Continue to embed HSE culture	
<b>Operational</b>	Manage the Group within guidance	15%
	Increase 2P reserves	

#### Performance share plan

PSP awards are granted in the form of nil-cost conditional share award over shares in the Company with the number of awards granted normally determined by reference to a percentage of base salary.

The Committee has reviewed the most appropriate measure to create maximum alignment with shareholders and encourage long-term value creation. As part of this review the Committee considered the likely outturn for the 2015 and 2016 PSP awards and the need to attract and retain executive talent whilst ensuring that the targets are no less stretching. Having considered all of these factors it was agreed that it would be appropriate to amend the PSP performance measures to 50% relative TSR and 50% absolute TSR. The Committee has reviewed the existing TSR peer group and accordingly the peer group for the measurement of the relative TSR element of the 2017 award will be as follows:

BP	Ophir Energy
Cairn Energy	Premier Oil
DNO	Royal Dutch Shell
Enquest	Seplat Petroleum
Gulf Keystone	SOCO International
Nostrum Oil & Gas	Tullow Oil

The relative TSR vesting schedule will remain the same as for awards made in 2016, as outlined on page 63.

The absolute TSR targets will be measured on compound annual growth rates (CAGR) as follows:

Absolute TSR of the Company	Proportion of element vesting
Below 15% p.a.	0%
15% p.a.	30%
Between 15% p.a. and 35% p.a.	Straight-line basis
35% p.a. or more	100%

The Committee is comfortable that these targets are appropriately stretching. The threshold target of 15% p.a. is set in line with Genel's cost of capital, ensuring this element vests only when shareholders make a return.

#### **Chairman and Non-Executive Director remuneration**

Following the 30% reduction applied to fees in 2016, the fee levels for the Chairman and Non-Executive Directors remain unchanged in 2017.

Role	Fee
<b>Non-Executive Chairman</b>	£182,000
<b>Senior Independent Director additional fee</b>	No additional fee
<b>Non-Executive Director fee</b>	£56,000
<b>Additional fee for membership of two or more Board Committees</b>	£14,000

#### **Additional fee for Committee chairmanship:**

Role	Fee
<b>Audit Committee</b>	£14,000
<b>Remuneration Committee</b>	£10,500
<b>HSSE Committee</b>	£10,500
<b>Nomination Committee</b>	No additional fee

The Committee is responsible for determining the Remuneration Policy for the Executive Directors and the Chairman of the Board. The Chairman of the Board together with the Executive Director determine the fees and overall remuneration for the Non- Executive Directors.

#### **Activities of the Remuneration Committee**

The Committee held three scheduled and four ad-hoc meetings during the year. Details of the attendance of Committee members at meetings during 2016 is set out on page 51 of this Annual Report. All of the members of the Committee are Independent Non-Executive Directors.

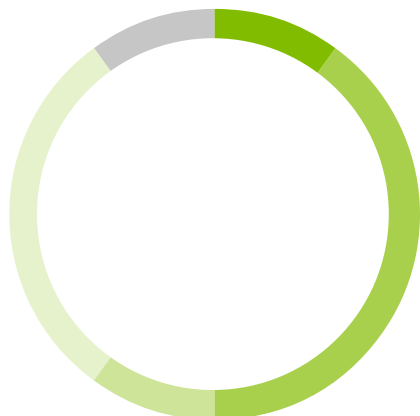
Key activities during the year included the following:

- Review of the Remuneration Policy
- Preparation and approval of the Directors' Remuneration Report
- Review of the executive base salary level in the context of pay for the wider workforce and the current operating environment
- Review of performance objectives of the CEO and Executive Committee in order to determine the level of bonus earned in respect of the 2016 financial year
- Review of the TSR performance outcomes in respect of the 2014 PSP award
- Approval of the annual bonus plan framework for 2017
- Consideration of the remuneration arrangements of the Chief Executive Officer and members of the Executive Committee for 2017
- Consideration and determination of the performance criteria for the 2016 PSP awards
- Review and re-alignment of the performance measures applied to the 2017 PSP awards
- Approval of share plan awards, including to those below Board level
- Consideration of corporate governance and market practice developments

## CORPORATE GOVERNANCE

### ANNUAL REPORT ON REMUNERATION continued

#### REMUNERATION COMMITTEE TIME SPENT



- All employee remuneration - 10%
- Executive Director remuneration - 40%
- Governance - 10%
- Long term incentive plans for all employees - 30%
- Remuneration policy for Executive Directors - 10%

#### **Advisers to the Committee**

The Committee has appointed Deloitte LLP ('Deloitte') to provide independent advice on remuneration matters under consideration by the Committee. Deloitte was appointed by the Committee as it was felt they had the most relevant experience and expertise to advise the Committee on remuneration related matters.

Deloitte is a leading remuneration adviser and a member of the Remuneration Consultants Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. Deloitte also provided support and advice to the Company including in respect of the operation of the Company's share plans during the year. The Committee is satisfied that the advice they have received has been objective and independent. Deloitte's fees in respect of advice to the Committee in the year under review were £58,050 and were charged on the basis of their standard terms of business for the advice provided.

The Committee also consulted during the year with the Chairman (Tony Hayward), CEO (Murat Özgül), the Company Secretary (Sarah Robertson) and the Head of Human Resources (Gozde Tutanc).

No member of the Committee nor any party from whom advice was sought participated in discussions regarding their own remuneration.

#### **Shareholder voting**

At the AGM held on 27 April 2016, votes cast by proxy and at the meeting in respect of the Annual Report on Remuneration for the year ended 31 December 2015 were as follows:

	Number of votes cast	For	Against	Abstentions
<b>To approve the Annual Report on Remuneration for the year ended 31 December 2015</b>	174,041,025	158,059,457	15,981,568	6,370,000
		90.82%		

The Committee is pleased to note that the vast majority of our shareholders supported the Annual Report on Remuneration in 2016.

**Chakib Sbiti**  
Chairman of the Remuneration Committee

29 March 2017

## OTHER STATUTORY AND REGULATORY INFORMATION

## Other statutory and regulatory information

### Principal activities

The Company is the holding company for the Group. The Group is principally engaged in the business of oil and gas exploration and production.

### Results and dividends

Ordinary activities after taxation of the Group for the period 1 January 2016 to 31 December 2016 amounted to a loss of \$1,248.9 million. No interim dividend was paid and the Directors are not recommending a final dividend for the period ended 31 December 2016.

### Subsequent events

There have been no subsequent events since 31 December 2016.

### Share capital

As at 29 March 2017, the Company had allotted and fully paid up share capital of 280,248,198 ordinary shares of 10 pence each with an aggregate nominal value of £28,024,819.80. 1,853,008 shares are held as treasury shares.

### Resolutions in relation to share capital

At the AGM of the Company held on 27 April 2016, the shareholders granted the Company authority to make market purchases of up to 27,838,247 ordinary shares (representing approximately 10% of the aggregate issued ordinary share capital of the Company at 16 March 2016) and hold as treasury shares any ordinary shares so purchased.

Shareholders will be asked to renew this authority at the forthcoming AGM. Full details are included in the Notice of AGM.

### Rights attaching to the ordinary shares

Holders of ordinary shares are entitled to attend, speak and vote at general meetings of the Company and may receive a dividend and, on a winding-up, may share in the assets of the Company.

As of 24 February 2016 the Company no longer has any suspended voting ordinary shares in issue.

### Restrictions on transfer of shares

There are no specific restrictions on the transfer of shares in the Company other than (i) as set out in the articles of association (ii) pursuant to the Company's share dealing policy, (iii) as imposed from time to time by law and regulation and (iv) as set out in the Merger Agreement. Save as set out in the Merger Agreement and the Relationship Agreement, the Company is not aware of any arrangements or agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

### Employee share schemes

Details of the Company's employee share schemes are set out in note 18 to the financial statements of this Annual Report.

### Articles of association of the Company

Under the Jersey Companies Law, the capacity of a Jersey company is not limited by anything contained in its memorandum or articles of association. Accordingly, the memorandum of association of a Jersey company does not contain an objects clause.

Certain provisions have been incorporated into the articles of association to enshrine rights that are not conferred by the Jersey Companies Law, but which the Company believes shareholders would expect to see in a company listed on the London Stock Exchange.

Provisions in the articles of association also require shareholders to make disclosures pursuant to chapter 5 of the Disclosure and Transparency Rules, and require the Directors to comply with chapter 3 of the Disclosure and Transparency Rules and themselves to require any persons discharging managerial responsibilities (within the meaning ascribed in the Disclosure and Transparency Rules) in relation to the Company who are not Directors to do so, and to use reasonable endeavours to procure that their own and such persons' connected persons do so. The articles of association may be amended by a special resolution of the shareholders.

### Appointment and replacement of Directors

The rules for the appointment and replacement of Directors are set out in the articles of association. Certain additional provisions relating to the appointment of Directors are included in the Relationship Agreement between the Company and Focus.

### Directors

The biographical details of the Directors of the Company who were in office during the year and as at the date of this Annual Report are set out on pages 36 and 37. Details of Directors' service agreements and letters of appointment are set out on pages 58 and 59.

Details of the Directors' interests in the ordinary shares of the Company and in the Group's long-term incentive schemes are set out in the Annual Report on Remuneration on page 64.

Details of Directors submitting themselves for election and re-election at the AGM are set out in the Notice of Meeting.

Service contracts and letters of appointment for all Directors are available for inspection at the registered office of the Company and will be available for inspection at the AGM.

Subject to applicable law and the articles of association and to any directions given by special resolution, the business of the Company will be managed by the Board, which may exercise all the powers of the Company.

#### **Directors' indemnities**

As at the date of this Annual Report, indemnities granted by the Company to the Directors are in force to the extent permitted under Jersey law. The Company also maintains directors' and officers' liability insurance cover, the level of which is reviewed annually.

#### **Related party transactions**

Details of transactions with Directors and Officers are set out in note 20 to the financial statements. There were no other related party transactions to which the Company was a party during the period.

#### **Shareholder agreements**

##### **Merger Agreement**

On 7 September 2011, the Company, Elyson Energy Holding B.V. (formerly Genel Energy Holdings B.V.), Focus Investments and PRM entered into a merger agreement (the 'Merger Agreement') pursuant to which the Company agreed to purchase, and the Sellers agreed to sell, the entire issued ordinary share capital of Genel Energy International Limited in consideration for the issue of 130,632,522 ordinary shares (the 'Consideration Shares'). The Merger Agreement was amended by a deed of amendment entered into on 29 October 2011.

##### **Relationship Agreement**

On 7 September 2011, the Company, Elyson and Focus Investments entered into a relationship agreement which regulates the ongoing relationship between Elyson, Focus Investments and the Company (the 'Relationship Agreement').

On 14 October 2015 Mehmet Sepil retired as President and on 18 November 2015 Mehmet Sepil's holding in the Company fell to below 10% of the voting rights in the Company. Accordingly, certain rights of Elyson under the Relationship Agreement ceased to have effect including the right to nominate a representative to the Genel Board.

The principal purpose of the Relationship Agreement is to ensure that the Company is capable at all times of carrying on its business independently of Focus Investments (and their Associates) and that all transactions and relationships between the Company and Focus Investments are at arm's length and on a normal commercial basis. For the purposes of the Relationship Agreement, the term 'Associate' includes, in the case of Focus Investments, Mehmet Emin Karamehmet.

On 12 February 2015 the Relationship Agreement was amended to reflect changes

to the Listing Rules that apply to controlling shareholders. Whilst the Relationship Agreement reflected the majority of the requirements we felt it prudent to amend it to align it to the specific obligations under Listing Rule 6.1.4(d).

The Relationship Agreement will terminate upon the earlier of (i) the Company ceasing to have any of its ordinary shares listed on the Official List and admitted to trading on the London Stock Exchange's main market for listed securities, and (ii) Elyson and Focus Investments together with their respective Associates ceasing between them to be entitled to exercise, or control the exercise of, in aggregate 10% or more of the Voting Rights.

Pursuant to the terms of the Relationship Agreement, it has been agreed that, among other things:

- (a) For so long as Focus Investments and its respective Associates are, entitled to exercise or control the exercise of, in aggregate, 10% or more of the Voting Rights, Focus Investments will, and will procure so far as it is reasonably able to do so, that each of its Associates will:
  - i. not take any action which precludes or inhibits any member of the Group from carrying on its business independently of Focus Investments and its respective Associates;
  - ii. not exercise any of its Voting Rights to procure any amendment to the articles of association of the Company which would be inconsistent with or breach any provision of the Relationship Agreement;
  - iii. if and for so long as paragraph 11.1.7R(3) of the Listing Rules applies to the Company, abstain from voting on any resolution required by paragraph 11.1.7R(3) of the Listing Rules to approve a 'related party transaction' (as defined in paragraph 11.1.5R of the Listing Rules) involving Focus Investments or any of its Associates as the related party;
  - iv. comply with all provisions of the Listing Rules, the Disclosure and Transparency Rules, the requirements of the London Stock Exchange and the FSMA that apply to it in connection with the Company;
  - v. ensure that the business and affairs of the Company are conducted in accordance with its articles of association; and
  - vi. exercise all of its Voting Rights in a manner consistent with the intention that at all times at least half of the Directors (excluding the Chairman) are Independent Non-Executives and that certain committees of the Board shall

comply with the UK Corporate Governance Code;

- (b) For so long as Focus Investments and its respective Associates are, between them, entitled to exercise or control the exercise of, in aggregate, 10% or more of the Voting Rights, Focus Investments will, and will procure that each of its Associates will:
  - i. conduct all transactions and arrangements with any member of the Group on arm's length and on normal commercial terms;
  - ii. not take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules; and
  - iii. not propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules;
- (c) Provided that Focus Investments and its Associates are entitled to exercise or control the exercise of 10% or more of the Voting Rights, Focus Investments shall be entitled to nominate for appointment to the Board one Director by giving notice to the Company;
- (d) For so long as Focus Investments together with their its Associates are entitled to exercise or to control the exercise of, in aggregate, 10% or more of the Voting Rights, subject to compliance by the Company with its legal and regulatory obligations, the Company shall procure that Focus Investments is provided with financial and other information as is necessary or reasonably required by them for the purposes of their accounting or financial control requirements or to comply with their legal or tax obligations as a shareholder of the Company.

The rights described at (b)-(d) above will terminate and cease to be of any effect in the event that Focus Investments (or any Affiliate (as defined in the Merger Agreement) of Focus Investments that holds any ordinary shares) ceases to be controlled by Mehmet Emin Karamehmet.

The Director nominated by Focus Investments pursuant to the Relationship Agreement is Gulsun Nazli Karamehmet Williams (Non-Executive Director).

#### **Information in strategic report**

Particulars of the Group's use of financial instruments, an indication of the Group's financial risk management objectives and policies, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used and details of the exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk are set out



in note 16 to the financial statements and in the Strategic Report in this Annual Report.

Particulars of important events affecting the Group which have occurred since the last financial year and indications of likely future developments in the business of the Group are set out in the Strategic Report in this Annual Report. Details of our approach to greenhouse gas emissions are set out on pages 22 and 23.

#### **Corporate responsibility**

The Group is fully committed to high standards of environmental, health and safety management. The report on the Group's corporate responsibility programme, together with an outline of the Group's involvement in the community, are set out on pages 20 to 23.

#### **Employment policies**

We are an equal opportunities employer and base all decisions on individual ability regardless of race, religion, gender, sexual orientation, age or disability. Applications for employment by disabled persons will always be considered, having regard to their particular aptitudes and abilities. Should any employee become disabled, every practical effort is made to provide continued employment. Depending on their skills and abilities, they will enjoy the same career prospects and scope for realising their potential as other employees. Appropriate training will be arranged, including retraining for alternative work for those who become disabled, to promote their career development within the Group.

#### **Diversity policy**

Whilst the Company has not adopted a Diversity Policy the Board and the Company are committed to employing a diverse and balanced workforce. Diversity of ideas, skills, knowledge, experience, culture, ethnicity and gender are important when building an effective and talented workforce at all levels of the organisation, including the Board.

#### **Substantial shareholdings**

As at 31 December 2016, the Company had been notified of the following significant holdings (being 5% or more of the voting rights in the Company) in the Company's ordinary share capital, which are set out in next column.

Name	Number of ordinary shares
<b>Focus Investments Limited</b>	64,589,351
<b>Bilgin Grup Dođal Gaz A.Ş.</b>	28,059,225
<b>NR Holdings Limited</b>	22,119,970

Name	Number of ordinary shares
<b>Majedie Asset Management Limited</b>	12,744,963

Between the 31 December 2016 and 29 March 2017 the Company has received a notification from Bilgin Grup Dođal Gaz A.Ş. that they hold 42,000,000 ordinary shares (15.09%).

#### **Political donations**

No political donations were made, nor was any political expenditure incurred, by any Group company in the year ending 31 December 2016 (2015: nil).

#### **Auditors and disclosure of relevant audit information**

So far as each Director is aware, there is no relevant information of which the Company's auditor is unaware. Each Director has taken all steps that ought to have been taken as a Director to make him or herself aware of any relevant audit information and to establish that PwC are aware of that information.

Following a review of the independence and effectiveness of the auditor, a resolution to reappoint PricewaterhouseCoopers LLP as the Company's auditor will be proposed at the AGM.

#### **AGM**

Your attention is drawn to the Notice of AGM enclosed with this report, which sets out the resolutions to be proposed at the forthcoming AGM. The meeting will be held at J.P. Morgan, 60 Victoria Embankment, London EC4Y 0JP UK on Tuesday, 6 June 2017 at 11.00am.

By order of the Board



**Murat Özgül**  
Chief Executive Officer

## Statement of Directors responsibilities

The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the Group Financial Statements in accordance with applicable law and regulations.

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

In preparing the Financial Statements, IAS 1 requires that 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 Directors are 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.

They are 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.

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

### **Directors' responsibility statement**

We confirm that to the best of our knowledge:

- the Audited Financial Statements, prepared in accordance with IFRS 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 taken as a whole;
- the Directors' Report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Audited Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board



**Murat Özgül**  
Chief Executive Officer

## FINANCIAL STATEMENTS

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GENEL ENERGY PLC

#### REPORT ON THE GROUP FINANCIAL STATEMENTS

##### Our opinion

In our opinion, Genel Energy plc's group financial statements (the 'financial statements'):

- give a true and fair view of the state of the group's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

##### What we have audited

The financial statements, included within the Annual Report, comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

##### Overview of our audit

Materiality	Areas of focus	Change in level of risk
<b>\$22m</b>	- Revenue recognition	- No change
(2015: \$35m)	- Recoverability and balance sheet classification of amounts receivable from the Kurdistan Regional Government ('KRG')	- No change
Based on 1% of total assets.	- Impairment reviews of oil producing assets	- No change
	- Impairment review of gas evaluation and other exploration assets	- Increase

##### Highlights of what we reported to the audit committee

- There are significant judgements and estimates in relation to revenue recognition and the recoverable values of the producing assets, KRG receivable and Gas evaluation assets.
- The judgements and estimates are within reasonable ranges to the extent that there is third party data to support an assumption, and otherwise agree to underlying plans, budgets and forecasts.
- The most significant judgement taken relates to the Gas evaluation assets and the level of project risk assumed in the carrying value.

##### Our audit approach

###### Context

The context for our audit is set by Genel's major activities in 2016 together with the steadily improved world oil prices. The group's cash flow generating assets continue to be its interests in the producing oil fields in the Kurdistan Region of Iraq ('KRI'), Tawke and Taq Taq. In 2016, the latter has seen a decline in production below initial expectations and at the year-end there was a further downgrade in expected reserves following assessments by management's experts. Regular payments have been received from the KRG in respect of export sales from these fields through most of the year in line with the proxy mechanisms announced in February 2016, which included an additional allowance for recovery of the outstanding receivable related to prior period production. Other notable events have included: the buy back of \$55.4 million of bonds; the agreed sale of the Chia Surkh licence following assessment of drilling results in the year; and, in early 2017, alongside completing signature of the Gas Lifting Agreement and Production Sharing Contracts for the Miran and Bina Bawi gas fields, management have reassessed the likely development plan for these fields.

**Materiality**

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall group materiality</b> <b>\$22m</b>	\$22 million (2015: \$35 million) is based on 1% of total assets, consistent with FY15.
<b>Rationale for the benchmark applied</b> <b>1% of total assets</b>	<p>We considered whether this measure continues to be appropriate and in concluding that it is, we considered the activities of the group and also materiality levels used by auditors of other similar upstream oil and gas companies. As a significant portion of the group's net assets is represented by exploration assets, we believe an asset measure is the most relevant.</p> <p>Consistent with prior years, we used a lower specific materiality for certain income statement financial statement line items. In 2016, we used 5% of EBITDAX (\$7 million) (2015: \$5 million) for revenue, production costs, and general and administrative costs.</p>
<b>Reporting level</b> <b>\$1.1m</b>	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$1.1 million (2015: \$1.75 million) being 5% of our overall materiality. We also report misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**How we tailored the audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

In prior years the group's business segments were based on geography, however with operations now almost solely based in the Kurdistan Region of Iraq, the group is now structured along three business segments being the type of assets it operates: Oil producing assets, Gas evaluation assets and Exploration assets. The group financial statements are a consolidation comprising the group's operating businesses in these segments as well as centralised functions.

Because of their size, the majority of our audit work was performed on two major segments, being (a) the main trading entity for the Kurdistan oil producing assets, Taq Taq and Tawke and (b) the entity that holds the evaluated gas assets, Miran and Bina Bawi.

We also performed specific procedures on certain financial statement line items elsewhere in the group including: exploration expenses related to the Moroccan and Somaliland exploration licences, operating expenses and related payables, cash and cash equivalents and borrowings.

PwC UK performed all of the audit work, both in the UK and at the group's operations in Ankara.

**The scope of our audit and our areas of focus**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
<p><b>Revenue recognition (Note 1)</b></p> <p>All of the group's revenues arise from production on its two oil fields in Kurdistan, Taq Taq and Tawke. The Production Sharing Contracts ('PSCs') in respect of these fields, to which the group is party, are complex in nature and could be subject to alternative interpretation.</p> <p>The group recognises revenue in accordance with their interpretation of the terms of the PSCs, and on the assumption that it is probable that economic benefits will flow to the entity. This is based on continued payments from the KRG during 2016, together with public statements by the KRG of their intention to pay all amounts that are due.</p> <p>Invoices to the KRG are based on a proxy mechanism for the PSCs announced by the KRG in February 2016. As a result, the amounts invoiced by the group and revenue calculated in accordance with the PSC can differ, and this is taken into account when assessing the revenue recognised.</p> <p>Management maintain a revenue model which is developed from the terms in the PSCs, and to which the main inputs and assumptions are production volumes, oil price and netback adjustments, and capital expenditure (which is recovered at cost in accordance with the PSC). There is an inherent risk that these inputs, assumptions and estimates are inaccurate and that the interpretations and calculations made are not appropriate.</p> <p>The complexity of the PSCs and alternative interpretations could result in misstatements in a number of financial statement line items including revenue, cost of sales, property plant and equipment, trade and other receivables, trade and other payables and income taxes.</p> <p><b>Change in level of risk:</b> No change</p>	<p>We designed our procedures to test the revenue calculated by management's PSC model by:</p> <ul style="list-style-type: none"> <li>• agreeing each element of entitlement included in revenue back to the relevant PSC, and</li> <li>• testing the mathematical accuracy of the model.</li> </ul> <p>We tested the key inputs as follows:</p> <ul style="list-style-type: none"> <li>• Volume of oil sold - for a sample of domestic and export sales, we agreed the internal daily production and loading reports to third party signed pipeline volume reports and the third party signed loading documents without exception.</li> <li>• Pricing of oil sold -for sales we agreed the prices to the Brent crude oil prices made available by third parties and to industry and market data available. Our testing of pricing did not identify any misstatements.</li> <li>• Netback adjustments - we compared the netback adjustment estimates to the request for payment statements sent out to the KRG on a monthly basis in 2016. This is considered the best evidence currently available in respect of these adjustments.</li> <li>• Capital expenditure - for a sample of transactions, we agreed expenditure to third party evidence without exception.</li> <li>• Capacity building payments - we recalculated the amounts owed under the PSC and compared this to managements calculation and actual payments made.</li> </ul> <p>We reconciled the financial statements to the revenue calculated in the PSC models. We did not identify any material exceptions.</p> <p>The differences between amounts owed under the PSC and amounts received in accordance with the proxy mechanism are discounted based on when management expects to receive this revenue. We recalculated the discount applied and compared this to management's calculations, noting no material differences.</p> <p>We reviewed the disclosure in note 1, significant estimates and judgements. We agreed with management that the netback adjustments to pricing is a significant judgement that leads to an estimate in the amount of revenue recorded.</p>

## Area of focus

**Recoverability and balance sheet classification of amounts receivable from the KRG (Note 10)**

The amounts receivable from the KRG reduced from \$423m at 31 December 2015 to \$264m at 31 December 2016 largely as a result of the receipt of cash against the opening receivable being offset by additions to the balance, and an impairment recorded of \$180.3m. The recoverable value of trade receivables is a significant estimate with key judgements in relation to the amounts and timing of recovery.

A detailed description with regards to how the group is recovering the amounts outstanding from the KRG, together with the judgements made in assessing the recoverable amount is set out on pages 86 and 87 of the financial statements.

**Change in level of risk:** No change

**Impairment reviews of oil producing assets (Note 9)**

In 2016, the performance of the group's Taq Taq producing asset was below expectation levels, which is an indicator of impairment. In addition the group's market capitalisation continues to be below consolidated net assets which is also an indicator of impairment.

Management performed an impairment assessment of each of its producing assets in accordance with the requirements of IAS 36 - *Impairment of assets* ('IAS 36') as at 31 December 2016.

Both producing assets, Taq Taq and Tawke, were impaired and a charge of \$195.6m (2015: \$1,038m) was recorded. This reflects the further reduction in reserves and amended production outlook for Taq Taq, together with the impact of an increase in the discount rate across both fields. Further information can be found in note 9.

**Change in level of risk:** No change

## How our audit addressed the area of focus

We assessed management's review of the recoverability of the receivable and note that a number of significant assumptions were made in calculating the recoverable value of the trade receivable.

The key assumption is that the KRG will continue to pay 5% of monthly revenue towards the historical receivable until the earlier of amounts being repaid or the end of field life. We agreed this is consistent with the KRG public announcement in February 2016, and also consistent with the requests for payment issued by the group during the year as well as payments received. This is a change in assumption from 31 December 2015, when management assumed an increasing % of collection linked to increasing oil prices. We consider this change to be appropriate based on the reasons set out in note 1 on page 87 as it reflects the evidence that has become available during the year.

In order to calculate the recoverable value of the receivable the 5% assumption is applied to expected revenue from each asset over the lives of those assets. This is based on production profiles, future oil price assumptions and netback adjustments which we agreed to the inputs used in the impairment models for both Taq Taq and Tawke. For which we set out our testing below.

As explained in note 10, within the calculation management have, in accordance with accounting standards, discounted future receipts using the effective interest rate for the period in which the related revenue was recognised. We compared these rates to the yield on Iraqi bonds adjusted for maturity and credit risk and consider the rates used appropriate.

We also assessed the classification of the trade receivable between current and non-current and checked that the current portion represents amounts expected to be received in 2017.

As there is uncertainty in the pace of recovery of the KRG receivable we agreed that the judgements made by management are significant and that appropriate disclosure has been made in note 1 and note 10 to the financial statements including appropriate sensitivities.

We considered management's evaluation of its producing assets in Kurdistan and agree that impairment triggers exist.

The recoverable amounts for Taq Taq and Tawke have been assessed on a fair value less costs of disposal (FVLCD) basis using a discounted cash flow. We tested the mathematical accuracy of the impairment models provided by management, and checked that the valuation approach was in accordance with the requirements of IAS 36.

We tested the key inputs and assumptions used in the models as follows:

- Reserves and production profile - for both producing assets, we compared these to the Competent Person's Report (CPR) issued in 2017. We discussed the key assumptions with management, read minutes of the Reserves Committee and inspected approved budgets. There were no issues arising from this work.
- Expenditure - the capital and operating expenditure for Taq Taq has been compared to the CPR. For Tawke, we compared the forecasts to the operator's estimates used to prepare the CPR, without exception.
- Oil prices - we compared short and long term price assumptions used by management to the consensus prices from a collection of 14 brokers and 3 independent consultants. We found that management's assumptions up to 2019 are close to average, but in the medium to long term move towards the higher end of the brokers' range. Netback adjustments to the oil prices were agreed to those used in the current PSC model which has been discussed above.
- Discount rate - Our valuations experts independently calculated an appropriate post-tax discount rate range which is consistent with management's assumption of 15%. We identified an error in the application of discounting in both the oil producing and gas evaluation asset models, which was adjusted by management.

We assessed the sufficiency of the impairment charge and the extent of disclosure made in note 9 and consider these to be appropriate.

## Area of focus

## How our audit addressed the area of focus

**Impairment review of gas evaluation and other exploration assets (Note 8)**

**Evaluated gas assets** - The Production Sharing Contracts ('PSC's) and Gas Lifting Agreements ('GLA's) for both Miran and Bina Bawi gas fields were finalised by the end of 2016 and approved by the KRG in 2017.

This was accompanied by a reassessment of the likely field development plan, which together with the ongoing gap between the group's market capitalisation and the value of consolidated net assets, required an assessment for impairment indicators in accordance with IFRS 6 - *Exploration for and evaluation of mineral resources* ('IFRS 6') as at the year end.

An impairment charge of \$552m was recorded in accordance with IAS 36.

**Exploration assets** - Management also assessed each of its exploration assets for impairment indicators in accordance with the requirements of IFRS 6.

The evaluation of results from drilling at the Chia Surkh exploration asset resulted in an agreement to transfer the group's interest to the operator, Petoil Inc and an impairment of \$198m was recorded.

In the current year, there have been no impairment indicators noted under IFRS 6 in respect of exploration interests in Somaliland and Tawke Peshkabir.

**Change in level of risk:** Increased year on year due to the impairment indicators and complexity of impairment calculations undertaken by management.

**Evaluated gas assets** - For the Miran and Bina Bawi gas assets we tested the mathematical accuracy of the model provided by management and assessed the compliance of the model with the requirements of IAS 36. As with the producing assets, the impairment model assesses recoverable value based on FVLCD based on a discounted cash flow.

We tested the key inputs as follows:

- Recoverable oil and gas resources, production and expenditure profile - we compared these to the estimates prepared by qualified reservoir engineers and assessed the relevant persons' qualifications, experience and independence in this context. Where possible we agreed management's assumptions to the 2013 CPR which is the latest available external data.
- Oil prices - the assumptions are consistent with those used in the Taq Taq and Tawke models, which we assessed as set out above.
- Gas price - we agreed the fixed price to the GLA without exception.
- Timing of first oil / gas - there is a considerable amount of uncertainty on timing of the final investment decision, sale of first oil and first gas and identifying a farm-in partner and these factors are inter-dependant. Based on our enquiries and sensitivity analysis we consider management's estimates on timing of these to be within a reasonable range.

We independently assessed the discount rate for the project and compared this with the discount rate applied by management to the cash flows in the model, which was higher. This allowed us to assess the level of project risk implicit in management's calculated net present value. We concluded that the level of project risk implied was such that the resulting net present value was at the higher end of an acceptable range for this type of asset and its stage of development.

We assessed the sufficiency of the impairment charge and the extent of disclosure made including relevant sensitivities in note 8 to the financial statements. We considered the impairment charges and the disclosure provided to be appropriate.

**Exploration assets** - We assessed management's evaluation of each of the exploration assets in both the Africa and Kurdistan portfolios and corroborated this evaluation by reading minutes of meetings, making enquiries of management and reading information in the public domain such as press releases from joint operation partners.

Based on our assessment, we agreed with management on carrying the value of the Somaliland and Tawke Peshkabir exploration assets and the write off of all expenditure incurred on Chia Surkh as at 31 December 2016.

**Going concern**

The directors have voluntarily complied with Listing Rule 9.8.6(R)(3)(a) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 84, note 1, required for companies with a premium listing on the London Stock Exchange.

The directors have requested that we review the statement on going concern as if the company were a premium listed company. We have nothing to report having performed our review.

The directors have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the 'Code') as if the company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

**OTHER REQUIRED REPORTING****Consistency of other information**ISAs (UK & Ireland) reporting

As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- information in the Annual Report is:
  - materially inconsistent with the information in the audited financial statements; or
  - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit;
  - or otherwise misleading.
- the statement given by the directors on page 44, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's position and performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit.
- the section of the Annual Report on page 44, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report.

**The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group**

As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- the directors' confirmation on page 29 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- the directors' explanation on page 32 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing material to add or to draw attention to.

**Adequacy of information and explanations received**

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

**Other voluntary reporting****Opinions on additional disclosures**Strategic Report and Directors' Report and Governance

In our opinion, the information given in the Strategic Report and the 'Directors' Report and Governance' for the financial year for which the financial statements are prepared is consistent with the financial statements.

Directors' Remuneration Report

The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the UK Companies Act 2006. The directors have requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the parent company were a UK Registered listed company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.



**Corporate governance statement**

The company voluntarily prepares a corporate governance statement that includes the information with respect to internal control and risk management systems and about share capital structures required by the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority. The directors have requested that we report on the consistency of that information with the financial statements.

In our opinion the information given in the Corporate Governance Statement set out page 42 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

**Matter on which we have agreed to report by exception****Corporate governance statement**

The company's voluntary Corporate Governance Statement includes details of the company's compliance with the UK Corporate Governance Code. The directors have requested that we review the parts of the Corporate Governance Statement relating to the company's compliance with the ten further provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the company were a premium listed company. We have nothing to report having performed our review.

**Responsibilities for the financial statements and the audit****Our responsibilities and those of the directors**

As explained more fully in the Statement of Director's Responsibilities set out on page 72, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**What an audit of financial statements involves**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.


**Michael Timar**

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Recognized Auditors  
London, United Kingdom  
29 March 2017

- (a) The maintenance and integrity of the Genel Energy plc website is the responsibility of the 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 financial statements since they were initially presented on the website.
- (b) Legislation in the Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 December 2016

	Notes	2016 \$m	2015 \$m
<b>Revenue</b>		<b>190.7</b>	343.9
Production costs	3	<b>(35.1)</b>	(36.3)
Depreciation of oil and gas assets	3	<b>(127.8)</b>	(172.0)
<b>Gross profit</b>		<b>27.8</b>	135.6
Impairment of exploration assets	3	<b>(779.0)</b>	(144.1)
Exploration expense	3	<b>(36.1)</b>	(28.9)
Impairment of property, plant and equipment	3	<b>(218.3)</b>	(1,038.0)
Impairment of receivables	3	<b>(191.3)</b>	-
General and administrative costs	3	<b>(26.0)</b>	(28.7)
<b>Operating loss</b>		<b>(1,222.9)</b>	(1,104.1)
Operating loss is comprised of:			
EBITDAX		<b>130.7</b>	279.4
Depreciation and amortisation	3	<b>(128.9)</b>	(172.5)
Impairment of exploration assets	3	<b>(779.0)</b>	(144.1)
Exploration expense	3	<b>(36.1)</b>	(28.9)
Impairment of property, plant and equipment	3	<b>(218.3)</b>	(1,038.0)
Impairment of receivables	3	<b>(191.3)</b>	-
Gain arising from bond buy-back	15	<b>19.2</b>	-
Finance income	5	<b>16.2</b>	1.3
Finance expense	5	<b>(61.0)</b>	(57.8)
<b>Loss before income tax</b>		<b>(1,248.5)</b>	(1,160.6)
Income tax expense	6	<b>(0.4)</b>	(1.0)
<b>Total comprehensive expense</b>		<b>(1,248.9)</b>	(1,161.6)
<b>Attributable to:</b>			
Shareholders' equity		<b>(1,248.9)</b>	(1,161.6)
		<b>(1,248.9)</b>	(1,161.6)
<b>Loss per ordinary share</b>		<b>¢</b>	<b>¢</b>
Basic	7	<b>(448.60)</b>	(417.30)
Diluted	7	<b>(448.60)</b>	(417.30)

**CONSOLIDATED BALANCE SHEET**

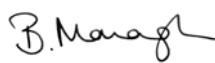
At 31 December 2016

	Notes	2016 \$m	2015 \$m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	8	916.7	1,672.7
Property, plant and equipment	9	622.0	929.4
Trade and other receivables	10	172.6	365.3
		1,711.3	2,967.4
<b>Current assets</b>			
Trade and other receivables	10	94.6	79.0
Restricted cash	11	19.5	-
Cash and cash equivalents	11	407.0	455.3
		521.1	534.3
<b>Total assets</b>		<b>2,232.4</b>	<b>3,501.7</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Trade and other payables	12	(87.7)	(78.0)
Deferred income	13	(39.2)	(46.0)
Provisions	14	(23.0)	(25.2)
Borrowings	15	(648.2)	(694.1)
		(798.1)	(843.3)
<b>Current liabilities</b>			
Trade and other payables	12	(95.3)	(80.6)
Deferred income	13	(5.6)	(3.0)
		(100.9)	(83.6)
<b>Total liabilities</b>		<b>(899.0)</b>	<b>(926.9)</b>
<b>Net assets</b>		<b>1,333.4</b>	<b>2,574.8</b>
<b>Owners of the parent</b>			
Share capital	17	43.8	43.8
Share premium account		4,074.2	4,074.2
Retained earnings		(2,784.6)	(1,543.2)
<b>Total equity</b>		<b>1,333.4</b>	<b>2,574.8</b>

These consolidated financial statements on pages 80 to 105 were authorised for issue by the Board of Directors on 29 March 2017 and were signed on its behalf by:



Murat Özgül  
Chief Executive Officer



Ben Monaghan  
Chief Financial Officer

## FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 2016

	Share capital \$m	Share premium \$m	Retained earnings \$m	Total shareholders' equity \$m	NCI \$m	Total equity \$m
At 1 January 2015	43.8	4,074.2	(392.3)	3,725.7	7.8	3,733.5
Total comprehensive expense	-	-	(1,161.6)	(1,161.6)	-	(1,161.6)
Share-based payments	-	-	2.9	2.9	-	2.9
Release of NCI <sup>1</sup>	-	-	7.8	7.8	(7.8)	-
At 31 December 2015 and 1 January 2016	43.8	4,074.2	(1,543.2)	2,574.8	-	2,574.8
Total comprehensive expense	-	-	(1,248.9)	(1,248.9)	-	(1,248.9)
Share-based payments	-	-	7.5	7.5	-	7.5
<b>At 31 December 2016</b>	<b>43.8</b>	<b>4,074.2</b>	<b>(2,784.6)</b>	<b>1,333.4</b>	<b>-</b>	<b>1,333.4</b>

1. The non-controlling interest of \$7.8m was released following the expiry of the C shares of Genel Energy Holding Company Limited.

**CONSOLIDATED CASH FLOW STATEMENT**

For the period ended 31 December 2016

	Notes	2016 \$m	2015 \$m
<b>Cash flows from operating activities</b>			
Loss for the period		(1,248.9)	(1,161.6)
Adjustments for:			
Gain on bond buy-back	15	(19.2)	-
Finance income	5	(16.2)	(1.3)
Finance expense	5	61.0	57.8
Taxation	6	0.4	1.0
Depreciation and amortisation	3	128.9	172.5
Exploration expense		36.1	10.7
Impairment of exploration assets	3	779.0	144.1
Impairment of property, plant and equipment	3	218.3	1,038.0
Impairment of receivables	3	191.3	-
Other non-cash items		7.5	1.1
Changes in working capital:			
Proceeds against overdue receivable		53.9	-
Trade and other receivables		(49.6)	(190.2)
Trade and other payables and provisions		(13.2)	(0.9)
<b>Cash generated from operations</b>		<b>129.3</b>	<b>71.2</b>
Interest received		2.0	1.0
Taxation paid		(0.3)	(1.0)
<b>Net cash generated from operating activities</b>		<b>131.0</b>	<b>71.2</b>
<b>Cash flows from investing activities</b>			
Purchase of intangible assets		(20.7)	(130.2)
Purchase of property, plant and equipment		(51.2)	(120.2)
Restricted cash	11	(19.5)	-
Acquisition of intangibles		-	(3.9)
<b>Net cash used in investing activities</b>		<b>(91.4)</b>	<b>(254.3)</b>
<b>Cash flows from financing activities</b>			
Repurchase of Company bonds	15	(35.4)	-
Net proceeds from bond issuance		-	196.2
Interest paid		(52.0)	(46.1)
<b>Net cash generated from/(used in) financing activities</b>		<b>(87.4)</b>	<b>150.1</b>
<b>Net decrease in cash and cash equivalents</b>			
Foreign exchange loss		(0.5)	(0.8)
Cash and cash equivalents at 1st January	11	455.3	489.1
<b>Cash and cash equivalents at 31 December</b>	<b>11</b>	<b>407.0</b>	<b>455.3</b>

## FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### **1. Summary of significant accounting policies**

##### **1.1 Basis of preparation**

The consolidated financial statements of Genel Energy Plc ('the Company') have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpretations issued by the IFRS Interpretations Committee (together 'IFRS') and are prepared under the historical cost convention except as where stated and comply with Jersey company law. The significant accounting policies are set out below and have been consistently applied throughout the period.

Items included in the financial information of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars to the nearest million (\$m) rounded to one decimal place, except where otherwise indicated.

For explanation of the key judgements and estimates made by the Company in applying the Company's accounting policies, refer to significant accounting estimates and judgement on pages 85 and 87.

The Company provides non-GAAP measures to provide greater understanding of its financial performance and financial position. EBITDAX is presented in order for the users of the accounts to understand the underlying cash profitability of the Company, which excludes the impact of costs attributable to exploration activity, which tend to be one-off in nature, and the non-cash costs relating to depreciation, amortisation and impairments. Free cash flow is presented in order to show the free cash flow generated that is available for the Board to use to finance or invest in the business. Net debt is reported in order for users of the accounts to understand how much debt remains unpaid if the Company paid its debt obligations from its available cash. There have been no changes in related parties since year-end and there are not significant seasonal or cyclical variations in the Company's total revenues.

##### **Going concern**

At the time of approving the consolidated financial statements, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the 12 months from the balance sheet date and therefore its consolidated financial statements have been prepared on a going concern basis.

##### **Foreign currency**

Foreign currency transactions are translated into the functional currency of the relevant entity using the exchange rates prevailing at the dates of the transactions or at the balance sheet date where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income within finance income or finance costs.

##### **Consolidation**

The consolidated financial statements consolidate the Company and its subsidiaries. These accounting policies have been adopted by all companies.

##### **Subsidiaries**

Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. Transactions, balances and unrealised gains on transactions between companies are eliminated.

##### **Joint arrangements**

Arrangements under which the Company has contractually agreed to share control with another party, or parties, are joint ventures where the parties have rights to the net assets of the arrangement, or joint operations where the parties have rights to the assets and obligations for the liabilities relating to the arrangement. Investments in entities over which the Company has the right to exercise significant influence but neither control nor joint control are classified as associates.

The Company recognises its assets and liabilities relating to its interests in joint operations, including its share of assets held jointly and liabilities incurred jointly with other partners.

##### **Acquisitions**

The Company uses the acquisition method of accounting to account for business combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The Company recognises any non-controlling interest in the acquiree at fair value at time of recognition or at the non-controlling interest's proportionate share of net assets. Acquisition-related costs are expensed as incurred.

### Farm-in/farm-out

Farm-out transactions relate to the relinquishment of an interest in oil and gas assets in return for services rendered by a third party or where a third party agrees to pay a portion of the Company's share of the development costs (cost carry). Farm-in transactions relate to the acquisition by the Company of an interest in oil and gas assets in return for services rendered or cost-carry provided by the Company.

Farm-in/farm-out transactions undertaken in the development or production phase of an oil and gas asset are accounted for as an acquisition or disposal of oil and gas assets. The consideration given is measured as the fair value of the services rendered or cost-carry provided and any gain or loss arising on the farm-in/farm-out is recognised in the statement of comprehensive income. A profit is recognised for any consideration received in the form of cash to the extent that the cash receipt exceeds the carrying value of the associated asset.

Farm-in/farm-out transactions undertaken in the exploration phase of an oil and gas asset are accounted for on a no gain/no loss basis due to inherent uncertainties in the exploration phase and associated difficulties in determining fair values reliably prior to the determination of commercially recoverable proved reserves. The resulting exploration and evaluation asset is then assessed for impairment indicators under IFRS6.

### 1.2 Significant accounting judgements, estimates and assumptions

The preparation of the financial statements in accordance with IFRS requires the Company to make judgements and assumptions that affect the reported results, assets and liabilities. Where judgements and estimates are made, there is a risk that the actual outcome could differ from the judgement or estimate made. The Company has assessed the following as being areas where changes in judgements, estimates or assumptions could have a significant impact on the financial statements.

#### Estimation of future oil price

The estimation of future oil price has a significant impact throughout the financial statements, primarily in relation to the estimation of the recoverable value of property, plant and equipment, intangible assets and trade receivables. It is also relevant to the assessment of going concern and the viability statement.

The Company's forecast of average Brent oil price for future years is based on a range of publicly available market estimates and is summarised in the table below, with the 2021 price then inflated at 2% per annum.

\$/bbl	2017	2018	2019	2020	2021
<b>Forecast</b>	<b>55</b>	<b>60</b>	<b>68</b>	<b>72</b>	<b>76</b>
<i>Prior year forecast</i>	45	55	65	75	77

#### Estimation of the hydrocarbon reserves and resources and associated production profiles

Estimates of hydrocarbon reserves and resources are inherently imprecise, require the application of judgement and are subject to future revision. The Company's estimation of the quantum of oil and gas reserves and resources and the timing of its production and monetisation impact the Company's financial statements in a number of ways, including: testing recoverable values for impairment; the calculation of depreciation and amortisation; assessing the cost and likely timing of decommissioning activity and associated costs; and the carrying value of trade receivables. This estimation also impacts the assessment of going concern and the viability statement.

Proven and probable reserves are estimates of the amount of hydrocarbons that can be economically extracted from the Company's assets. The Company estimates its reserves using standard recognised evaluation techniques. Proven and probable reserves ('2P' - generally accepted to have circa 50% probability) are used for the assessment of the Company's assets classified as property, plant and equipment and therefore form the basis of testing for depreciation and testing for impairment. Under PRMS definition, 2P reserves only refers to projects that are currently sanctioned or are already in development.

Hydrocarbons that are not assessed as 2P are considered to be resources and are classified as exploration and evaluation assets. Estimates of resources for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and being depleted.

As a field goes into production, the amount of proved reserves will be subject to future revision once additional information becomes available through, for example, the drilling of additional wells or the observation of long-term reservoir performance under producing conditions. As those fields are further developed, new information may lead to revisions.

Assessment of reserves and resources are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves.

#### Change in accounting estimate

The Company has updated its estimated reserves and resources with the accounting impact summarised below under estimation of oil and gas asset values and estimation of recoverable value of trade receivables.

#### Estimation of oil and gas asset values

Estimation of the asset value of oil and gas assets is calculated from a number of inputs that require varying degrees of estimation. Principally oil and gas assets are valued by estimating the future cash flows based on a combination of reserves and resources, costs of appraisal, development and production, production profile and future sales price and discounting those cash flows at an appropriate discount rate.

Future costs of appraisal, development and production are estimated taking into account the level of development required to produce those reserves and are based on past costs, experience and data from similar assets in the region, future petroleum prices and the planned development of the asset. However, actual costs may be different from those estimated.

Discount rate is assessed by the Company using various inputs from market data, external advisers and internal calculations. Discount rates used for impairment testing are disclosed in the relevant note.

Change in accounting estimate - Gas assets (intangible assets)

The gas assets have been tested for impairment as a result of a revision to the assumed date of project sanction and phasing together with updated cost estimates. The combination of these factors has resulted in both a reduction and delay in the timing of the cash flows associated with the asset and a consequent reduction in its carrying value. In addition, the estimate of the discount rate used for impairment testing of gas assets has increased from 12.5% to 15%. This increase reflects investor perception of a sustained increase in both Turkish and KRI risk given the continued political and financial uncertainty in both countries. The revised estimates and assumptions have resulted in an impairment expense of \$581.3 million. Sensitivities to oil price and discount rate are provided in note 8.

Change in accounting estimate - Oil assets (property, plant and equipment)

In early 2017, the Company updated its estimation of the reserves and production profiles of Taq Taq and Tawke and commissioned an update of the Competent Persons Report for Taq Taq and of the technical assessment for Tawke. This process has resulted in an amendment to the estimated oil reserves at Taq Taq, where estimated 2P oil reserves were reduced. These reserves assessments were used, together with updated estimates for the other components of the assessment, to perform impairment testing on both assets. In addition, the discount rate used for impairment testing of oil assets has increased from 12.5% to 15%. This increase reflects market perception of a sustained increase in KRI risk given continued political and financial uncertainty. The calculated present values of the assets have resulted in an impairment expense of \$218.3 million. Sensitivities to oil price, discount rate and production are provided in note 9.

Estimation of netback price and entitlement used to calculate reported revenue, trade receivables and forecast future cash flows

Netback price is used to value the Company's revenue, trade receivables and its forecast cash flows used for impairment testing and viability. The Company does not have direct visibility on the components of the netback price because sales are managed by the KRG, but invoices are currently raised for payments on account using a netback price that has been temporarily agreed with the KRG for the purpose of receiving interim payments. For revenue recognition, the Company has estimated the netback price using the methodology agreed with the KRG for receiving these payments on account.

In line with its IOC payment process that began in September 2015 and was given structure by its announcement on 1 February 2016, the KRG has commenced an audit of cost, production and revenue, including detailed analysis of the components of netback. The Company expects to then reach agreement with the KRG on the appropriate netback adjustment to use in the calculation of the Company's entitlement under the PSC and the resulting trade receivable balance. The audit and reconciliation process began this year, but is not complete and may take some time and conversations with the KRG are ongoing.

The outputs of the reconciliation and settlement process may result in changes to the estimates made by the Company. A \$1/bbl difference in netback price would impact current year revenue by circa \$4 million and reported trade receivables by circa \$4 million.

Estimation of the recoverable value of trade receivables

Trade receivables of \$253.5 million relates to money owed by the KRG principally for export sales that were made after mid-2014. The KRG has stated publicly on a consistent basis that it intends to pay full entitlement following a reconciliation process.

When assessing the nominal value of the receivable the Company has taken into account the latest information on the entitlement it is owed under the PSC for oil that has been sold but not yet paid for. In addition, a calculation has been made for the interest that has accrued on the balance under the terms of the PSC at LIBOR plus 2%. The Company has excluded consideration of any value for export sales that were made before mid-2014 (including exports marketed by the State Oil Marketing Organisation ('SOMO') where payment is outstanding). The total unrecognised receivable balance relating to these sales excluding interest is estimated at circa \$300m.

The Company expects that ultimately a reconciliation calculating full entitlement under the terms of the PSC will be agreed with the KRG - this reconciliation will form the basis for calculating amounts owed and for agreeing a mechanism to settle the balance.

Subject to the reconciliation process that has been started by the KRG, the Company is fully confident of its contractual right to the nominal value of the receivable. The Company expectation is that it will be settled with cash, although it is possible that the debt could be settled in a number of ways such as with assets or through an improvement in future contractual terms. The success and pace of the recovery of the balance depends on some or all of a number of factors, including: the financial environment in the KRI and the financial budget of the KRG; oil price; volumes of production from the KRI as a whole as well as from the Company's fields; and ongoing negotiations with regard to various sources of potential finance for the KRI.

On 1 February 2016, the KRG announced an interim mechanism to make monthly payments to the IOCs. The mechanism has two components: the first component is a proxy for monthly entitlement due under the terms of the PSC; the second component is intended to contribute towards repayment of the receivable. The contribution towards the receivable was set at and currently remains at 5% of field revenue. The KRG stated that it intends to increase this percentage as the oil price improves.



Previously when assessing the recoverable value of the receivable, the Company assessed that the percentage of field revenue paid towards the receivable would be increased to 10% from July 2017 and to 20% from January 2018. Whilst the KRG made the current 5% payments relatively consistently over the current year and at half year was broadly up to date, by year-end payments were two months in arrears against the agreed schedule. In addition, contrary to the KRG's stated intention to increase payments, there has been no increase in payments despite oil price increasing from \$30/bbl in February 2016 to over \$50/bbl. Although the Company expects either an increase in payments, or an alternative structure to be agreed to accelerate the recovery of the receivable, the Company has assessed that there is not sufficient evidence to offset existing contrary evidence and support the use of these expectations as assumptions for impairment testing. Consequently the Company has used the current basis of payment of 5% of field revenue for the purposes of assessing impairment and does not currently take into account the potential for increased payments or alternative methods of settling the balance.

The carrying value of trade receivables is compared to the present value of the forecast monthly contributions using the effective interest rate for the period in which the revenue was recognised. For the period over which the receivable was recognised, the Company has assessed the effective interest rate to be between 8% and 13% using an adjusted prevailing Iraqi government 2028 bond as a proxy, resulting in a blended rate of 8.3%.

#### Change in accounting estimate

As explained above, for the purposes of impairment testing the Company has assumed the percentage of field revenue paid towards the receivable is fixed at the current mechanism of 5%. When combined with the updated production, reserves and oil price outlook this resulted in an impairment of \$191.3 million.

#### Business combinations

The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. The Company makes judgements and estimates in relation to the fair value allocation of the purchase price.

The fair value exercise is performed at the date of acquisition. Owing to the nature of fair value assessments in the oil and gas industry, the purchase price allocation exercise and acquisition-date fair value determinations require subjective judgements based on a wide range of complex variables at a point in time. The Company uses all available information to make the fair value determinations.

In determining fair value for acquisitions, the Company utilises valuation methodologies including discounted cash flow analysis. The assumptions made in performing these valuations include assumptions as to discount rates, foreign exchange rates, commodity prices, the timing of development, capital costs, and future operating costs. Any significant change in key assumptions may cause the acquisition accounting to be revised.

### 1.3 Accounting policies

#### Revenue

Revenue for petroleum sales is recognised when the significant risks and rewards of ownership are deemed to have passed to the customer, it can be measured reliably and it is assessed as probable that economic benefit will flow to the Company. For exports this is when the oil enters the export pipe, for domestic sales this is when oil is collected by truck by the customer.

Revenue is recognised at fair value. The fair value is comprised of entitlement due under the terms of the PSC and royalty income. Entitlement has two components: cost oil, which is the mechanism by which the Company recovers its costs incurred on an asset, and profit oil, which is the mechanism through which profits are shared between the Company, its partners and the KRG. The Company pays capacity building payments on profit oil, which becomes due for payment once the Company has received the relevant proceeds. Profit oil revenue is always reported net of any capacity building payments that will become due. Royalty income is earned on partner sales from the Taq Taq field and is recognised when it becomes due or, when received in advance, amortised in line with partner entitlement.

The Company's oil sales are made to the KRG and are valued at a netback price, which is calculated from the estimated realised sales price for each barrel of oil sold, less selling, transportation and handling costs and estimates to cover additional costs. A netback adjustment is used to estimate the price per barrel that is used in the calculation of entitlement and is explained further in significant accounting estimates and judgements.

Income tax arising from the Company's activities under production sharing contracts is settled by a third party at no cost and on behalf of the Company. However the Company is not able to measure the tax that has been paid on its behalf and consequently revenue is not reported gross of income tax paid.

## FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

#### Intangible assets

##### Exploration and evaluation assets

Oil and gas assets classified as exploration and evaluation assets are explained under Oil and Gas assets below.

##### Other intangible assets

Other intangible assets (predominately software) that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses. Amortisation is expensed on a straight-line basis over the estimated useful lives of the assets of between 3 and 5 years from the date that they are available for use.

#### Property, plant and equipment

The Company's oil and gas assets classified as property, plant and equipment are explained under Oil and Gas assets below.

##### Other property, plant and equipment

Other property, plant and equipment are principally the Company's leasehold improvements and other assets and are carried at cost, less any accumulated depreciation and accumulated impairment losses. Costs include purchase price and construction cost. Depreciation of these assets commences is expensed on a straight-line basis over their estimated useful lives of between 3 and 5 years from the date they are available for use.

#### Oil and gas assets

Costs incurred prior to obtaining legal rights to explore are expensed to the statement of comprehensive income.

Exploration, appraisal and development expenditure is accounted for under the successful efforts method. Under the successful efforts method only costs that relate directly to the discovery and development of specific oil and gas reserves are capitalised as exploration and evaluation assets within intangible assets. Costs of activity that do not identify oil and gas reserves are expensed.

All lease and licence acquisition costs, geological and geophysical costs and other direct costs of exploration, evaluation and development are capitalised as intangible assets or property, plant and equipment according to their nature. Intangible assets comprise costs relating to the exploration and evaluation of properties which the directors consider to be unevaluated until assessed as being 2P reserves and commercially viable. Once assessed as being 2P reserves they are tested for impairment and transferred to property, plant and equipment as development assets. Where properties are appraised to have no commercial value, the associated costs are expensed as an impairment loss in the period in which the determination is made. Development expenditure is accounted for in accordance with IAS 16 – Property, plant and equipment.

Assets are depreciated once they are available for use and are depleted on a field-by-field basis using the unit of production method. The sum of carrying value and the estimated future development costs are divided by total forecast 2P production to provide a \$/barrel unit depreciation cost. Changes to depreciation rates as a result of changes in reserve quantities and estimates of future development expenditure are reflected prospectively.

The estimated useful lives of property, plant and equipment and their residual values are reviewed on an annual basis and changes in useful lives are accounted for prospectively. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income for the relevant period.

Where exploration licences are relinquished or exited for no consideration or costs incurred are neither derisking nor adding value to the asset, the associated costs are expensed to the income statement.

#### Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The net book value of the replaced part is expensed. The costs of the day-to-day servicing and maintenance of property, plant and equipment are recognised in the statement of comprehensive income.

#### Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed to the statement of comprehensive income on a straight-line basis over the period of the lease.

#### Financial assets and liabilities

##### Classification

The Company assesses the classification of its financial assets on initial recognition as either at fair value through profit and loss, loans and receivables or available for sale. The Company assesses the classification of its financial liabilities on initial recognition at either fair value through profit and loss or amortised cost.

##### Recognition and measurement

Regular purchases and sales of financial assets are recognised at fair value on the trade-date - the date on which the Company commits to purchase or sell the asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

##### Trade and other receivables

Trade receivables are amounts due from crude oil sales, sales of gas or services performed in the ordinary course of business. If payment is expected within one year or less, trade receivables are classified as current assets otherwise they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

#### Cash and cash equivalents

In the consolidated balance sheet and consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held on call with banks, other short-term highly liquid investments and includes the Company's share of cash held in joint operations.

#### Interest-bearing borrowings

Borrowings are recognised initially at fair value, net of any discount in issuance and transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent

that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are presented as long or short-term based on the maturity of the respective borrowings in accordance with the loan or other agreement. Borrowings with maturities of less than twelve months are classified as short-term. Amounts are classified as long-term where maturity is greater than twelve months. Where no objective evidence of maturity exists, related amounts are classified as short-term.

#### Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

#### Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the Company's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material. The unwinding of any discount is recognised as finance costs in the statement of comprehensive income.

#### Decommissioning

Provision is made for the cost of decommissioning assets at the time when the obligation to decommission arises. Such provision represents the estimated discounted liability for costs which are expected to be incurred in removing production facilities and site restoration at the end of the producing life of each field. A corresponding cost is capitalised to property, plant and equipment and subsequently depreciated as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure attributable to changes in the estimates of the cash flow or the current estimate of the discount rate used are reflected as an adjustment to the provision.

#### Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

#### Impairment

##### Oil and gas assets

The carrying amounts of the Company's oil and gas assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. For value in use, the estimated future cash flows arising from the Company's future plans for the asset are discounted to their present value using a pre-tax discount rate that reflects market assessments of the time value of money and the risks specific to the asset. For fair value less costs of disposal, an estimation is made of the fair value of consideration that would be received to sell an asset less associated selling costs.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (cash generating unit).

The estimated recoverable amount is then compared to the carrying value of the asset. Where the estimated recoverable amount is materially lower than the carrying value of the asset an impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

##### Property, plant and equipment and intangible assets

Impairment testing of oil and gas assets are explained above.

When impairment indicators exist for other non-financial assets, impairment testing is performed based on the higher of value in use and fair value less costs to sell.

##### Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimate of future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised as an expense in the statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Explanation of impairment testing of trade receivables is provided under significant accounting estimates and judgements.

#### Share capital

Ordinary shares are classified as equity.

#### Employee benefits

##### Short-term benefits

Short-term employee benefit obligations are expensed to the statement of comprehensive income as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### Share-based payments

The Company operates a number of equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the statement of comprehensive income equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models, principally Monte Carlo and adjusted Black-Scholes models. The charge is recognised in the statement of comprehensive income over the vesting period of the award.

At each balance sheet date, the Company revises its estimate of the number of options that are expected to become exercisable. Any revision to the original estimates is reflected in the statement of comprehensive income with a corresponding adjustment to equity immediately to the extent it relates to past service and the remainder over the rest of the vesting period.

##### Finance income and finance costs

Finance income comprises interest income on cash invested, foreign currency gains and the unwind of discount on any assets held at amortised cost. Interest income is recognised as it accrues, using the effective interest method.

Finance expense comprises interest expense on borrowings, foreign currency losses and discount unwind on any liabilities held at amortised cost. Borrowing costs directly attributable to the acquisition of a qualifying asset as part of the cost of that asset are capitalised over the respective assets.

#### Taxation

Under the terms of the KRI PSCs, the Company is not required to pay any cash taxes although it is uncertain whether the Company is exempt from tax or whether tax has been paid on its behalf. If tax has been paid on its behalf by the government, then it is not known at what rate tax has been paid due to uncertainty in relation to the workings of any existing tax payment mechanism. It is estimated that the tax rate would be between 0% and 40%. If tax has been paid it would result in a gross up of revenue with a corresponding debit entry to taxation expense with no net impact on the income statement or on cash. In addition, it would be assessed whether any deferred tax asset or liability was required to be recognised.

#### Segmental reporting

IFRS8 requires the Company to disclose information about its business segments and the geographic areas in which it operates. It requires identification of business segments on the basis of internal reports that are regularly reviewed by the CEO, the chief operating decision maker, in order to allocate resources to the segment and assess its performance.

#### Related parties

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial or operational decisions. Parties are also related if they are subject to common control. Transactions between related parties are transfers of resources, services or obligations, regardless of whether a price is charged and are disclosed separately within the notes to the consolidated financial information.

#### New standards

Effective 1 January 2016, the Company has adopted the following amendments to standards: Annual improvements to IFRSs 2012-2014 Cycle; Amendments to IFRS 10 Consolidated Financial Statements; Amendments to IFRS 11 Joint Arrangements; Amendments to IFRS 12 Disclosure of Interests in Other Entities; Amendments to IAS 1 Presentation of Financial Statements; Amendments to IAS 16 Property, Plant and Equipment; Amendments to IAS 27 Separate Financial Statements; Amendments to IAS 28 Investments in Associates and Joint Ventures; Amendments to IAS 38 Intangible Assets. The adoption of these amendments has had no material impact on the Company's results or financial statement disclosures.

The following new standards issued by the IASB and endorsed by the EU have yet to be adopted by the Group: IFRS 9 Financial Instruments (effective 1 January 2018); IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018). The Company's review of IFRS15 and IFRS9 is underway but is not yet completed, with neither currently expected to have a material impact on the results or financial statements of the Company.

The following new accounting standards and amendments to existing standards have been issued but are not yet effective and have not yet been endorsed by the EU: IFRS 16 Leases (effective 1 January 2019); Amendments to IFRS 2 Share Based Payments (effective 1 January 2018); Amendments to IAS 7 Statement of Cash Flows (effective 1 January 2017); Amendments to IAS 12 Income Taxes (effective 1 January 2017); Clarifications to IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018). The Company is currently assessing the impact of adopting the new accounting standards noted above on its audited consolidated financial statements. The Group has not early adopted any other standard, amendment or interpretation that was issued but is not yet effective.

## 2. Segmental information

The Company has three reportable business segments: oil, gas and exploration. Capital expenditure decisions for the oil segment are considered in the context of the cash flows expected from the production and sale of crude oil. The segments have been changed from geographical to asset type in order to better reflect how the Chief Operating Decision Maker now considers the deployment of capital. The oil segment is comprised of the producing assets, Taq Taq and Tawke, which are located in the KRI and make predominantly all sales to the KRG; the gas segment is comprised of the upstream and midstream activity on Miran and Bina Bawi also in the KRI; the exploration segment is comprised of the company's exploration activity, principally located in the KRI, Somaliland and Morocco.

	Oil \$m	Gas \$m	Exploration \$m	Other \$m	Total \$m
<b>For the period ended 31 December 2016</b>					
Revenue	190.7	-	-	-	190.7
Cost of sales	(162.9)	-	-	-	(162.9)
Gross profit	27.8	-	-	-	27.8
Exploration expense	-	(0.7)	(35.4)	-	(36.1)
Impairment of exploration assets	-	(581.3)	(197.7)	-	(779.0)
Impairment of property, plant and equipment	(218.3)	-	-	-	(218.3)
Impairment of receivables	(191.3)	-	-	-	(191.3)
General and administrative costs	-	-	-	(26.0)	(26.0)
Operating loss	(381.8)	(582.0)	(233.1)	(26.0)	(1,122.9)
<i>Operating loss is comprised of:</i>					
EBITDAX	155.7	-	-	(25.0)	130.7
Depreciation	(127.9)	-	-	(1.0)	(128.9)
Exploration expense	-	(0.7)	(35.4)	-	(36.1)
Impairment of exploration assets	-	(581.3)	(197.7)	-	(779.0)
Impairment of property, plant and equipment	(218.3)	-	-	-	(218.3)
Impairment of receivables	(191.3)	-	-	-	(191.3)
Gain arising from bond buy-back	-	-	-	19.2	19.2
Finance income	14.3	-	-	1.9	16.2
Finance expense	(1.1)	(0.1)	-	(59.8)	(61.0)
Loss before tax	(368.6)	(582.1)	(233.1)	(64.7)	(1,248.5)
Capital expenditure	40.6	12.1	8.5	-	61.2
Total assets	933.1	872.5	59.7	367.1	2,232.4
Total liabilities	(93.3)	(97.9)	(47.3)	(660.5)	(899.0)

Total assets and liabilities in the other segment are predominantly cash and debt balances. 'Other' includes corporate assets, liabilities and costs, elimination of intercompany receivables and intercompany payables, which are non-segment items.

## FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

**2. Segmental information** continued

	Restated <sup>1</sup> Oil \$m	Restated <sup>1</sup> Gas \$m	Restated <sup>1</sup> Exploration \$m	Restated <sup>1</sup> Other \$m	Restated <sup>1</sup> Total \$m
For the period ended 31 December 2015					
Revenue	343.9	-	-	-	343.9
Cost of sales	(208.3)	-	-	-	(208.3)
Gross profit	135.6	-	-	-	135.6
Exploration expense	-	-	(28.9)	-	(28.9)
Impairment of exploration assets	-	-	(144.1)	-	(144.1)
Impairment of property, plant and equipment	(1,038.0)	-	-	-	(1,038.0)
General and administrative costs	(2.6)	-	-	(26.1)	(28.7)
Operating loss	(905.0)	-	(173.0)	(26.1)	(1,104.1)
Operating loss is comprised of:					
EBITDAX	305.0	-	-	(25.6)	279.4
Depreciation	(172.0)	-	-	(0.5)	(172.5)
Exploration expense	-	-	(28.9)	-	(28.9)
Impairment of exploration assets	-	-	(144.1)	-	(144.1)
Impairment of property, plant and equipment	(1,038.0)	-	-	-	(1,038.0)
Finance income	-	-	-	1.3	1.3
Finance expense	(0.9)	(0.1)	-	(56.8)	(57.8)
Profit/(Loss) before tax	(905.9)	(0.1)	(173.0)	(81.6)	(1,160.6)
Capital expenditure	109.2	18.3	29.7	-	157.2
Total assets	1,438.2	1,430.5	256.1	376.9	3,501.7
Total liabilities	(105.5)	(87.5)	(23.4)	(710.5)	(926.9)

1. The Company has changed its assessment of segments as explained above and consequently has restated its prior year segmental reporting.

Total assets and liabilities in the other segment are predominantly cash and debt balances. 'Other' includes corporate assets, liabilities and costs, elimination of intercompany receivables and intercompany payables, which are non-segment items.

All of the oil and gas segments are located in the KRI, with the exploration segment located principally in the KRI, Somaliland and Morocco.

All revenue relates to sales made to the KRG.

**3. Operating costs**

	2016 \$m	2015 \$m
Production costs	35.1	36.3
Depreciation of oil and gas assets	127.8	172.0
<b>Cost of sales</b>	<b>162.9</b>	208.3
Impairment of exploration assets	779.0	144.1
Exploration expense	36.1	28.9
<b>Exploration costs</b>	<b>815.1</b>	173.0
<b>Impairment of property, plant and equipment (note 9)</b>	<b>218.3</b>	1,038.0
<b>Impairment of receivables (note 10)</b>	<b>191.3</b>	-
Corporate cash costs	17.4	26.7
Corporate share based payment expense	7.5	1.5
Depreciation and amortisation of corporate assets	1.1	0.5
<b>General and administrative expenses</b>	<b>26.0</b>	28.7

Depreciation has reduced as a result of a lower carrying value of assets and lower production volumes, offset by an increase in estimates of future capital expenditure.

Corporate cash costs have reduced as a result of restructuring programmes. The expensing of the cost of share based payments and depreciation and amortisation of corporate assets has increased as a result of reduced capitalisation because of reduced capital activity.

Impairment of exploration assets is explained in note 8. Exploration expense relates to accruals for costs or obligations relating to licences where there is ongoing activity or that have been, or are in the process of being, relinquished.

Fees payable to the Company's auditors:

	2016 \$m	2015 \$m
Audit of consolidated financial statements and subsidiary accounts	0.4	0.4
Tax and advisory services	0.1	0.2
<b>Total fees</b>	<b>0.5</b>	0.6

## FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

#### 4. Staff costs and headcount

	2016 \$m	2015 \$m
Wages and salaries	20.9	38.1
Social security costs	1.2	2.9
Share based payments	7.5	2.7
	<b>29.6</b>	43.7

Reduction in staff costs caused by the restructuring programme have been partly offset by a normalised share based payment charge compared to the prior year, which included the reversal of previously expensed costs due to the lapsing of options. Average headcount was:

	2016	2015
Turkey	73	102
KRI	19	25
UK	21	32
Somaliland	24	24
	<b>137</b>	183

#### 5. Finance expense and income

	2016 \$m	2015 \$m
Bond interest payable	(51.0)	(50.1)
Unwind of discount on liabilities	(10.0)	(7.7)
Finance expense	<b>(61.0)</b>	(57.8)
Bank interest income	2.0	1.3
Unwind of discount on trade receivables	14.2	-
Finance income	<b>16.2</b>	1.3

Annual bond interest has increased because there has been a full year of interest payable on the \$230 million nominal value of bonds issued in March 2015, offset by the buy-back of \$55.4m nominal value of bonds in March 2016 (see note 15).

#### 6. Taxation

A taxation charge of \$0.4 million (2015: \$1.0 million) was made in the Turkish and UK services companies. All other corporation tax due has been paid on behalf of the Company by the government from the government's share of revenues and there is no tax payment required or expected to be made by the Company.

Under the terms of the KRI PSCs, the Company is not required to pay any cash taxes although it is uncertain whether the Company is exempt from tax or whether tax has been paid on its behalf. If tax has been paid on its behalf by the government, then it is not known at what rate tax has been paid due to uncertainty in relation to the workings of any existing tax payment mechanism. It is estimated that the tax rate would be between 0% and 40%. If tax has been paid it would result in a gross up of revenue with a corresponding debit entry to taxation expense with no net impact on the income statement or on cash. In addition, it would be assessed whether any deferred tax asset or liability was required to be recognised.

#### 7. Earnings per share

##### Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the period.

	2016	2015
Loss attributable to equity holders of the Company (\$m)	<b>(1,248.9)</b>	(1,161.6)
Weighted average number of ordinary shares - number <sup>1</sup>	<b>278,395,190</b>	278,351,746
Basic earnings per share - cents per share	<b>(448.60)</b>	(417.30)

1. Excluding the purchase of own shares now held as treasury shares



**Diluted**

Because the Company reported a loss in both years, diluted EPS is anti-dilutive and therefore diluted EPS is the same as basic EPS.

	2016	2015
Loss attributable to equity holders of the Company (\$m)	(1,248.9)	(1,161.6)
Weighted average number of ordinary shares - number <sup>1</sup>	278,395,190	278,351,746
Adjustment for performance shares, restricted shares and share options	1,853,008	1,896,452
Total number of shares	280,248,198	280,248,198
Diluted earnings per share - cents per share	(448.60)	(417.30)

1. Excluding the purchase of own shares now held as treasury shares.

**8. Intangible assets**

	Exploration and evaluation assets \$m	Other assets \$m	Total \$m
<b>Cost</b>			
At 1st January 2015	1,676.6	5.8	1,682.4
Acquisitions	101.0	-	101.0
Additions	48.0	0.5	48.5
Other	2.4	-	2.4
Exploration costs written off	(144.1)	-	(144.1)
Transfer to property, plant and equipment (note 9)	(12.9)	-	(12.9)
Balance at 31 December 2015 and 1st January 2016	1,671.0	6.3	1,677.3
Additions	20.9	-	20.9
Discount unwind of contingent consideration	9.8	-	9.8
Impairment of exploration assets and transfer to assets held for sale	(199.7)	-	(199.7)
Exploration costs written off	(4.6)	-	(4.6)
Balance at 31 December 2016	1,497.4	6.3	1,503.7
<b>Accumulated amortisation and impairment</b>			
At 1st January 2015	-	(3.1)	(.31)
Amortisation charge for the period	-	(1.5)	(1.5)
At 31 December 2015 and 1 January 2016	-	(4.6)	(4.6)
Amortisation charge for the period	-	(1.1)	(1.1)
Impairment of gas assets	(581.3)	-	(581.3)
At 31 December 2016	(581.3)	(5.7)	(587.0)
<b>Net book value</b>			
At 31st December 2016	916.1	0.6	916.7
At 31st December 2015	1,671.0	1.7	1,672.7

## FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

**8. Intangible assets** continued

Exploration and evaluation assets are principally: the Company's PSC interests in exploration and appraisal assets in the Kurdistan Region of Iraq, comprised of the Miran (book value: \$528.6 million, 2015: \$754.9 million) and Bina Bawi (book value: \$338.4 million, 2015: \$671.9 million) gas assets; and its interest in licences in Somaliland.

Impairment of Miran and Bina Bawi is explained in significant accounting estimates and judgements in note 1.

In addition, costs of \$197.7 million have been written off in relation to the Chia Surkh licence following the drilling of CS-12. The Company has agreed to sell the asset for an initial consideration of \$2.0 million, with further consideration of up to \$25 million contingent on the asset achieving specified production milestones - completion is conditional on KRG consent being obtained. The balance has been transferred to assets held for sale within debtors. The net book value of \$0.6 million (2015: \$1.7 million) of other assets is principally software.

Sensitivities

	Miran \$m	Bina Bawi \$m
Long term Brent price +/- \$10/bbl	69 / (74)	14 / (14)
Discount rate +/- 2.5%	141 / (106)	127 / (93)

**9. Property, plant and equipment**

	Oil and gas assets \$m	Other assets \$m	Total \$m
<b>Cost</b>			
At 1st January 2015	2,432.8	9.2	2,442.0
Additions	109.2	-	109.2
Transfer from intangible assets (see note 8)	12.9	-	12.9
Other	4.0	(0.3)	3.7
At 31 December 2015 and 1st January 2016	2,558.9	8.9	2,567.8
Addition	40.3	-	40.3
At 31 December 2016	2,599.2	8.9	2,608.1
<b>Accumulated depreciation and impairment</b>			
At 1st January 2015	(422.1)	(4.7)	(426.8)
Depreciation charge for the period	(172.0)	(1.6)	(173.6)
Impairment	(1,038.0)	-	(1,038.0)
At 31 December 2015 and 1st January 2016	(1,632.1)	(6.3)	(1,638.4)
Depreciation charge for the period	(127.8)	(1.6)	(129.4)
Impairment	(218.3)	-	(218.3)
At 31 December 2016	(1,978.2)	(7.9)	(1,986.1)
<b>Net book value</b>			
<b>At 31 December 2016</b>	621.0	1.0	622.0
At 31 December 2015	926.8	2.6	929.4

Oil and gas assets are the Company's share of oil assets at the Taq Taq and Tawke producing fields in the Kurdistan Region of Iraq. Impairment of Taq Taq and Tawke is explained in significant accounting estimates and judgements in note 1.

Sensitivities

	Taq \$m	Tawke \$m
Carrying value	140	481
Long term Brent price +/- \$10/bbl	+/- 8	+/- 24
Discount rate +/- 2.5%	+/- 9	+/- 40
Production and reserves +/- 10%	+/- 16	+/- 36

**10. Trade and other receivables**

	2016 \$m	2015 \$m
Trade receivables - non current	172.6	365.3
Trade receivables - current	80.9	57.6
Other receivables and prepayments	13.7	21.4
	267.2	444.3

Trade receivables are monies owed by the KRG for export sales made via the KRG pipeline since mid-2014. The total amount owed by the KRG is estimated to be \$515.9 million. For the significant balance that is overdue, caused by non-payment in the past, the Company has calculated its carrying value assuming the percentage of field revenue paid towards the receivable is fixed at the current mechanism of 5%. This assumption has been combined with updated production, reserves and oil price outlook, resulting in the carrying value of trade receivables being \$253.5 million. Further information is provided in the significant accounting estimates and judgements in note 1.

**Ageing of trade receivables**

Under the terms of the PSC, payment is due within 30 days. Proceeds received are allocated between current and past sales in accordance with the allocation provided by the KRG under the current payment mechanism. Proceeds allocated to the receivable are allocated on a first-in-first-out basis.

	Year of sale of amounts overdue				Total \$m
	Not due \$m	2016 \$m	2015 \$m	2014 \$m	
<b>Period ended 31 December 2016</b>					
Trade receivables at 31 December 2016	17	30	-	207	254
	Year of sale of amounts overdue				Total \$m
Year-ended 31 December 2015	Not due \$m	2015 \$m	2014 \$m	Total \$m	
Trade receivables at 31 December 2015		23	168	232	423

**Movement on trade receivables in the period**

	2016 \$m	2015 \$m
Carrying value at 1 January	422.9	232.9
Revenue excluding royalty	186.2	338.6
Net proceeds	(182.8)	(148.2)
Discount unwind	14.2	-
Impairment	(191.3)	-
Other	4.3	(0.4)
<b>Carrying value at period end</b>	<b>253.5</b>	422.9

## FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

#### 10. Trade and other receivables continued

##### Recovery of the carrying value of the receivable

Explanation of the assumptions and estimates in testing the KRG receivable for impairment are provided in note 1. The estimated recovery of the carrying value of the receivable based on the existing mechanism is summarised in the following table, which summarises the cash flows arising on payments being received based on 5% of field revenue:

	2017	2018	2019	2020+	Total
Nominal balance recovered in the period	81	36	41	159	317
Net present value of total cash flows					254

##### Sensitivities

The key sensitivity to the carrying value of trade receivables is the KRG prioritisation of payments of amounts owed to IOCs.

The KRG has paid 5% of field revenue through 2016. It is the Company's assumption that the KRG will continue to pay IOCs and if a combination of oil price, KRG production volumes and KRG cost reductions increase KRG cash generation, the KRG will increase the percentage of field revenue paid towards the receivable.

Impairment testing is sensitive to a number of inputs, but principally: the cash generated from field revenue; and the percentage of field revenue paid towards the receivable.

##### Cash generated from field revenue

Cash generated from field revenue is an output of production volumes in the period, netback price and timing of payments. The sensitivity of the carrying value of the receivable to changes in cash generated from field revenue is provided in the table below:

	-20%	-10%	Base	+10%	+20%
Current payment mechanism (5%)	236	245	254	261	269

##### Percentage of field revenue paid towards the receivable

Impairment testing assumes that the receivable is recovered from a percentage of field revenues. In the downside case this would be nil - either through interrupted production or non-payment by the KRG. The Company has analysed KRG cash generation and estimates that it is possible that the KRG will increase payments towards the receivable in the future. Sensitivity to a stepped increase in payments is provided below:

	% of field revenue paid towards receivable				NPV at different effective interest rates		
	2017	2018	2019	2020+	Base less 2.5%	Base 8.3% <sup>1</sup>	Base plus 2.5%
<b>Current payment mechanism</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	269	<b>254</b>	240
Stepped increase in payments	5%	10%	15%	20%	404	378	355

1. The weighted average rate is 8.3%, see significant accounting estimates and judgements for further explanation.

##### Fair value

The fair value of the receivable, based on the current 5% payment mechanism, has been estimated as circa \$200 million. The Company assesses the KRG receivable to be categorised as Level 3 under IFRS13. Fair value has been calculated using the cash flows assuming 5% of field revenue is paid towards the receivable, from 2P production profiles using the price deck disclosed in the accounting policies note. The resulting cash flows are discounted using the estimated appropriate discount rate for the KRG receivable. The discount rate is estimated by taking the discount rate calculated for current KRG sales using the approach outlined in the significant accounting estimates and judgements section of the accounting policies note and adding an additional premium to reflect the inferior credit quality of the receivable to the KRG's current sales.

**Amounts owed for export sales marketed by the Federal Government of Iraq**

In addition to the trade receivables owed by the KRG for sales made principally from mid- 2014, the Company is owed monies for export sales that were made prior to mid-2014. These were export sales made through the FGI controlled pipe and consequently the marketing and collection of cash was controlled by the State Oil Marketing Organisation (SOMO) of the FGI. No revenue or receivable has been recognised for these sales because the directors assessed that it was not probable that economic benefit would flow – consequently it is also not considered for the purposes of impairment testing of trade receivables. It is estimated that the Company is owed circa \$300 million excluding interest for these export sales.

**11. Cash and cash equivalents and restricted cash**

	2016 \$m	2015 \$m
Cash and cash equivalents	407.0	455.3
Restricted cash	19.5	-
	<b>426.5</b>	455.3

Restricted cash of \$19.5 million is principally related to the Company's exploration activities in Morocco.

**12. Trade and other payables**

	2016 \$m	2015 \$m
Trade payables	13.6	15.1
Other payables	37.3	15.2
Accruals	49.4	50.3
Deferred consideration for Bina Bawi asset	82.7	78.0
	<b>183.0</b>	158.6
Non-current	87.7	78.0
Current	95.3	80.6
	<b>183.0</b>	158.6

The Company's payables are predominantly short-term in nature or are repayable on demand and, as such, for these payables there is minimal difference between contractual cash flows related to the financial liabilities and their carrying amount.

Deferred consideration includes a balance of \$82.7m originally recognised at its discounted fair value. The nominal value of this balance is \$145.0 million and its payment is contingent on gas production at the Bina Bawi asset meeting certain volume thresholds. The unwind of the deferred consideration is capitalised against the asset and the balance reassessed at each balance sheet date.

## FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

#### 13. Deferred income

	2016 \$m	2015 \$m
Non-current	39.2	46.0
Current	5.6	3.0
	<b>44.8</b>	<b>49.0</b>

Deferred income relates to payments received in the past relating to future royalty income and is recognised in line with the explanation provided in the revenue section of the accounting policies note.

#### 14. Provisions

	2016 \$m	2015 \$m
Balance at 1st January	25.2	19.4
Interest unwind	0.9	0.8
Additions	0.6	5.0
Reversal	(3.7)	-
Balance at 31 December	<b>23.0</b>	<b>25.2</b>
Non-current	<b>23.0</b>	25.2
Current	-	-
Balance at 31 December	<b>23.0</b>	<b>25.2</b>

Provisions cover expected decommissioning and abandonment costs arising from the Company's assets. The decommissioning and abandonment provision is based on the Company's best estimate of the expenditure required to settle the present obligation at the end of the period discounted at 4%. The cash flows relating to the decommissioning and abandonment provisions are expected to occur between 2031 and 2039.

#### 15. Borrowings and net debt

	1 Jan 2016 \$m	Bond buy-back \$m	Discount unwind \$m	Net other changes in cash \$m	31 Dec 2016 \$m
2014 Bond issue maturing May 2019	694.1	(54.6)	8.7	-	648.2
Cash	(455.3)	35.4	-	12.9	(407.0)
<b>Net Debt</b>	<b>238.8</b>	<b>(19.2)</b>	<b>8.7</b>	<b>12.9</b>	<b>241.2</b>

In March 2016, the Company repurchased \$55.4 million nominal value of its own bonds for net cash of \$35.4m. The purchased bonds had a book value of \$54.6 million and have been retained by the Company with it being most likely that the bonds will be cancelled. Consequently Company net debt was reduced by \$19.2 million and the \$730 million bond is reported net of the \$55.4m nominal value of bonds held by the Company. The bond is reported net of unamortised discount on issuance and issuance costs. The fair value of the net \$675m bond at 31 December 2016 was \$549 million (FY2015: fair value of \$730 million bond was \$511m).

	1 Jan 2015 \$m	New Bond Issue \$m	Merger of bonds \$m	Discount unwind \$m	Net other changes in cash \$m	31 Dec 2015 \$m
2014 Bond issue maturing May 2019	491.4	-	196.2	6.5	-	694.1
2015 Bond issue maturing May 2019	-	196.2	(196.2)	-	-	-
Cash	(489.1)	(196.2)	-	-	230.0	(455.3)
<b>Net Debt</b>	<b>2.3</b>	<b>-</b>	<b>-</b>	<b>6.5</b>	<b>230.0</b>	<b>238.8</b>

On 10 April 2015, the Company issued a new \$230m bond with a maturity of May 2019 and an annual coupon of 7.5% payable twice annually. The new bond was then merged with the existing \$500m bond maturing May 2019, resulting in a merged \$730m nominal value bond with a maturity date of May 2019 paying a coupon of 7.5%.

## 16. Financial risk management

### Credit risk

Credit risk is managed on a Company basis, except for credit risk relating to trade receivable balances, which is explained in significant accounting estimates and judgements in note 1.

Credit risk arises from cash and cash equivalents, trade and other receivables and other assets.

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure to credit risk at 31 December was:

	2016 \$m	2015 \$m
Trade and other receivables	265.8	440.1
Cash and cash equivalents	407.0	455.3
	<b>672.8</b>	<b>895.4</b>

Credit risk for trade receivables is explained in note 10. There are no other receivables overdue at the period end and no provision for doubtful debt has been made.

Cash is deposited in US treasury bills or on term deposits with banks that are assessed as appropriate based on, among other things, sovereign risk, CDS pricing and credit rating.

### Liquidity risk

The Company is committed to ensuring it has sufficient liquidity to meet its payables as they fall due. At 31 December 2016 the Company had cash and cash equivalents of \$407.0 million (2015: \$455.3 million).

### Currency risk

As substantially all of the Company's transactions are measured and denominated in US dollars, the exposure to currency risk is not material and therefore no sensitivity analysis has been presented.

## FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

#### 16. Financial risk management continued

##### Interest rate risk

The Company reported borrowings of \$648.2 million (2015: \$694.1 million) in the form of a bond maturing in May 2019, with fixed coupon interest payable of 7.5% on the nominal value of \$675 million. Although interest is fixed on existing debt, whenever the Company wishes to borrow new debt or refinance existing debt, it will be exposed to interest rate risk. A 1% increase in interest rate payable on a balance similar to the existing debt of the Company would result in an additional cost of \$6.8m per annum.

##### Capital management

The Company manages its capital to ensure that it remains sufficiently funded to support its business strategy and maximise shareholder value. The Company's short term funding needs are met principally from the cash flows generated from its operations and available cash of \$407.0 million.

#### 17. Share capital

	Suspended Voting Ordinary shares	Voting Ordinary shares	Total Ordinary Shares
At 1 January 2015 - fully paid <sup>1</sup>	33,538,301	246,709,897	280,248,198
Conversion of suspended ordinary voting shares on 13 February 2015 as a result of a sale of 2,000,000 and 1,400,000 voting ordinary shares by affiliated shareholders to third parties on 10 December 2014 and 16 December 2014 respectively	(3,916,616)	3,916,616	-
At 31 December 2015 and 1 January 2016	29,621,685	250,626,513	280,248,198
Conversion of suspended voting ordinary shares on 24 February 2016 as a result of a sale of 27,339,017 voting ordinary shares by affiliated shareholders to third parties between 22 September 2015 and 13 February 2016	(29,621,685)	29,621,685	-
<b>At 31 December 2016 - fully paid<sup>1</sup></b>		<b>- 280,248,198</b>	<b>280,248,198</b>

1. Voting ordinary shares includes 1,853,008 (2015: 1,865,720) treasury shares

On the sale of voting ordinary shares from an affiliated shareholder to a third party, the affiliated shareholders have a right of conversion of suspended voting ordinary shares to voting ordinary shares in order to maintain their voting ordinary share percentage at just below 30% of the Company. Details of those sales and resulting conversions are set out below.

Between the 22 September 2015 and 13 February 2016 27,339,017 voting ordinary shares were transferred from affiliated shareholders to third parties. On 24 February 2016 29,621,685 suspended voting ordinary shares were converted to ordinary shares in accordance with the terms of the suspended voting ordinary shares.

On 13 February 2015 3,916,616 suspended voting ordinary shares were converted to voting ordinary shares in accordance with the terms of the suspended voting ordinary shares.

There have been no changes to the authorised share capital since it was determined to be 10,000,000,000 ordinary shares of £0.10 per share.



## 18. Share based payments

The Company has three share-based payment plans: a performance share plan, restricted share plan and a share option plan. The main features of these share plans are set out below.

Key features	PSP	RSP	SOP
Form of awards	Performance shares. The intention is to deliver the full value of vested shares at no cost to the participant (e.g. as conditional shares or nil-cost options).	Restricted shares. The intention is to deliver the full value of shares at no cost to the participant (e.g. as conditional shares or nil-cost options).	Market value options. Exercise price is set equal to the average share price over a period of up to 30 days to grant.
Performance conditions	Performance conditions will apply. For awards granted to date, these are based on relative TSR measured against a Group of industry peers over a three-year period.	Performance conditions may or may not apply. For awards granted to date, there are no performance conditions.	Performance conditions may or may not apply. For awards granted to date, there are no performance conditions.
Vesting period	Awards will vest when the Remuneration Committee determines whether the performance conditions have been met at the end of the performance period.	Awards typically vest over three years.	Awards typically vest after three years. Options are exercisable until the 10th anniversary of the grant date.
Dividend equivalents	Provision of additional cash/shares to reflect dividends over the vesting period may or may not apply. For awards granted to date, dividend equivalents do not apply.	Provision of additional cash/shares to reflect dividends over the vesting period may or may not apply. For awards granted to date, dividend equivalents do not apply.	Provision of additional cash/shares to reflect dividends over the vesting period may or may not apply. For awards granted to date, dividend equivalents do not apply.

In 2016, awards were made under the performance share plan and restricted share plan, no awards were made under the share option plan, the numbers of outstanding shares under the PSP, RSP and SOP as at 31st December 2016 are set out below:

	PSP Options (nil cost)	RSP Options (nil cost)	SOP	CEO award (nil cost)
Outstanding at the beginning of the year	1,748,823	968,138	325,727	375,000
Granted during the year	3,399,136	2,118,008	-	-
Forfeited/lapsed during the year	(794,621)	(334,429)	(89,131)	-
Exercised during the year	-	(275,308)	-	-
<b>Outstanding at the end of the year</b>	<b>4,353,338</b>	<b>2,476,409</b>	<b>236,596</b>	<b>375,000</b>
Exercisable at the end of the year	102,131	63,802	140,088	93,750

The range of exercise prices for share options outstanding at the end of the period is nil to 1,046.00p. The weighted average remaining contractual life of the outstanding share options is 2 years. The blended exercise price for SOPs is 890p.

Fair value of options granted has been measured either by use of the Black-Scholes pricing model or by use of a formula based on past calculations. The model takes into account assumptions regarding expected volatility, expected dividends and expected time to exercise. In the absence of sufficient historical volatility for the Company, expected volatility was estimated by analysing the historical volatility of FTSE-listed oil and gas producers over the three years prior to the date of grant. The expected dividend assumption was set at 0%. The risk-free interest rate incorporated into the model is based on the term structure of UK Government zero coupon bonds. The inputs into the fair value calculation for RSP and PSP awards granted in 2015 and fair values per share using the model were as follows:

## FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

#### 18. Share based payments continued

	RSP 7/5/2016	RSP 8/5/2016	RSP 19/9/2016	PSP 7/5/2016	PSP 8/5/2016
Share price at grant date	125p	110p	110p	125p	125p
Exercise price	-	-	-	-	-
Fair value on measurement date	125p	110p	110p	32p	32p
Expected life	1-3 years	1-3 years	1-3 years	3-6 years	3-6 years
Expected dividends	-	-	-	-	-
Fair value on measurement date	125p	110p	110p	32p	32p
Share price at balance sheet date	72p	72p	72p	72p	72p
Change in share price between grant date and 31 December 2016	-36%	-23%	-23%	-36%	-36%

The weighted average fair value for PSP awards granted in the period is 32p and for RSP awards granted in the period is 125p.

Total share based payment charge for the year was \$7.5m (2015:\$2.9 million), which is fixed using the share price at the date of grant. In the previous year the charge included the reversal of previously expensed costs principally caused by the non-vesting of options.

#### 19. Capital commitments and operating lease commitments

Under the terms of its PSCs and JOAs, the Company has certain commitments that are generally defined by activity rather than spend. The Company's capital programme for the next few years is explained in the operating review and is in excess of the activity required by its PSCs and JOAs.

The Company leases temporary production and office facilities under operating leases. During the period ended 31 December 2016 \$3.8 million (2015: \$4.0 million) was expensed to the statement of comprehensive income in respect of these operating leases.

Drill rigs are leased on a day-rate basis for the purpose of drilling exploration or development wells. The aggregate payments under drilling contracts are determined by the number of days required to drill each well and are capitalised as exploration or development assets as appropriate.

The Company had no material outstanding commitments for future minimum lease payments under non-cancellable operating leases.

#### 20. Related parties

The directors have identified related parties of the Company under IAS24 as being: the shareholders; members of the Board; and members of the executive committee, together with the families and companies, associates, investments and associates controlled by or affiliated with each of them. The compensation of key management personnel including the directors of the Company is as follows:

	2016 \$m	2015 \$m
Board remuneration	1.0	1.8
Key management emoluments and short-term benefits	7.4	9.0
Share-related awards	0.1	1.6
	8.5	12.4

There are no other significant related party transactions.

## 21. Subsidiaries and joint arrangements

For the period ended 31st December 2016 the principal subsidiaries and joint operations of the Company were the following:

Entity name	Country of Incorporation	Ownership % (ordinary shares)
Genel Energy Holding Company Limited <sup>1</sup>	Jersey	100
Genel Energy Finance Plc <sup>2</sup>	UK	100
Genel Energy Finance 2 Plc <sup>1</sup>	Jersey	100
Genel Energy Finance 3 Plc <sup>2</sup>	UK	100
Genel Energy Netherlands Holding 1 Cooperatief B.A. <sup>3</sup>	Netherlands	100
Genel Energy Netherlands Holding 2 B.V. <sup>3</sup>	Netherlands	100
Genel Energy International Ltd <sup>4</sup>	Anguilla	100
Taq Taq Operating Company Limited <sup>4</sup>	BVI	55
Genel Energy Miran Bina Bawi Limited <sup>2</sup>	UK	100
A&T Petroleum Company Limited <sup>5</sup>	Cayman Islands	100
Genel Energy Africa Exploration Limited <sup>2</sup>	UK	100
Genel Energy Africa Limited <sup>2</sup>	UK	100
Genel Energy Exploration 2 Limited <sup>2</sup>	UK	100
Genel Energy Limited <sup>2</sup>	UK	100
Genel Energy Somaliland Limited <sup>2</sup>	UK	100
Genel Energy Gas Company Limited <sup>1</sup>	UK	100
Phoenicia Energy Company Limited <sup>6</sup>	Malta	100
Genel Energy UK Services Limited <sup>2</sup>	UK	100
Genel Energy Yonetim Hizmetleri Anonim Sirketi <sup>7</sup>	Turkey	100
Genel Energy Petroleum Services Limited <sup>2</sup>	UK	100
Barrus Petroleum Limited <sup>8</sup>	Isle of Man	100
Barrus Petroleum Cote d'Ivoire Sarl <sup>9</sup>	Cote d'Ivoire	100
Taq Taq Petroleum Refinery Company Limited <sup>10</sup>	BVI	100
Taq Taq Drilling Company Limited <sup>11</sup>	BVI	55

1. Registered office is 12 Castle Street, St Helier, Jersey JE2 3RT

2. Registered office is Fifth Floor, 36 Broadway, London SW1H 0DB

3. Registered office is Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands

4. Registered office is PO Box 1338. Maico Building, The Valley, Anguilla and is a joint operation service company through which the Company jointly operates the Taq Taq PSC with its partner

5. Registered office is PO box 309 Uglan House, Grand Cayman, KY1-1104, Cayman Islands

6. Registered office is 85 St John Street, Valletta, VLT 1165, Malta

7. Registered office is Next Level Is Merkezi, Eskisehir Yolu, Dumlupinar Bulvarı, No:3A-101, Söğütözü, Ankara, 06500, Turkey

8. Registered office is 6 Hope Street, Castletown, IM9 1AS, Isle of Man

9. Registered office is 7 Boulevard Latrille Cocody, 25 B.P. 945 Abidjan 25, Cote d'Ivoire

10. Registered office is Ellen L Skelton Building, Fishers Lane, Road Town, Tortola, BVI

11. Registered office is 3rd Floor, Geneva Place, Waterfront Drive, PO Box 3175, Road Town, Tortola BVI

## 22. Annual report

Copies of the 2016 annual report will be despatched to shareholders in April 2017 and will also be available from the Company's registered office at 12 Castle Street, St Helier, Jersey JE2 3RT and at the Company's website - [www.genelenergy.com](http://www.genelenergy.com).

## OTHER INFORMATION

## REPORT ON PAYMENTS TO GOVERNMENTS FOR THE YEAR 2016

**Introduction and basis for preparation**

This report sets out details of the payments made to governments by Genel Energy plc and its subsidiary undertakings ("Genel") for the year ended 31 December 2016 as required under the Disclosure and Transparency Rules of the UK Financial Conduct Authority (the 'DTRs') and in accordance with our interpretation of the draft Industry Guidance issued for the UK's Report on Payments to Governments Regulations 2014, as amended in December 2015 ('the Regulations'). The DTRs require companies in the UK and operating in the extractives sector to publically disclose payments made to governments in the countries where they undertake exploration, prospecting, development and extraction of oil and natural gas deposits or other materials.

This report is available to download at [www.genelenergy.com/investor-relations/results-reports-presentations](http://www.genelenergy.com/investor-relations/results-reports-presentations).

**Governments**

All of the payments made in relation to licences in the Kurdistan Region of Iraq ('KRI') have been made to the Ministry of Natural Resources of the Kurdistan Regional Government ('KRG'). All other payments have been made to the national governments of the relevant country where the licence is based.

**Production entitlements**

Production entitlements are the host government's share of production during the reporting period from projects operated by Genel. Production entitlements from projects that are not operated by Genel are not covered by this report. The figures reported have been produced on an entitlement basis rather than on a liftings basis. Production entitlements are paid in-kind and the monetary value disclosed is derived from management's calculation of revenue from the field.

**Royalties**

Royalties represent royalties paid in-kind to governments during the year for the extraction of oil. The terms of the Royalties are described within our Production Sharing Contracts and can vary from project to project. Royalties have been calculated on the same barrels of oil equivalent basis as production entitlements.

**Licence fees**

These are fees and other sums paid as consideration for acquiring a licence for gaining access to an area where extractives are performed.

**Materiality threshold**

Total payments below £86,000 made to a government are excluded from this report as permitted under the Regulations.

**PAYMENTS TO GOVERNMENTS - 2016**

Country/Licence	Kurdistan Total <sup>1</sup>	Taq Taq <sup>2</sup>	Tawke <sup>3</sup>	Morocco Total	Mir Left	Somaliiland Total	Odewayne	SL-10B/ SL-13
<b>Payments in bbls</b>								
Production entitlement (bbls)	<b>13,799,444.39</b>	13,799,444.39	-	-	-	-	-	-
Royalties in kind (bbls)	<b>2,201,957.06</b>	2,201,957.06	-	-	-	-	-	-
Total (bbls)	<b>16,001,401.45</b>	16,001,401.45	-	-	-	-	-	-
<b>*Estimated value in \$millions (this amount is not paid to the KRG, and is calculated to meet the reporting requirements under the Regulations)</b>								
Value of production entitlements (\$million)	<b>522.94*</b>	522.94	-	-	-	-	-	-
Value of royalties (\$million)	<b>83.17</b>	83.17	-	-	-	-	-	-
Licence fees (\$million)	-	-	-	<b>0.15</b>	0.15	<b>0.49</b>	0.15	0.34
Capacity building payments <sup>4</sup>	<b>24.5</b>	13.6	10.9	-	-	-	-	-
Total (\$million)	<b>630.61</b>	619.71	10.9	<b>0.15</b>	0.15	<b>0.49</b>	0.15	0.34

- Under the lifting arrangements implemented by the KRG, the KRG takes title to crude at the wellhead and then transports it to Ceyhan in Turkey by pipeline. The crude is then sold by the KRG into the international market. All proceeds of sale are received by or on behalf of the KRG, out of which the KRG then makes payment for cost and profit oil in accordance with the PSC to Genel, in exchange for the crude delivered to the KRG. Under these arrangements, payments are in fact made by or on behalf of the KRG to Genel, rather than by Genel to the KRG. For the purposes of the reporting requirements under the Regulations however, we are required to characterise the value of the KRG's entitlement under the PSC (for which they receive payment directly from the market) as a payment made to the KRG.
- The amount reported for Taq Taq, with the exception of Capacity Building Payments, is the gross payment made to the KRI by the operating company (TTOPCO), Genel's share of these payments is equal to 55%.
- Payments in relation to Tawke are made by the Operator with the exception of capacity building payments which are made directly by Genel in relation to our interest in the Tawke Production Sharing Contract.
- Capacity building payments reported are payments made by Genel directly to the KRI in cash as required by the Production Sharing Contract.

## GLOSSARY OF TECHNICAL TERMS

'AGM'	annual general meeting
'Companies Act 2006'	Companies Act 2006, as amended
'Company'	Genel Energy plc
'CPR'	competent person's report
'ElySION'	ElySION Energy Holding B.V.
'Focus Investments'	Focus Investments Limited
'FRC'	UK Financial Reporting Council
'FSMA'	the Financial Services and Markets Act 2000 of the UK, as amended
'FTSE'	FTSE International Limited
'GHG'	greenhouse gases
'GLA'	gas lifting agreement
'Group'	the Genel Energy group of companies
'HSE'	health, safety and environment
'ICMM Sustainable Development Framework'	the sustainable development framework set out by the International Council on Mining and Metals
'IDP'	internally displaced person
'IFC Performance Standard'	the performance standards set out by the International Finance Corporation
'IOC'	International Oil Company
'Jersey Companies Law'	Companies (Jersey) Law 1991 (as amended)
'KRG'	the Kurdistan Regional Government
'KRI'	the Kurdistan Region of Iraq
'Listing Rules'	the Listing Rules of the UK Listing Authority
'LoPC'	loss of primary containment
'LTI'	lost time incident
'LTIF'	lost time incident frequency: the number of lost time incidents per million work hours
'NGO'	non-governmental organisation
'NOC'	Northern Oil Company
'Ordinary Shares'	the voting ordinary shares and/or the suspended voting ordinary shares as the context requires
'PRM'	Petroleum Resources Management N.V.
'PSC'	production sharing contract
'PSP'	performance share plan
'PwC'	PricewaterhouseCoopers LLP
'RSP'	restricted share plan
'SOMO'	State Oil Marketing Organisation
'SOP'	share option plan
'Standard Listing'	a standard listing under Chapter 14 of the Listing Rules
'TSR'	total shareholder return
'TTOPCO'	Taq Taq Operating Company Limited
'UKLA'	UK Listing Authority

**OTHER INFORMATION****GLOSSARY OF TECHNICAL TERMS** continued**Certain resources and reserves terms**

'1P'	proved reserves
'2P'	proved plus probable reserves
'3P'	proved plus probable plus possible reserves
'2C'	contingent resources

**Units of measurement**

'bbl'	barrel
'bcma'	billion cubic metres per annum
'bnboe'	billion barrel oil equivalent
'bopd'	barrels of oil per day
'boepd'	barrels of oil equivalent per day
'km'	kilometres
'mcf'	thousand cubic feet
'MMbbls'	millions of barrels
'MMboe'	million barrels of oil equivalent
'tcf'	trillion cubic feet
'tCO <sub>2</sub> e'	tonnes of CO <sub>2</sub> equivalent

## SHAREHOLDER INFORMATION

### **ShareGift**

If you hold a small number of shares and find it uneconomical to sell them, you may wish to donate your shares to charity free of charge through ShareGift. ShareGift collects donations of unwanted shares, sells them and donates the proceeds to UK charities. Further details are available at [www.sharegift.org](http://www.sharegift.org) or by calling +44 (0) 20 7930 3737.

### **AGM**

This year's AGM will be held at J.P. Morgan, 60 Victoria Embankment, London EC4Y 0JP, UK on Tuesday, 6 June 2017 at 11.00am.

Details of the business to be considered at the AGM are set out in the accompanying notice of meeting.

### **Dividend and dividend history**

We have not paid any dividends to shareholders to date and no final dividend is proposed in respect of the year ended 31 December 2016.

### **Registrars**

Our registrars are Equiniti Registrars.

All enquiries relating to the administration of shareholdings should be directed to Equiniti Registrars, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

Telephone: 0371 384 2030 lines are open Monday - Friday excluding UK Bank Holidays, 8.30am - 5.30pm (from outside the UK: +44 121 415 7047).

### **Share price information**

The current price of the Company's shares is available on the Company's website at [www.genelenergy.com](http://www.genelenergy.com)

### **Contacts and Auditors**

#### **Registrar**

Equiniti (Jersey) Limited  
PO Box 75  
26 New Street  
St Helier  
Jersey  
Channel Islands  
JE4 8PP

#### **Independent Auditors**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2N 6RH

#### **Registered Office**

12 Castle Street  
St Helier  
Jersey  
JE2 3RT

#### **London Office**

Fifth Floor  
36 Broadway  
Victoria  
London  
SW1H 0DB

#### **Ankara Office**

Next Level İş Merkezi  
Eskişehir Yolu  
Dumlupınar Bulvarı No: 3A-101  
Söğütözü 06500  
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