

TEPKRI SARSANG A/S

CVR-No. 33870434

Annual Report 2018



Approved at the General Assembly: 24 May 2019
Chairman of the meeting: Majbritt Perotti Carlson

Amerika Plads 29, 2100 Copenhagen Ø

Company information

TEPKRI Sarsang A/S
Amerika Plads 29
2100 Copenhagen Ø

CVR-No.: 33870434
Date of incorporation: 17 August 2011
Registered office: Copenhagen
Financial year: 1 January 2018 - 31 December 2018

Board of Directors

Olivier Zoltan Marius Heurtin (Chairman)
Martin Rune Pedersen
Troels Albrechtsen

Executive Board

Richard Alistair Doidge

Auditors

KPMG
Statsautoriseret Revisionspartnerselskab
Dampfærgevej 28
2100 Copenhagen Ø

Branch

375 English Village
Erbil
Kurdistan
Iraq

Directors' Report

Activities

The Company is a wholly owned subsidiary of Total E&P Danmark A/S and holds an 18% non-operated equity interest in the Sarsang Production Sharing Contract (PSC) in the Kurdistan Region of Iraq. The licence is operated by HKN Energy Ltd, and comprises two oil field accumulations, Swara Tika and East Swara Tika.

During 2018, the Operator HKN has been evaluating bids for the tender of the Engineering, Procurement and Construction (EPC) contract for a new 25,000 b/d production facility on the "B Pad" location on the Swara Tika field. Detailed early engineering work is ongoing, with a view to awarding the contract in early 2019.

As part of the expansion of the B Pad production facility, extensive civil engineering works have been conducted throughout 2018.

In October 2018, following an upgrade to the existing B Pad production facility to handle 10,000 b/d oil production as well as higher rates of associated gas, the ST-1Z development well was brought back on production; the well is now producing around 6,000 b/d.

In November 2018, drilling and testing operations were completed for the new ST-B1A development well, including sidetracking the well for operational reasons. The Operator HKN brought the well on production into the B Pad production facility in December 2018.

In December 2018, the drilling rig currently under contract for the Sarsang block was mobilized from the ST-B1A location to the East Swara Tika field, where preparations are underway to drill the EST-A1 well.

During 2018, total Sarsang oil production was increased from around 19,000 b/d to over 24,000 b/d. The entire Sarsang production is sold to the Kurdistan Regional Government (KRG) under an oil sales agreement. The oil is currently transported by tanker trucks to an oil terminal close to the Turkish border where it enters the main KRG export pipeline to the Mediterranean coast.

Financial review

Financial performance for the year

The result for 2018 is a gain of USD 23 million, compared to a loss of USD 14 million in 2017.

Key figures for the Company are as follows:

USD million	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
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Income statement:

Revenue	56	21	7	2	0
Profit before financial items and tax	17	(8)	(27)	(167)	(38)
Financial items, net	0	2	0	0	(2)
Profit for the year after tax	23	(14)	(37)	(161)	(9)

Balance sheet:

Total assets	144	117	103	130	298
Investments in property, plant and equipment	99	90	92	99	246
Equity	136	113	91	128	290

Guidance for 2019

The result for 2019 is expected to be a small profit.

Change of parent company owner

The share capital in Total E&P Danmark A/S was acquired by Total S.A. from A.P. Møller – Mærsk A/S with effective date 8th March 2018. This does not affect the going concern of the Company.

As of the effective date the Company is no longer part of the A.P. Møller – Maersk Group joint taxation but is instead jointly taxed with Danish companies within the Total Group. Joint liability for previous periods still exists.

External environment

TEPKRI Sarsang A/S seeks to make use of environmentally friendly and energy efficient solutions to reduce negative impact on the environment.

Risks and uncertainties

TEPKRI Sarsang A/S is subject to a variety of risks which derive from the nature of the oil production activities.

TEPKRI Sarsang A/S' strategic, operational, compliance, financial and emerging risks are monitored through a structured approach including systematic identification, assessment and mitigation of the risks.

Management's Statement

The Board of Directors and Executive Board have today discussed and approved the annual report of TEPKRI Sarsang A/S for 2018.

The annual report for 2018 of TEPKRI Sarsang A/S has been prepared in accordance with Danish Financial Statements Act and in our opinion gives a true and fair view of the Company's assets, liabilities and the financial position at 31 December 2018 and of the results of the Company's operations for the financial year 2018.

In our opinion the Directors' Report includes a fair review of the development in and the result of the Company's operations and financial conditions, the result for the year and financial position.

We recommend that the annual report be approved at the Annual General Meeting.

Copenhagen, 24 May 2019

Executive Board:



Richard Alistair Doldge

Board of Directors:



Olivier Zoltan Marlus Heurtin
(Chairman)



Martin Rune Pedersen



Troels Albrechtsen

Independent auditors' report

To the shareholder of TEPKRI Sarsang A/S.

Opinion

We have audited the financial statements of TEPKRI Sarsang A/S for the financial year 1 January – 31 December 2018 comprising income statement, balance sheet, statement of changes in equity, and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if,

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of financial statement users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 24 May 2019

KPMG

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98



Henrik O. Larsen
State Authorised
Public Accountant
MNE no. 15839



Morten Høgh-Petersen
State Authorised
Public Accountant
MNE no. 34283

Accounting Policies

The Annual Report for 2018 of TEPKRI Sarsang A/S has been prepared in accordance with the provisions of the Danish Financial Statements Act applicable to class C companies.

The accounting policies for the Financial Statements are unchanged from last year.

TEPKRI Sarsang A/S has with reference to the Danish Financial Statements Act § 86 section 4 refrained from preparing cash flow statement.

Presentation, classification and designations in the income statement and balance sheet have been adjusted to the special nature of the Company.

Foreign Currency

The functional currency is USD. The Annual Report is presented in USD, in accordance with provision 16 of the Danish Financial Statements Act. The exchange rate of USD to DKK was 6.5213 at 31 December 2018 (2017: DKK 6.2067).

Monetary assets and liabilities in currencies other than USD are translated at the exchange rate at the balance sheet date. Transactions in currencies other than USD are translated at the exchange rate prevailing at the date of the transaction.

Exchange rate gains and losses are included in the income statement as financial income and expenses.

The Income Statement

Revenue comprises the value of the Company's share of the oil production. If the Company sells more than its share of the produced oil (overlift) this is recognised at sales price in the balance sheet under "Deferred income". If the Company sells less than its share of the produced oil (underlift) this is recognised at market price under "Inventories".

Production expenses comprise costs incurred in generating the revenue for the year.

Administrative expenses include parent company overhead and other general administrative expenses.

Exploration expenses are capitalised unless the costs do not qualify for capitalisation, and are then recognised in the income statement as incurred. Expenses for initial surveys incurred before acquisition of licence for hydrocarbon extraction are also included in the income statement as they are incurred.

Financial items comprise interest and currency exchange rate gains and losses from translation of cash, receivables and debt in foreign currencies other than USD.

The Company is jointly taxed with a number of Danish companies within the Total Group. **Tax on profit** for the year includes the amount estimated to be paid for the year as well as adjustments regarding previous years and change in deferred tax.

Provision for deferred tax is made on temporary differences between the accounting and tax values of assets and liabilities. Deferred tax on temporary differences which at the time of the transaction does not affect the financial result or the taxable income is not recognised.

Deferred tax assets are only recognised to the extent that it is probable that they can be utilised against future taxable income.

The Balance Sheet

Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the estimated useful lives of the assets.

Intangible assets in connection with acquired oil resources are amortised from commencement of production and over the fields' expected production periods.

IT software is amortised over a useful life of 3 years.

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost price of production facilities etc. comprises direct and indirect costs for appraisal and production wells and production equipment, etc. for fields considered commercial. Depreciation on production facilities etc. is made over the expected production period/economic life.

Depreciation periods and residual values for property, plant and equipment are re-evaluated annually.

Impairment losses are recognised when the carrying amount of an asset or a cash-generating unit exceeds the higher of the estimated value in use and fair value less costs to sell.

Inventories, which comprise spare parts etc., are measured at cost following the FIFO principle, less write-down for obsolescence. Underlift is measured at market price.

Receivables are measured at nominal value which in all material respects corresponds to amortised cost. Write-down is made for anticipated losses on an individual basis.

Prepayments recognised under assets include prepaid expenses.

Dividend for distribution regarding the financial year is included as part of the **equity**.

Provisions are recognised when the Company has an existing legal or actual obligation and includes deferred tax and provision for unsettled claims and lawsuits. Provisions are recognised on the basis of best estimates and considering discounting when the time element is significant.

Debt to group, suppliers etc. is measured at amortised cost price or lower net realisable value, which in most situations corresponds to the nominal value.

Other payables include balance with operator, related to expenses incurred under the Production Sharing Contract.

TEPKRI SARSANG A/S
INCOME STATEMENT
FOR 2018

Note	USD 1,000	
	2018	2017
Revenue	55,556	20,689
Production expenses	(28,291)	(9,142)
Gross profit	27,265	11,547
1. Administrative expenses	(5,607)	(11,874)
Exploration expenses	(246)	(75)
2, 3. Depreciation and amortisation	(4,773)	(7,969)
Result before financial items and tax	16,639	(8,369)
4. Financial income	370	266
5. Financial expenses	(241)	(166)
Result before tax	16,768	(8,269)
6. Tax for the year	6,005	(6,000)
RESULT FOR THE YEAR	22,773	(14,269)
Proposed distribution of net result		
Retained earnings	22,773	(14,269)
	22,773	(14,269)

TEPKRI SARSANG A/S
BALANCE SHEET AT 31.12.2018

Note	USD 1,000	
	2018	2017
ASSETS		
NON-CURRENT ASSETS		
2.	Intangible fixed assets	
	Oil rights	78,036
		<u>76,589</u>
3.	Property, plant and equipment	
	Production facilities	11,853
		<u>22,438</u>
		22,438
	TOTAL NON-CURRENT ASSETS	<u>99,027</u>
		89,889
CURRENT ASSETS		
	Receivables	
	Receivables from sale of oil	6,945
	Receivables Group companies	19,858
	Other receivables	69
7.	Prepayments	532
		<u>183</u>
		35,497
		<u>27,404</u>
	Cash	25
		<u>9,911</u>
	TOTAL CURRENT ASSETS	<u>45,408</u>
		27,429
	TOTAL ASSETS	<u>144,435</u>
		117,318

TEPKRI SARSANG A/S
BALANCE SHEET AT 31.12.2018

Note	USD 1,000	
	2018	2017
LIABILITIES AND EQUITY		
EQUITY		
	966	966
	134,559	111,786
	<u>135,525</u>	<u>112,752</u>
NON-CURRENT LIABILITIES		
8.	2,937	2,925
	<u>2,937</u>	<u>2,925</u>
CURRENT LIABILITIES		
	41	39
	5,723	1,601
	209	1
	<u>5,973</u>	<u>1,641</u>
	<u>8,910</u>	<u>4,566</u>
	<u>144,435</u>	<u>117,318</u>
9.	Contingencies etc.	
10.	Related parties	

TEPKRI SARSANG A/S
STATEMENT OF CHANGES IN EQUITY AT 31.12.2018
(USD 1,000)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
Equity 01.01	966	111,786	112,752
Profit for the year		22,773	22,773
Equity 31.12	966	134,560	135,525

Share capital consists of the following shares:

<u>Number</u>	<u>Nominal, DKK</u>
5,500	1,000
Total nominal value in DKK	<u>5,500,000</u>

Share capital, changes:

Increase of capital 25 March 2014	500,000
Increase of capital 21 September 2017	500,000
Increase of capital 22 November 2017	500,000

The costs related to the capital increases in 2017 amounted to USD 0.

TEPKRI SARSANG A/S
Notes as at 31.12.2018
(USD 1,000)

Note 1, Staff costs

The Company has no employees, as all those engaged are employed in other group companies.

Note 2, Intangible assets

	2018 Oil Rights
Cost at 01.01	245,947
Additions during the year	1,349
Cost price 31.12	247,296
Amortisations and write-downs at 01.01	167,898
Amortisations for the year	2,809
Amortisations and write-downs at 31.12	170,707
Carrying amount 31.12	76,589

Note 3, Property, plant and equipment

	2018 Production Facilities, etc.
Cost at 01.01	12,347
Additions during the year	12,549
Transferred	0
Cost price 31.12	24,896
Depreciation at 01.01	494
Depreciation for the year	1,964
Depreciation at 31.12	2,458
Carrying amount 31.12	22,438

	2018	2017
Note 4, Financial income		
Interest received from group companies	151	76
Interest received from banks	219	0
Exchange rate adjustments etc.	0	190
	<u>370</u>	<u>266</u>
Note 5, Financial expenses		
Exchange rate adjustments etc.	241	166
	<u>241</u>	<u>166</u>

Note 6, Corporate tax

Tax income on profit for the year is USD 6 million (2017: expense of USD 6 million) due to an adjustment related to prior years.

This company is part of a joint taxation scheme with the Danish companies within the Total Group. The tax is divided between the members of the joint taxation scheme by use of the full allocation method.

Note 7, Prepayment

Prepayments include prepaid expenses.

Note 8, Provisions

Provisions are recognised when the Company has an existing legal or actual obligation and includes deferred tax and provision for unsettled claims, lawsuits and abandonment. Provisions are recognised on the basis of best estimates and take discounting into consideration when the time element is significant.

Note 9, Contingencies

For development activities in Kurdistan the Company is liable jointly and severally with the other partners for development commitment and obligations in connection with field developments.

As of 31 December 2018, the Company is jointly taxed with the Danish companies within the Total Group. This entails unlimited joint liability for Danish corporation taxes and withholding taxes on dividends, interests and royalties within the jointly taxed companies. A similar obligation exists for joint registration of VAT.

Joint liability for previous periods still exists.

Note 10, Related parties

Companies in the Total Group and the Executive board and board members of the Company are related parties.

Transactions during 2018 with related parties:

	2018
Expenses	(5,723)

Payables and receivables to group entities are disclosed in the balance sheet, and financial income is disclosed in note 4.

Parties exercising control

The Company is 100% owned by Total E&P Danmark A/S.

As of 31 December 2018, the ultimate parent company is Total S.A., Tour Coupole, 2 place Jean Millier, 92078 Paris la Défense, France. The consolidated Financial Statements of the Total group are available at

<https://www.total.com/en/investors/publications-and-regulated-information/regulated-information/annual-financial-reports>

The Company is included in the consolidated Financial Statements as a subsidiary.