

**REPSOL SINOPEC RESOURCES UK LIMITED**

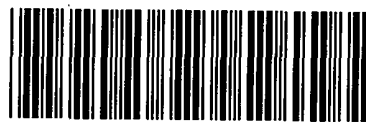
**(Formerly Talisman Sinopec Energy UK Limited)**

**Report and Financial Statements**

**For the year ended 31 December 2015**

**Registered number: 00825828**

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# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Strategic report for the year ended 31 December 2015**

The directors present their strategic report for the year ended 31 December 2015 for Repsol Sinopec Resources UK Limited (“the company”) and its subsidiary companies (“the group”) for the year ended 31 December 2015.

### **Results**

The total comprehensive loss for the year after taxation was \$649.4 million which, when added to the accumulated loss brought forward at 1 January 2015 of \$4,039.0 million gives a total accumulated loss carried forward at 31 December 2015 of \$4,688.4 million.

During the year the company transitioned from previously extant UK GAAP to IFRS as issued by the International Accounting Standards Board and adopted by the European Union (EU), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

Details of the recognition or measurement differences arising on the adoption of IFRS are included in note 2(o) to these financial statements.

### **Group restructuring**

The fluctuation in the prices of oil and gas and the impact on the company’s results has led the directors and shareholders of the company to take steps to improve the financial position of the group and company, and consideration is being given to additional steps for further strengthening.

#### *Issue of share capital and repayment of debt*

On 16 July 2015 the total principal amount outstanding on the group’s related party loan facility with Talisman Finance (UK) Limited and TipTop Energy Limited was repaid, together with the interest outstanding. This occurred through the injection of \$1,060.8 million equity into the company by its shareholders Talisman Colombia Holdco Limited and Addax Petroleum UK Limited, and subsequent repayments of the related party loans. The effect of this group restructuring step was to reduce loans due by the group to related parties to nil, and to decrease the group’s net liabilities by \$1,060.8 million.

#### *Financing arrangements*

In addition to the above, a Subscription Agreement was in place whereby funding for the period from July 2014 to 30 June 2015 was made by way of equity injection. A new Subscription Agreement was entered into in June 2015 to provide a committed equity facility of \$1.7 billion to fund capital expenditure, abandonment expenditure and operating expenditure requirements in the period 1 July 2015 to 31 December 2016. This agreement has been extended to cover the period to 31 December 2017. The unutilised capacity of this facility is \$855 million as at 2 September 2016.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Strategic report for the year ended 31 December 2015 (continued)**

### **Group restructuring (continued)**

Under these subscription agreements, a total of \$1,085 million was provided by equity injection during the year ended 31 December 2015, with a further total of \$440 million provided during the period from 1 January 2016 to 2 September 2016.

The total equity injected during the year 2015 relating to both of the above headings '*Issue of share capital and repayment of debt*' and '*Financing arrangements*' was \$2,145.9 million, with a further total of \$440 million injected during the period from 1 January 2016 to 2 September 2016. Where equity funding is not provided, the group may utilise the remaining capacity under the existing shareholder loan facility or agree an alternative loan facility with the shareholders.

As a result of the committed equity funding facility being in place for the period to 31 December 2017 the current intention is that the shareholder loan facility will not be utilised. The unutilised capacity of this facility is circa \$740 million as at 2 September 2016.

### **Principal activity and review of the business**

The principal activity of the group and company is the exploration for, and development and production of, oil and gas.

The company's key financial and other performance indicators for the financial year were as follows:

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Operating revenue	818,765	1,200,206
Operating expenses	1,512,502	7,670,415
Production (boe/day)	39,950	32,683
Operating cost per barrel	\$69.79	\$108.20
Capital expenditure	700,319	1,168,598

#### *Production and operating revenue*

Production volumes increased by 7,267 boe/day to 39,950 boe/day in 2015 from 32,683 boe/day in 2014.

Operating revenue decreased by \$381.4 million to \$818.8 million in 2015 from \$1,200.2 million in 2014, despite the increased production, due to lower oil prices in 2015.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Strategic report for the year ended 31 December 2015 (continued)**

### **Principal activity and review of the business (continued)**

#### *Operating expenses*

Operating expenses decreased by \$6,157.9 million to \$1,512.5 million in 2015 from \$7,670.4 million in 2014 mainly due to a decrease of \$3,545.6 million in impairment charges, \$1,526.9 million in depreciation charges, \$513.6 million in abandonment provision, \$256.2 million for onerous contracts provision and \$335.4 million in operating and other costs, with an increase of \$20 million in exploration write offs.

A net impairment write back totalling \$87.2 million (2014 charge: \$3,458.5 million) mainly relates to the Claymore and Montrose areas. The impairment was measured by reference to the value in use of income generating units and results from changes in long-term cash flow assumptions including cessation of production dates and commodity price expectations.

The charge for depreciation decreased by \$1,526.9 million to \$535.2 million in 2015 from \$2,062.1 million in 2014. The higher charge in 2014 being due to an increase in abandonment cost estimates on the decommissioning assets, together with a reduction in estimated recoverable oil and gas reserves.

Operating costs decreased by \$311.2 million to \$1,017.7 million (\$69.79/boe) in 2015 compared to \$1,328.9 million (\$108.20/boe) in 2014.

#### *Taxation*

The tax credit for the year of \$176.4 million (2014: credit of \$3,515.2 million) was the expected credit on the pre-tax loss of \$826.2 million plus the impact of the ring fence expenditure supplement and petroleum revenue tax credits, less the impact of the foreign exchange loss on deferred tax and not recognising a proportion of the deferred tax movement in the year.

#### *Capital expenditure*

The group's programme of significant investment in the North Sea continued during 2015 with expenditure of \$698.1 million. The major areas of capital expenditure were the development projects in the Montrose and Flyndre/Cawdor areas; the Seagull exploration well and a workover on the Tweedsmuir SP1 well.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Strategic report for the year ended 31 December 2015 (continued)**

### **Principal risks and uncertainties**

Repsol Sinopec Resources UK Limited is exposed to a number of risks inherent in exploring for, developing and producing crude oil and natural gas.

#### *Ability to find, develop or acquire additional reserves*

The company's future success depends largely on its ability to find, develop or acquire additional oil and gas reserves that are economically recoverable. Exploration and development drilling may not result in commercially productive reserves. Successful acquisitions require an assessment of a number of factors, many of which are uncertain. These factors include recoverable reserves, exploration potential, future oil and gas prices, operating costs and potential environmental and other liabilities. Such assessments are inexact and their accuracy is inherently uncertain.

#### *Operational hazards and responsibilities*

Oil and gas drilling and producing operations are subject to many risks, including the possibility of fire, explosions, mechanical failure, pipe failure, chemical spills, accidental flows of oil, natural gas or well fluids, sour gas releases, storms or other adverse weather conditions and other occurrences or accidents, which could result in personal injury or loss of life, damage or destruction of properties, environmental damage, interruption of business, regulatory investigations and penalties and liability to third parties. The company also mitigates insurable risks to protect against significant losses by maintaining a comprehensive insurance program, while maintaining levels and amounts of risk within the company that management believes to be acceptable. The company believes its liability and property insurance is appropriate to its business and consistent with common industry practice, although such insurance will not provide coverage in all circumstances.

#### *Project completion risks*

The company manages a variety of projects, including exploration and development projects and the construction or expansion of facilities and pipelines. Project delays may delay expected revenues and project cost overruns could make projects uneconomic. The company's ability to complete projects depends upon numerous factors beyond the company's control. These factors include the availability of processing capacity; the availability and proximity of pipeline capacity; the availability of drilling and other equipment; the ability to access lands; weather; unexpected cost increases; accidents; the availability of skilled labour, including engineering and project planning personnel; and regulatory matters. Cost escalation for materials and services may be unrelated to commodity prices changes and may continue to have a significant impact on project planning and economics.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**


**Strategic report for the year ended 31 December 2015 (continued)**

**Principal risks and uncertainties (continued)**

*Commodity price risk*

The company's results are closely linked to fluctuations in the oil price which can be very volatile. Decreases in the oil price are likely to reduce profitability by decreasing revenue without a proportional decrease in costs; they may necessitate impairment of asset values and may make projects uneconomic. Increases in the oil price may increase competition for access to resources and encourage cost inflation.

By order of the board



**G. Crawford**  
**Company Secretary**  
2 September 2016

**Registered Office**  
20-22 Bedford Row  
London  
WC1R 4JS

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Directors' report for the year ended 31 December 2015**

### **Registered No. 00825828**

The directors present their report together with the audited financial statements of Repsol Sinopec Resources UK Limited ("the company") and its subsidiary companies ("the group") for the year ended 31 December 2015.

### **Results and dividends**

The loss for the year amounted to \$649.8 million (2014: loss of \$3,078.6 million). The company has not declared any dividends during the year (2014: \$nil). The directors do not propose the payment of a dividend.

### **Future developments**

The current economic environment with low oil and gas prices has created difficult trading conditions in the oil and gas sector. In order to deliver the basis of a successful and sustainable business the Repsol Sinopec Resources UK Limited group, of which the group is a member, has embarked on a transformation programme, focused on delivering improved performance. The directors consider that with the successful completion of the group transformation programme and with the support provided by its shareholders, that the group is in a satisfactory position to take advantage of any opportunities which may arise in the future, and plan to continue in the exploration for, and development and production of, oil and gas.

### **Going concern**

The financial position of the group and its business activities, together with the factors likely to affect its future development, performance and position, are set out above and in the Strategic Report. The group is continuing to undertake a significant programme of investment in capital projects and in upgrading existing assets in order to maximise future returns and cash flows of the business. Funding for this investment will be met by the continued support of the group's shareholders Talisman (part of the Repsol S.A. group) and Addax (part of the Sinopec group) who have signed agreements which govern the operation of the joint venture and provide access to funding facilities. A Subscription Agreement was entered into in June 2015 to provide a committed equity facility of \$1.7 billion to fund capital expenditure, abandonment expenditure and operating expenditure requirements in the period to 31 December 2016. This agreement has been extended to cover the period to 31 December 2017. The unutilised capacity of this facility is \$855 million as at 2 September 2016. As a result the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and therefore the annual financial statements have been prepared on a going concern basis.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Directors' report for the year ended 31 December 2015 (continued)**

### **Directors**

The directors who held office during the year and up to the date of signing of the balance sheet were:

Y. Zhang  
R.S. Ramshaw  
L. Cabra (appointed 8 May 2015)  
M.T. Garcia Blanco (appointed 30 September 2015)  
J. Warrender (appointed 13 July 2016)  
J.F. van Geloven (appointed 1 April 2016, resigned 12 July 2016)  
J.R. Baillie (resigned 31 March 2016)  
P. Warwick (resigned 30 September 2015)  
R.R. Rooney (resigned 8 May 2015)

### **Directors' indemnity**

The company has granted an indemnity to one of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provisions for the benefit of the company's directors remain in force at the date of this report.

### **Employee involvement**

During the year, the policy of providing employees with information about the group has been continued with employees encouraged to present their suggestions and view on the company's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

### **Disabled employees**

The group gives full and fair consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.



**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Directors' report for the year ended 31 December 2015 (continued)**

**Disclosure of information to the auditor**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

**Re-appointment of auditors**

The company has passed an elective resolution to dispense with the obligation to reappoint auditors on an annual basis.

By order of the board



**G. Crawford**  
**Company Secretary**  
2 September 2016

**Registered Office**  
20-22 Bedford Row  
London  
WC1R 4JS

## **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

### **Directors' responsibilities statement**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the group financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the directors to prepare group financial statements for each financial year. Under that law, the directors are required to prepare group financial statements under International Financial Reporting Standards as adopted by the European Union.

Under company law the directors must not approve the group financial statements 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 group financial statements the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the group
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable and prudent;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance; and
- state that the group has complied with International Financial Reporting Standards as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate 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 and enable them to ensure that the group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. 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 confirm that they have complied with these requirements and, having a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

## **Independent auditor's report to the members of Repsol Sinopec Resources UK Limited**

We have audited the financial statements of Repsol Sinopec Resources UK Limited for the year ended 31 December 2015 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and the related notes 1 to 28; and the Parent Company Income Statement, the Parent Company Statement of Comprehensive Income, the Parent Company Statement of Financial Position, the Parent Company Statement of Changes in Equity, and the related notes 1 to 25. The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements 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.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's and the parent company's loss for the year then ended;

## **Independent auditor's report to the members of Repsol Sinopec Resources UK Limited (continued)**

### **Opinion on financial statements (continued)**

- the consolidated financial statements have been properly prepared in accordance with (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

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

### **Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

*Ernst & Young LLP*

Kevin Weston (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Aberdeen

.....7 September.....2016

# Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)

## Consolidated income statement for the year ended 31 December 2015

	<u>Note</u>	<u>2015</u> <u>\$'000</u>	<u>2014</u> <u>\$'000</u>
Sales revenue	3	796,274	1,192,521
Other operating income	3	22,491	7,674
Gains on disposal of non-current assets		-	11
<b>Operating revenue</b>		<u>818,765</u>	<u>1,200,206</u>
Operating costs		(1,017,689)	(1,328,887)
Royalties		(4,609)	(12,345)
Depreciation of non-current assets		(535,219)	(2,062,096)
Impairment of non-current assets		87,169	(3,458,459)
Impairment of goodwill		-	1,543
Exploration expenses		(30,373)	(10,363)
Provision for stock obsolescence		(31,855)	-
Provision for abandonment costs		-	(513,580)
Provision for onerous contracts		18,389	(237,860)
Provision for doubtful debts		-	(1,000)
Other operating expenses		(11,635)	(51,409)
Stock based compensation		<u>13,320</u>	<u>4,041</u>
<b>Operating expenses</b>		<u>(1,512,502)</u>	<u>(7,670,415)</u>
<b>Operating loss</b>		<b>(693,737)</b>	<b>(6,470,209)</b>
Finance income	7	2,825	2,080
Finance costs	8	(135,551)	(129,054)
Net exchange gains		<u>242</u>	<u>3,359</u>
<b>Loss before taxation</b>		<b>(826,221)</b>	<b>(6,593,824)</b>
Taxation	9	<u>176,381</u>	<u>3,515,235</u>
<b>Loss for the financial year</b>		<u><b>(649,840)</b></u>	<u><b>(3,078,589)</b></u>

The loss of \$649.8m for the year ended 31 December 2015 was derived in its entirety from continuing operations.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Consolidated statement of comprehensive income for the year ended 31 December 2015**

	<b>2015</b> <b><u>\$'000</u></b>	<b>2014</b> <b><u>\$'000</u></b>
<b>Loss for the financial year</b>	(649,840)	(3,078,589)
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Re-measurements of the net pension liability	11,975	(43,450)
Deferred income tax relating to net pension liability	<u>(11,558)</u>	<u>26,938</u>
<b>Other comprehensive income/(loss) for the year net of tax</b>	<u>417</u>	<u>(16,512)</u>
<b>Total comprehensive loss for the year</b>	<u><u>(649,423)</u></u>	<u><u>(3,095,101)</u></u>

# Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)

## Consolidated statement of financial position as at 31 December 2015

		2015	2014	As at 1 January 2014
	<u>Note</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<b>Assets</b>				
<b>Non-current assets</b>				
Goodwill	10	3,922	2,831	-
Exploration and evaluation assets	11	168,716	173,645	73,610
Property, plant and equipment	12	2,801,950	2,461,909	5,529,949
Deferred income tax asset	9	1,873,080	1,981,459	-
Retirement benefit asset	18	-	-	7,434
		<u>4,847,668</u>	<u>4,619,844</u>	<u>5,610,993</u>
<b>Current assets</b>				
Inventories	13	99,979	147,079	116,145
Trade and other receivables	14	269,636	509,374	505,482
Cash and cash equivalents	16	<u>20,319</u>	<u>36,930</u>	<u>40,605</u>
		<u>389,934</u>	<u>693,383</u>	<u>662,232</u>
<b>Total assets</b>		<u>5,237,602</u>	<u>5,313,227</u>	<u>6,273,225</u>
<b>Liabilities and equity</b>				
<b>Current liabilities</b>				
Trade and other payables	15	401,939	926,746	879,635
Provisions	21	<u>215,381</u>	<u>208,255</u>	<u>14,060</u>
		<u>617,320</u>	<u>1,135,001</u>	<u>893,695</u>
<b>Non-current liabilities</b>				
Trade and other payables	15	-	850,840	1,397,982
Deferred income tax liability	9	-	7,597	858,021
Deferred petroleum revenue tax liability	9	180,146	354,512	964,089
Retirement benefit obligation	18	20,661	31,638	-
Provisions	21	<u>4,952,105</u>	<u>4,947,418</u>	<u>2,965,671</u>
		<u>5,152,912</u>	<u>6,192,005</u>	<u>6,185,763</u>
<b>Total liabilities</b>		<u>5,770,232</u>	<u>7,327,006</u>	<u>7,079,458</u>
<b>Equity</b>				
Called up share capital	23	3,368,589	1,710,602	122,571
Share premium account	24	787,211	299,346	-
Other reserves	24	-	15,280	15,102
Retained earnings	24	<u>(4,688,430)</u>	<u>(4,039,007)</u>	<u>(943,906)</u>
<b>Total equity</b>		<u>(532,630)</u>	<u>(2,013,779)</u>	<u>(806,233)</u>
<b>Total liabilities and equity</b>		<u>5,237,602</u>	<u>5,313,227</u>	<u>6,273,225</u>

The financial statements were approved by the board of directors on 2 September 2016 and were signed on its behalf by:

Y Zhang  
Director



**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Consolidated statement of changes in equity for the year ended 31 December 2015**

	<b>Called up share capital (Note 23) \$'000</b>	<b>Share premium account (Note 24) \$'000</b>	<b>Other reserves (Note 24) \$'000</b>	<b>Retained earnings (Note 24) \$'000</b>	<b>Total \$'000</b>
<b>Balance at 1 January 2014</b>	122,571	-	15,102	(943,906)	(806,233)
Loss for the year	-	-	-	(3,078,589)	(3,078,589)
Other comprehensive loss for the year	-	-	-	(16,512)	(16,512)
<b>Total comprehensive loss for the year</b>	-	-	-	(3,095,101)	(3,095,101)
Shares issued	1,588,031	299,346	-	-	1,887,377
Share-based payments	-	-	178	-	178
<b>Balance at 31 December 2014</b>	1,710,602	299,346	15,280	(4,039,007)	(2,013,779)
Loss for the year	-	-	-	(649,840)	(649,840)
Other comprehensive income for the year	-	-	-	417	417
<b>Total comprehensive loss for the year</b>	-	-	-	(649,423)	(649,423)
Shares issued	1,657,987	487,865	-	-	2,145,852
Share-based payments	-	-	(15,280)	-	(15,280)
<b>Balance at 31 December 2015</b>	3,368,589	787,211	-	(4,688,430)	(532,630)



**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Consolidated statement of cash flows for the year ended 31 December 2015**

	<b>Notes</b>	<b>2015 \$'000</b>	<b>2014 \$'000</b>
<b>Cash flow from operating activities</b>			
Loss before taxation		(826,221)	(6,593,824)
Adjustments to reconcile loss to net cash flows:			
Depreciation, depletion and amortisation	12	535,219	2,062,096
Exploration costs impaired and written off	11/12	30,373	10,363
Impairment of oil and gas assets	11/12	(87,169)	3,458,459
Impairment of goodwill		-	(1,543)
Gain on disposal of oil and gas assets		-	(11)
Provision for abandonment costs		-	513,580
Utilisation of abandonment provision	21	(40,383)	(40,416)
Unwinding of discount on abandonment provision	21	118,373	72,751
Provision for onerous contracts	21	(18,389)	237,860
Utilisation of onerous contracts provision	21	(161,004)	-
Other non-cash income and expenses		(17,746)	(20,204)
Other non-cash interest		(35,177)	(6,892)
Add: finance costs (disclosed in financing activities)		<u>52,286</u>	<u>61,418</u>
Operating loss before working capital changes		(449,838)	(246,363)
Working capital adjustments:			
Decrease/(increase) in trade and other receivables		230,291	(68,101)
Decrease/(increase) in inventories	13	47,100	(30,934)
Increase/(decrease) in trade and other payables		<u>(190,788)</u>	<u>(7,804)</u>
Cash outflows from operations		(363,235)	(353,202)
Income taxes received		<u>91,179</u>	<u>166,510</u>
<b>Net cash outflows from operating activities</b>		<u>(272,056)</u>	<u>(186,692)</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(801,403)	(357,606)
Purchase of exploration and evaluation assets		(28,152)	(702,361)
Proceeds on disposal of property, plant and equipment		-	11
<b>Net cash used in investing activities</b>		<u>(829,555)</u>	<u>(1,059,956)</u>
<b>Financing activities</b>			
Proceeds from issue of shares	23	2,145,852	1,887,377
Loan advances from related parties		-	782,999
Loan repayments to related parties	17	(1,008,566)	(1,365,985)
Interest paid		<u>(52,286)</u>	<u>(61,418)</u>
<b>Net cash from financing activities</b>		<u>1,085,000</u>	<u>1,242,973</u>
Net decrease in cash	16	<u>(16,611)</u>	<u>(3,675)</u>
Cash and cash equivalents at beginning of year		<u>36,930</u>	<u>40,605</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>20,319</u></u>	<u><u>36,930</u></u>

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the consolidated financial statements – 31 December 2015**

### **1. Corporate information**

Repsol Sinopec Resources UK Limited (the “company” and parent of the “group”) is incorporated and domiciled in England and Wales. The registered office is 20-22 Bedford Row, London, WC1R 4JS.

The principal activity of the group is the exploration for, and development and production of, oil and gas.

The group’s consolidated financial statements for the year ended 31 December 2015 were authorised for issue by the board of directors on 2 September 2016 and the statement of financial position was signed on the board’s behalf by Y Zhang.

### **2. Significant accounting policies**

#### **(a) Basis of preparation**

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

For all periods up to and including the year ended 31 December 2014, the group prepared its financial statements in accordance with local generally accepted accounting principles (UK GAAP). These financial statements, for the year ended 31 December 2015 are the first the group has prepared in accordance with IFRS.

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in US dollars, and all values are rounded to the nearest thousand dollars (\$’000), except where otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements, which has a material impact on the group.

#### **(b) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the group as at 31 December 2015. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if, and only if, the group has all of the following:

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the consolidated financial statements – 31 December 2015 (continued)**

### **2. Significant accounting policies (continued)**

#### **(b) Basis of consolidation (continued)**

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

Where the group has less than a majority of the voting, or similar, rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The group's voting rights and potential voting rights

The group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of income and other comprehensive income from the date the group gains control until the date the group ceases to control the subsidiary.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in the statement of income and other comprehensive income

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the consolidated financial statements – 31 December 2015 (continued)**

### **2. Significant accounting policies (continued)**

#### **(b) Basis of consolidation (continued)**

- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the group had directly disposed of the related assets or liabilities.

#### **(c) New standards and interpretations**

##### *New and amended accounting standards and interpretations*

The group has adopted the following relevant new and amended IFRS and IFRIC interpretations as of 1 January 2015:

- Improvements to IFRSs 2010-2012 cycle
- Improvements to IFRSs 2011-2013 cycle

These new and amended standards and interpretations have not materially affected amounts reported or disclosed in the group's consolidated financial statements for the year ended 31 December 2015.

##### *Standards and interpretations issued but not yet effective*

Standards issued and relevant to the group, but not yet effective up to the date of issuance of the group's financial statements, are listed below. This listing is of standards and interpretations issued, which the group reasonably expects to be applicable at a future date. The group intends to adopt these standards when they become effective. The Directors do not anticipate that the adoption of these standards will have a material impact on the group's financial statements in the period of initial application.

##### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The group is currently reviewing the standard to determine the likely impact on the group's consolidated financial statements and plans to adopt the new standard on the required effective date.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the consolidated financial statements – 31 December 2015 (continued)**

### **2. Significant accounting policies (continued)**

#### **(c) New standards and interpretations (continued)**

##### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

##### *IFRS 16 Leases*

IFRS 16 Leases was issued in January 2016; it sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. It replaces the previous leases standard IAS 17 Leases and is effective from 1 January 2019. IFRS 16 eliminates the classification of leases as either operating leases or finance leases, as is required under IAS 17 and, instead, introduces a single lease accounting model. The group will assess the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

##### *Amendments to IFRS 11 Joint Arrangements for Acquisition of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured in the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties share joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The group will assess the impact of IFRS 11 and plans to adopt the new standard on the required effective date.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the consolidated financial statements – 31 December 2015 (continued)**

### **2. Significant accounting policies (continued)**

#### **(c) New standards and interpretations (continued)**

##### *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the group given that the group has not used a revenue-based method to depreciate its non-current assets.

##### *Annual Improvements 2012-2014 Cycle*

These improvements are effective for annual periods beginning on or after 1 January 2016 and are not expected to have any impact on the group. They include:

##### *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets or disposal groups are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

##### *IFRS 7 Financial Instruments: Disclosures*

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

##### *IAS 34 Interim Financial Reporting*

The amendment clarifies that the required interim disclosure must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g. in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**2. Significant accounting policies (continued)**

**(c) New standards and interpretations (continued)**

*Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of income and OCI and the statements of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to the financial statements;
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

**(d) Critical accounting estimates and judgements**

The preparation of the group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. The group has identified the following areas where significant judgements, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the consolidated financial statements.

The most important estimates and judgements in relation thereto are:

*Estimates in oil and gas reserves*

The business of the group is the exploration for, development of and production of oil and gas reserves. Estimates of oil and gas reserves are used in the calculations for impairment tests and accounting for depletion and decommissioning. Changes in estimates of oil and gas reserves resulting in different future production profiles will affect the discounted cash flows used in impairment testing, the anticipated date of decommissioning and the depletion charges in accordance with the unit-of production method.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the consolidated financial statements – 31 December 2015 (continued)**

### **2. Significant accounting policies (continued)**

#### **(d) Critical accounting estimates and judgements (continued)**

##### *Estimates in impairment of oil and gas assets and goodwill*

Determination of whether oil and gas assets or goodwill has suffered any impairment requires an estimation of the fair value less costs to dispose of the cash-generating units (CGU) to which oil and gas assets and goodwill have been allocated. The calculation requires the entity to estimate the future cash flows expected to arise from the CGU using discounted cashflow models comprising asset-by-asset life of field projections using Level 3 inputs (based on IFRS 13 fair value hierarchy). Key assumptions and estimates in the impairment models relate to: commodity prices that are based on forward curve prices for the first three years and thereafter at US\$84.90 per barrel inflated at 2% per annum from 2020; discount rates derived from the group's post-tax weighted average cost of capital of 7% (2014: 8%); commercial reserves and the related cost profiles. As the production and related cash flows can be estimated, management believes that the estimated cash flows expected to be generated over the life of each field is the appropriate basis upon which to assess goodwill and individual assets for impairment.

##### *Determining whether an acquisition is a business combination or asset purchase*

The group analyses the transaction or event by applying the definition of a business combination, principally whether inputs, processes and outputs exist, including reviewing group strategy, control and resources. Should the acquired business not be viewed as a business combination then it is accounted for as an asset purchase.

##### *Determining the fair value of property, plant and equipment on business combinations*

The group determines the fair value of property, plant and equipment acquired based on the discounted cash flows at the time of acquisition, from the proven and probable reserves. In assessing the discounted cash flows, the estimated future cash flows attributable to the asset are discounted to their present value using a discount rate that reflects the market assessments of the time value of money and the risks specific to the asset at the time of the acquisition. In calculating the asset fair value the group will apply the forward curve followed by an oil price assumption representing management's view of the long term oil price.

##### *Decommissioning provision*

Amounts used in recording a provision for decommissioning are estimates based on current legal and constructive requirements and current technology and price levels for the removal of facilities and plugging and abandoning of wells. Due to changes in relation to these items, the future actual cash outflows in relation to decommissioning are likely to differ in practice.



# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the consolidated financial statements – 31 December 2015 (continued)**

### **2. Significant accounting policies (continued)**

#### **(d) Critical accounting estimates and judgements (continued)**

##### *Decommissioning provision (continued)*

To reflect the effects due to changes in legislation, requirements and technology and price levels, the carrying amounts of decommissioning provisions are reviewed on a regular basis. The effects of changes in estimates do not give rise to prior year adjustments and are dealt with prospectively. While the group uses its best estimates and judgement, actual results could differ from these estimates.

In estimating decommissioning provisions, the group applies an annual inflation rate of 2.0% from 2019 onwards (2014: 2.0%) and an annual discount rate of 2.17% (2014: 2.45%).

##### *Recovery of deferred tax assets*

Judgement is required to determine whether deferred tax assets are recognised in the consolidated statement of financial position.

Deferred tax assets arising from the carry forward of tax losses require management to assess the probability that sufficient future taxable profits will be available against which the carry forward losses can be utilised. These assessments are based on management's estimates of forecast cash flows from operations (which are impacted by production and sales volumes, oil prices, reserves, operating costs, capital and decommissioning expenditure).

Deferred tax assets arising from future decommissioning expenditure require management to assess the likelihood that the group will be able to carry back such expenditure against the taxable profits of earlier accounting periods or offset such expenditure against future profits. Assumptions about the recovery of historic taxes paid depend on management's estimates of future decommissioning costs and forecast cash flows from operations as well as judgement about the application of existing tax laws.

To the extent that future cash flows and taxable income, or future decommissioning expenditure, differ significantly from estimates, the ability of the group to realise deferred tax assets could be impacted.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the consolidated financial statements – 31 December 2015 (continued)**

### **2. Significant accounting policies (continued)**

#### **(e) Non-current assets, depreciation and depletion**

The successful efforts method is used to account for oil and gas exploration and development costs. Under this method, acquisition costs of oil and gas properties and costs of drilling and equipping development wells are capitalised. Expenditure incurred prior to the acquisition of a licence and the costs of other exploration activities which are not specifically directed to an identified structure are written off in the year. After appraisal, if commercial reserves are found, then the net capitalised costs incurred in discovering the field are transferred into non-current assets. Any subsequent development costs are capitalised in non-current assets.

General and administrative expenditure is capitalised only where it directly relates to activities, the costs of which are also capitalised. All other costs including periodic licence fees and exchange gains and losses are expensed.

Exploration well costs are initially capitalised and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to dry hole expense. Exploration well costs that have found sufficient reserves to justify commercial production, but those reserves cannot be classified as proved, continue to be capitalised as long as sufficient progress is being made to assess the reserves and economic viability of the well and related project. All other exploration costs, including geological and geophysical costs and annual lease rentals, are written off to exploration costs.

Unamortised exploration and development costs are depleted using the unit of production method on an area basis using estimated proved reserves of oil and gas at the end of the financial year plus production in the year. For the purpose of these calculations, production of crude oil, natural gas liquids, natural gas and proved and probable reserves are converted to a common unit of measure on the basis of their approximate relative energy content.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. Any impairment loss is measured by reference to the value of an income generating unit, with cash flows discounted at an appropriate rate. The carrying value of exploration and evaluation assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Prior years' impairments are reversed should there be a change in economic conditions from those in existence at the time the impairment was recognised.

Interest incurred on the construction of oil and gas interests is capitalised as part of the costs of the asset.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the consolidated financial statements – 31 December 2015 (continued)**

### **2. Significant accounting policies (continued)**

#### **(f) Foreign currency translation**

The functional and presentational currency of the financial statements is US dollars. The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the income statement. Non-monetary assets and liabilities, other than those measured at fair value are not retranslated subsequent to initial recognition.

#### **(g) Revenue**

Revenue from sales is recognised when the significant risks and rewards of ownership have been passed to the buyer and when the amount is recoverable and can be reasonably measured.

Revenue associated with sales of oil and gas is recorded upon transfer of title, according to the terms of the sales contract.

Revenue represents the company's share of crude oil and gas liftings and tariff income invoiced during the year. Differences between the production sold and the company's share of production (under/over lifts) are included as an adjustment to revenue and held on the statement of financial position at market value.

#### **(h) Joint ventures**

The operation of substantially all of the oil and gas exploration, development and production activity is conducted through joint arrangements that are not entities. The company is involved as a co-participant in joint operations with other companies in exploring for oil and gas and in the exploitation of producing fields. The company's interests in its joint operations are accounted for under the proportional method of consolidation.

#### **(i) Over and underlifts**

The quantities of oil and other hydrocarbons lifted by the company may differ from its equity share of production giving rise to over or underlifts which are accounted for as follows:

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**3. Significant accounting policies (continued)**

**(i) Over and underlifts (continued)**

- An underlift is included in inventory and valued at the lower of cost of production and net realisable value.
- An overlift is included in current liabilities and valued at market price.

**(j) Abandonment**

Liabilities for abandonment costs are provided for in full when the company has an obligation to dismantle and remove oil and gas properties and to restore the site on which it is located, and when a reasonable estimate of the liability can be made. The provision for abandonment has been estimated using existing technology at existing prices and in accordance with existing legislation and industry practice. The provision for abandonment is included in provisions for liabilities.

In addition, the company has capitalised an amount equivalent to the provision as a non-current asset in property, plant and equipment, which is amortised over the life of the field on a unit-of-production basis.

**(k) Taxation**

*Current tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

*Deferred tax*

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax losses and the carry back of ring fence tax losses, to the extent that it is probable that taxable profit will be available against which the temporary differences and the carry forward or carry back of unused tax losses can be utilised.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the consolidated financial statements – 31 December 2015 (continued)**

### **2. Significant accounting policies (continued)**

#### **(k) Taxation (continued)**

##### *Deferred tax (continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future or historic taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

##### *Group relief*

The company is a member of a group for the purposes of group relief under Part 5 of the Corporation Tax Act 2010. The company accounts for group relief as follows:

- Payment is received for group relief losses surrendered to other group companies;
- Payment is charged for group relief losses claimed from other group companies.

The value of the payment is determined by the amount of corporation tax saved by reason of the group relief being surrendered or claimed.

##### *Petroleum revenue tax*

Both current and deferred petroleum revenue taxes are recognised on the same basis as corporate income taxes under IAS 12.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the consolidated financial statements – 31 December 2015 (continued)**

### **2. Significant accounting policies (continued)**

#### **(l) Inventory**

Held within inventories are the following:

- The company's share of purchased materials held under joint venture agreements for utilisation in conducting the affairs of the joint venture.
- The company's share of underlifted crude oil.

Underlift inventory is stated at the lower of direct cost and net realisable value. Materials inventory is valued at moving average less provision for obsolescence.

#### **(m) Operating leases**

Costs incurred under operating leases are charged to the income statement as incurred.

#### **(n) Effect of changing estimates**

The effects of changes in estimated costs, reserves or other factors affecting unit-of-production calculations for depreciation and abandonment are reflected in the year of change and thereafter over the estimated remaining reserves of each field.

#### **(o) First-time adoption of IFRS**

These financial statements, for the year ended 31 December 2015, are the first the group has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2014, the group prepared its financial statements in accordance with local generally accepted accounting principles (UK GAAP).

Accordingly, the group has prepared financial statements that comply with IFRS applicable as at 31 December 2015, together with the comparative period data for the year ended 31 December 2014, as described in the summary of significant accounting policies. In preparing the financial statements, the group's opening statement of financial position was prepared as at 1 January 2014, the group's date of transition to IFRS. This note explains the principal adjustments made by the group in restating its UK GAAP financial statements, including the statement of financial position as at 1 January 2014 and the financial statements for the year ended 31 December 2014.

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the consolidated financial statements – 31 December 2015 (continued)**

### **2. Significant accounting policies (continued)**

#### **(o) First-time adoption of IFRS (continued)**

The group has applied the following exemptions:

- IFRS 3 Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 January 2014. Use of this exemption means that the local GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position.
- The group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements. IFRS 1 also requires that the local GAAP carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2014.
- The group has not applied IAS 21 retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to IFRS. Such fair value adjustments and goodwill are treated as assets and liabilities of the parent rather than as assets and liabilities of the acquiree. Therefore, those assets and liabilities are already expressed in the functional currency of the parent or are non-monetary foreign currency items and no further translation differences occur.
- Certain items of property, plant and equipment have been measured at fair value at the date of transition to IFRS.
- IFRS 2 Share-based Payment has not been applied to equity instruments in share-based payment transactions that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2014. For cash-settled share based payment transactions, the group has not applied IFRS 2 to liabilities that were settled before 1 January 2014.
- The group has applied the transitional provision in IFRIC 4 Determining whether an Arrangement Contains a Lease and has assessed all arrangements based upon the conditions in place as at the date of transition.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**2. Significant accounting policies (continued)**

**(o) First-time adoption of IFRS (continued)**

Consolidated reconciliation of equity as at 1 January 2014 (date of transition to IFRS)

		UK GAAP	Remeasure- ments	IFRS as at 1 January 2014
	<u>Note</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<b>Assets</b>				
<b>Non-current assets</b>				
Exploration and evaluation assets	11	868,203	(794,593)	73,610
Property, plant and equipment	12	2,713,158	2,816,791	5,529,949
Deferred income tax asset	9	185,494	(185,494)	-
Retirement benefit asset	18	<u>2,825</u>	<u>4,609</u>	<u>7,434</u>
		<u>3,769,680</u>	<u>1,841,313</u>	<u>5,610,993</u>
<b>Current assets</b>				
Inventories	13	116,145	-	116,145
Trade and other receivables	14	505,482	-	505,482
Cash and cash equivalents	16	<u>40,605</u>	<u>-</u>	<u>40,605</u>
		<u>662,232</u>	<u>-</u>	<u>662,232</u>
<b>Total assets</b>		<u>4,431,912</u>	<u>1,841,313</u>	<u>6,273,225</u>
<b>Liabilities and equity</b>				
<b>Current liabilities</b>				
Trade and other payables	15	879,635	-	879,635
Provisions	21	<u>14,060</u>	<u>-</u>	<u>14,060</u>
		<u>893,695</u>	<u>-</u>	<u>893,695</u>
<b>Non-current liabilities</b>				
Trade and other payables	15	1,397,982	-	1,397,982
Deferred income tax liability	9	-	858,021	858,021
Deferred petroleum revenue tax liability	9	202,630	761,459	964,089
Provisions	21	<u>2,965,671</u>	<u>-</u>	<u>2,965,671</u>
		<u>4,566,283</u>	<u>1,619,480</u>	<u>6,185,763</u>
<b>Total liabilities</b>		<u>5,459,978</u>	<u>1,619,480</u>	<u>7,079,458</u>
<b>Equity</b>				
Called up share capital	23	122,571	-	122,571
Share premium account	24	-	-	-
Other reserves	24	15,102	-	15,102
Retained earnings	24	<u>(1,165,739)</u>	<u>221,833</u>	<u>(943,906)</u>
<b>Total equity</b>		<u>(1,028,066)</u>	<u>221,833</u>	<u>(806,233)</u>
<b>Total liabilities and equity</b>		<u>4,431,912</u>	<u>1,841,313</u>	<u>6,273,225</u>



**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**2. Significant accounting policies (continued)**

**(o) First-time adoption of IFRS (continued)**

Consolidated reconciliation of equity as at 31 December 2014

	<b>Note</b>	<b>UK GAAP \$'000</b>	<b>Remeasure- ments \$'000</b>	<b>IFRS as at 31 December 2014 \$'000</b>
<b>Assets</b>				
<b>Non-current assets</b>				
Goodwill	10	-	2,831	2,831
Exploration and evaluation assets	11	462,535	(288,890)	173,645
Property, plant and equipment	12	1,925,536	536,373	2,461,909
Deferred income tax asset	9	<u>2,045,583</u>	<u>(64,124)</u>	<u>1,981,459</u>
		<u>4,433,654</u>	<u>186,190</u>	<u>4,619,844</u>
<b>Current assets</b>				
Inventories	13	147,079	-	147,079
Trade and other receivables	14	509,374	-	509,374
Cash and cash equivalents	16	<u>36,930</u>	<u>-</u>	<u>36,930</u>
		<u>693,383</u>	<u>-</u>	<u>693,383</u>
<b>Total assets</b>		<u>5,127,037</u>	<u>186,190</u>	<u>5,313,227</u>
<b>Liabilities and equity</b>				
<b>Current liabilities</b>				
Trade and other payables	15	926,746	-	926,746
Provisions	21	<u>208,255</u>	<u>-</u>	<u>208,255</u>
		<u>1,135,001</u>	<u>-</u>	<u>1,135,001</u>
<b>Non-current liabilities</b>				
Trade and other payables	15	850,840	-	850,840
Deferred income tax liability	9	36,039	(28,442)	7,597
Deferred petroleum revenue tax liability	9	288,709	65,803	354,512
Retirement benefit obligations	18	31,638	-	31,638
Provisions	21	<u>4,947,418</u>	<u>-</u>	<u>4,947,418</u>
		<u>6,154,644</u>	<u>37,361</u>	<u>6,192,005</u>
<b>Total liabilities</b>		<u>7,289,645</u>	<u>37,361</u>	<u>7,327,006</u>
<b>Equity</b>				
Called up share capital	23	1,710,602	-	1,710,602
Share premium account	24	299,346	-	299,346
Other reserves	24	15,280	-	15,280
Retained earnings	24	<u>(4,187,836)</u>	<u>148,829</u>	<u>(4,039,007)</u>
<b>Total equity</b>	24	<u>(2,162,608)</u>	<u>148,829</u>	<u>(2,013,779)</u>
<b>Total liabilities and equity</b>		<u>5,127,037</u>	<u>186,190</u>	<u>5,313,227</u>

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015 (continued)**

**2. Accounting policies (continued)**

**(o) First-time adoption of IFRS (continued)**

**Notes to the reconciliation of equity as at 1 January 2014 and 31 December 2014**

The adjustments to non-current assets are as a result of the company's election to measure non-current assets at 1 January 2014, the date of transition to IFRS, at fair value and use that fair value as its deemed cost at that date.

The adjustments to deferred taxes at 1 January 2014 relate to the tax impact of the restatement of non-current assets to fair value.

The adjustment to the retirement benefit asset at 1 January 2014 relates to the deferred tax element which was netted off against the retirement benefit asset balance under UK GAAP, but is shown in the deferred income tax balance under IFRS.

**3. Operating revenue**

All of the company's revenue and operating loss arises from continuing activities in the North Sea. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business and is stated net of value added tax.

	<b>2015</b> <b><u>\$'000</u></b>	<b>2014</b> <b><u>\$'000</u></b>
Revenue from oil and gas sales	796,274	1,192,521
Other operating income	22,491	7,674
Gains on disposal of non-current assets	-	11
	<u>818,765</u>	<u>1,200,206</u>

**4. Auditor's remuneration**

	<b>2015</b> <b><u>\$'000</u></b>	<b>2014</b> <b><u>\$'000</u></b>
Fees for the audit of the financial statements	357	211
Statutory audit of subsidiaries	729	650
Other assurance services	49	53
Audit of the Repsol Sinopec Pension and Life Scheme	21	23
	<u>1,156</u>	<u>937</u>

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**5. Directors' remuneration**

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Aggregate remuneration in respect of qualifying services	<u>1,630</u>	<u>343</u>

No directors exercised any share options during 2015 or 2014.

In respect of the highest paid director:

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Aggregate remuneration in respect of qualifying services	<u>1,546</u>	<u>249</u>

R. S. Ramshaw received remuneration for services as a director of Repsol Sinopec Resources UK Limited during the financial year 2015. P. Warwick received remuneration for services as Interim Managing Director of Repsol Sinopec Resources UK Limited during the financial year 2015. The other directors are representatives of the company's shareholders (see Note 28). They are senior executives of, and are remunerated by, the shareholder company (or another company in its group). They received no fees or remuneration for services as a director of Repsol Sinopec Resources UK Limited during the financial year 2015.

**6. Staff numbers and costs**

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Wages and salaries	137,118	155,964
Social security costs	19,380	19,143
Staff pension contributions	<u>25,704</u>	<u>29,014</u>
	<u>182,202</u>	<u>204,121</u>

Included within staff costs is a share based payment credit of \$13.3 million (2014: credit of \$4.0 million).

The average weekly number of employees during the year was as follows:

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Administration	129	140
Technical	<u>790</u>	<u>840</u>
	<u>919</u>	<u>980</u>

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**7. Finance income**

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Finance fee	2,469	304
Bank interest	112	91
Interest on petroleum revenue tax	226	-
Other interest	<u>18</u>	<u>1,685</u>
	<u>2,825</u>	<u>2,080</u>

**8. Finance costs**

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Related party interest	16,010	41,101
Other interest	5	3,493
Interest on pension scheme liabilities	1,099	11,627
Finance fee	64	82
Unwinding of discount on abandonment provision	<u>118,373</u>	<u>72,751</u>
	<u>135,551</u>	<u>129,054</u>

**9. Taxation**

The taxation credit in the income statement is made up as follows:

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Current income tax:		
- UK corporation tax credit for the year	18,654	21,506
- adjustments for previous years	<u>(232)</u>	<u>(3,776)</u>
Total current income tax	<u>18,422</u>	<u>17,730</u>
UK deferred income tax:		
- current year (charge)/credit	(154,178)	2,815,211
- adjustment for previous years	-	(12,183)
- impact of tax rate changes	158,374	-
- write off RDEC	(4,430)	(5,500)
- foreign exchange loss on deferred tax asset	<u>(92,329)</u>	<u>3,828</u>
Total deferred income tax (charge)/credit	<u>(92,563)</u>	<u>2,801,356</u>

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**9. Taxation (continued)**

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Petroleum revenue tax		
- current tax credit	76,156	86,700
- deferred tax credit	<u>174,366</u>	<u>609,449</u>
Total petroleum revenue tax credit	<u>250,522</u>	<u>696,149</u>
 Total tax credit	 <u>176,381</u>	 <u>3,515,235</u>
 Factors affecting tax credit for the year		
	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Loss before taxation	<u>826,221</u>	<u>6,593,824</u>
Tax on loss before taxation at 50% (2014: 62%)	413,247	4,088,171
Effects of:		
Expenses disallowed and non-taxable income	(2,856)	(69,158)
Tax losses	194,010	137,264
Supplementary charge adjustments	-	(270,983)
Petroleum revenue tax	126,981	268,883
Deferred tax assets not recognised	(615,491)	(626,116)
Impact of tax rate changes	158,374	-
Foreign exchange loss on deferred tax asset	(92,329)	3,828
RDEC adjustments	(4,430)	(5,500)
Other	(587)	4,534
Non ring fence adjustments	(305)	271
Adjustments for previous years	<u>(233)</u>	<u>(15,959)</u>
Total tax credit for the year	<u>176,381</u>	<u>3,515,235</u>

Ring fence corporation tax applies at a rate of 30% to companies engaged in UK oil extraction activities. The supplementary corporation tax charge (SCT) is 20%. SCT is payable on ring fence profits adjusted for finance costs and investment allowances.

Finance Act 2015 reduced the rate of the supplementary charge from 32% to 20% for accounting periods beginning on or after 1 January 2015. As such, the combined rate of ring fence corporation tax and supplementary charge is 50% from 1 January 2015.

For periods prior to 2015, relief for decommissioning expenditure was restricted to a combined corporation tax and supplementary charge rate of 50%. This was 12% lower than the combined rate of corporation tax and supplementary charge that applied. From 1 January 2015, there is no cap applied to relief for decommissioning expenditure.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**9. Taxation (continued)**

Finance Act 2015 replaced field allowances with a new investment allowance for expenditure incurred in the UKCS. Investment spend from 1 April 2015 should generate investment allowance which may reduce future ring fence profits chargeable to supplementary charge.

Petroleum revenue tax (PRT) applies to the group's share of profits arising from certain oil fields in the North Sea. PRT is applied at a rate of 50% for chargeable periods up to and including 31 December 2015. Finance Act 2015 reduced the rate of PRT to 35% for chargeable periods commencing after 31 December 2015.

Non ring fence profits are subject to the main rate of corporation tax, being 20.25% for the year ended 31 December 2015.

**Deferred income tax**

	<b>Income statement</b>		<b>Statement of financial position</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Income tax related:</b>				
Deferred tax assets				
Abandonment timing differences	35,716	984,529	2,098,434	2,062,719
Deferred petroleum revenue tax	(142,610)	(365,050)	90,075	232,685
Tax losses	(89,585)	587,010	944,484	1,034,068
			<u>3,132,993</u>	<u>3,329,472</u>
Deferred tax liabilities				
Accelerated capital allowances	83,532	1,626,855	(1,223,532)	(1,305,973)
Other timing differences	<u>24,814</u>	<u>(26,488)</u>	<u>(36,381)</u>	<u>(49,637)</u>
	(88,133)	2,806,856	(1,259,913)	(1,355,610)
RDEC write-off	<u>(4,430)</u>	<u>(5,500)</u>		
<b>Deferred tax (charge)/benefit</b>	<u>(92,563)</u>	<u>2,801,356</u>		
<b>Deferred tax (liability)</b>			<u>-</u>	<u>(7,597)</u>
<b>Deferred tax asset</b>			<u>1,873,080</u>	<u>1,981,459</u>
<b>Petroleum revenue tax related:</b>				
Deferred tax liabilities				
Oil and gas properties	<u>174,366</u>	<u>609,449</u>	<u>(180,146)</u>	<u>(354,512)</u>
<b>Deferred tax benefit</b>	<u>174,366</u>	<u>609,449</u>		
<b>Deferred tax liability</b>			<u>(180,146)</u>	<u>(354,512)</u>

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015 (continued)**

**9. Taxation (continued)**

Reconciliation of deferred income tax asset/(liability), net

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
At 1 January	1,973,862	(858,021)
Tax (charge)/benefit during the period recognised in income statement	(88,133)	2,806,856
Tax (charge)/benefit during the period recognised in other comprehensive income	(11,558)	26,938
Deferred tax liability acquired	<u>(1,091)</u>	<u>(1,911)</u>
At 31 December	<u><u>1,873,080</u></u>	<u><u>1,973,862</u></u>

The group's deferred tax asset at 31 December 2015 has been recognised to the extent that future decommissioning expenditure can be carried back and offset against the taxable ring fence profits of the group for earlier accounting periods. In accordance with IAS 12 – Income taxes, the group has assessed the recoverability of its deferred tax asset at 31 December 2015 with respect to the ring fence treatment of losses arising as a result of decommissioning. Future decommissioning expenditure, as reflected in the closing abandonment provision has been matched to ring fence corporation tax paid in prior years to determine the amount of taxes recoverable.

A deferred tax asset of \$0.1 billion has not been recognised in relation to the provision for future decommissioning. Based on historic ring fence corporation tax paid by the group, there is insufficient capacity to recognise a deferred tax asset in respect to this proportion of the abandonment provision.

A deferred tax asset of \$0.9 billion has not been recognised in relation to the ring fence losses carried forward as at 31 December 2015.

The group has non-ring fence losses of \$17.4 million. No deferred tax asset has been recognised at the balance sheet date due to the uncertainty of the recovery of these losses.

The rate of PRT was reduced from 50% to 35% for chargeable periods commencing after 31 December 2015. This rate has been reduced to 0% following the Chancellor's Budget Statement on 16 March 2016. The rate of 0% will apply to chargeable periods commencing after 31 December 2015 and has been enacted under the provisions of the Provisional Collection of Taxes Act 1968. This will result in the deferred PRT liability reducing to nil. As a result of the reduction in the PRT rate the deferred corporation tax asset would increase to \$1,892.6 million (based on the position as at 31 December 2015).

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**10. Goodwill**

	<b><u>\$'000</u></b>
<b>Cost:</b>	
At 1 January 2014	-
Recognised on acquisition	<u>2,831</u>
<b>At 31 December 2014</b>	<u>2,831</u>
Recognised on acquisition	<u>1,091</u>
<b>At 31 December 2015</b>	<u><u>3,922</u></u>
<b>Net carrying amount:</b>	
<b>At 31 December 2015</b>	<u><u>3,922</u></u>
<b>At 31 December 2014</b>	<u><u>2,831</u></u>
At 1 January 2014	<u><u>-</u></u>

**11. Exploration and evaluation assets**

	<b>Oil and gas interests <u>\$'000</u></b>
<b>Cost:</b>	
At 1 January 2014	73,610
Additions	109,115
Write offs	<u>(9,080)</u>
<b>At 31 December 2014</b>	<u><u>173,645</u></u>
Additions	28,152
Change in abandonment estimate	(12)
Write offs	<u>(30,323)</u>
<b>At 31 December 2015</b>	<u><u>171,462</u></u>
<b>Depreciation and impairment:</b>	
At 1 January 2014	-
Impairment	<u>-</u>
<b>At 31 December 2014</b>	<u>-</u>
Impairment	<u>2,746</u>
<b>At 31 December 2015</b>	<u><u>2,746</u></u>
<b>Net carrying amount:</b>	
<b>At 31 December 2015</b>	<u><u>168,716</u></u>
<b>At 31 December 2014</b>	<u><u>173,645</u></u>
<b>At 1 January 2014</b>	<u><u>73,610</u></u>



**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**12. Property, plant and equipment**

	<b>Oil and gas interests \$'000</b>	<b>Corporate \$'000</b>	<b>Total \$'000</b>
<b>Cost:</b>			
At 1 January 2014	5,509,562	59,630	5,569,192
Additions	1,056,530	2,977	1,059,507
Acquisitions	20,935	-	20,935
Expenditure written off	(1,283)	-	(1,283)
Change in abandonment estimate	<u>1,373,360</u>	<u>-</u>	<u>1,373,360</u>
At 31 December 2014	<u>7,959,104</u>	<u>62,607</u>	<u>8,021,711</u>
Additions	668,112	1,873	669,985
Acquisitions	2,182	-	2,182
Expenditure written off	(50)	-	(50)
Change in abandonment estimate	<u>113,228</u>	<u>-</u>	<u>113,228</u>
At 31 December 2015	<u>8,742,576</u>	<u>64,480</u>	<u>8,807,056</u>
<b>Depreciation and impairment:</b>			
At 1 January 2014	-	39,243	39,243
Charge for the year	2,056,512	5,588	2,062,100
Impairment charge for the year	<u>3,458,459</u>	<u>-</u>	<u>3,458,459</u>
At 31 December 2014	<u>5,514,971</u>	<u>44,831</u>	<u>5,559,802</u>
Charge for the year	530,105	5,114	535,219
Impairment credit for the year	<u>(89,915)</u>	<u>-</u>	<u>(89,915)</u>
At 31 December 2015	<u>5,955,161</u>	<u>49,945</u>	<u>6,005,106</u>
<b>Net carrying amount:</b>			
At 31 December 2015	<u>2,787,415</u>	<u>14,535</u>	<u>2,801,950</u>
At 31 December 2014	<u>2,444,133</u>	<u>17,776</u>	<u>2,461,909</u>
At 1 January 2014	<u>5,509,562</u>	<u>20,387</u>	<u>5,529,949</u>

All assets are within the North Sea area.

Included in property, plant and equipment at 31 December 2015 was an amount of \$904.8 million (2014: \$796.8 million) relating to expenditure for facilities in the course of construction. The expenditure includes finance costs capitalised during the year of \$4.7 million (2014: \$13.6 million).

Included within the net book value above is \$468.8 million (2014: \$479.1 million) in respect of abandonment costs capitalised.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the consolidated financial statements – 31 December 2015 (continued)**

### **12. Property, plant and equipment (continued)**

#### *Impairment testing of oil and gas assets and goodwill*

In accordance with IAS 36 Impairment of Assets, goodwill has been reviewed for impairment at the year end. In assessing whether goodwill has been impaired, the carrying amount of the CGU, including goodwill, is compared with its recoverable amount.

The recoverable amount of the CGU has been determined on a fair value less costs to sell basis. Discounted cash flow models comprising asset-by-asset life of field projections using level 3 inputs (based on IFRS 13 fair value hierarchy) have been used to determine the recoverable amounts. The cash flows have been modelled on a post-tax and post-decommissioning basis discounted at 7% (2014: 8%). The change in the discount rate reflects the weighted average cost of capital of the company's shareholders, adjusted for the country risk premium of the company. Risks specific to assets within the CGU are reflected within the cash flow forecasts.

#### *Key assumptions used in calculations*

The key assumptions required for the calculation of the CGU are:

- oil prices;
- production volumes;
- discount rates; and
- opex, capex and decommissioning costs.

Oil prices are based on Wood MacKenzie forward price curves for the first three years and thereafter at US\$84.90 per barrel inflated at 2% per annum.

Production volumes are based on life of field production profiles for each asset within the CGU and were derived from internal estimates.

The discount rate reflects management's estimate of the group's WACC. The WACC takes into account both debt and equity and taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the group and its operating segments and is derived from its WACC, with appropriate adjustments made to reflect the risks specific to the CGU and to determine the pre-tax rate.

Opex, capital expenditure and decommissioning costs are derived from the group's business plan.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**12. Property, plant and equipment (continued)**

Included within the depreciation and impairment movement for the year is a writeback of \$89.9 million (2014: \$3,458.5 million charge) in respect of impairment. The impairment reversal is a result of changes in long-term cash flow assumptions including cessation of production dates and commodity price expectations.

*Sensitivity to changes in assumptions*

The group's value is highly sensitive, inter alia, to oil price achieved and production volumes. With the exception of the Claymore CGU the NPV of group's assets is equal to the carrying amount. Were the oil price or production volumes of the Claymore CGU to fall by 1% the NPV would be equal to the carrying amount. The group's main producing assets (Claymore CGU and Montrose/Arbroath CGU) would need to be fully impaired if the oil price or production volumes (on a CGU weighted average basis) were to fall by 35%-40% from the prices outlined above. The above sensitivities have flexed revenues and tax cash flows, but operating costs and capital expenditures have been kept constant. In reality, management would be highly likely to take steps to mitigate the value impact of further falls in the oil price by cutting supply chain costs.

**13. Inventories**

	<b>2015</b>	<b>2014</b>	<b>As at 1</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>January 2014</b>
			<b>\$'000</b>
Crude oil	7,703	11,347	4,602
Purchased materials	<u>92,276</u>	<u>135,732</u>	<u>111,543</u>
	<u>99,979</u>	<u>147,079</u>	<u>116,145</u>

The difference between the carrying value of inventories and their replacement cost is not material.

**14. Trade and other receivables**

	<b>2015</b>	<b>2014</b>	<b>As at 1</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>January 2014</b>
			<b>\$'000</b>
Trade receivables	125,689	260,466	270,744
Other receivables	-	79,424	3,659
Prepayments and accrued income	12,133	32,549	28,342
Corporation tax	50,734	30,425	90,209
Petroleum revenue tax	80,974	100,147	106,259
Other taxes	-	5,846	6,193
Amounts due from related parties	<u>106</u>	<u>517</u>	<u>76</u>
	<u>269,636</u>	<u>509,374</u>	<u>505,482</u>

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015 (continued)**

**14. Trade and other receivables (continued)**

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the reporting date but against which the group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The average age of these receivables is 56 days (2014: 193 days).

Ageing of past due but not impaired receivables

	<b>2015</b> <b><u>\$'000</u></b>	<b>2014</b> <b><u>\$'000</u></b>
31-60 days	849	412
61-90 days	109	954
Over 91 days	<u>139</u>	<u>110,692</u>
Total	<u><u>1,097</u></u>	<u><u>112,058</u></u>

Movement in the allowance for doubtful debts

	<b>2015</b> <b><u>\$'000</u></b>	<b>2014</b> <b><u>\$'000</u></b>
Balance at the beginning of the period	84,476	84,667
Impairment losses recognised	-	1,000
Amounts written off during the year as uncollectable	(19,033)	-
Foreign exchange translation gains	<u>(906)</u>	<u>(1,191)</u>
Balance at the end of the period	<u><u>64,537</u></u>	<u><u>84,476</u></u>

In determining the recoverability of a trade receivable the company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**15. Trade and other payables**

	<b>2015</b>	<b>2014</b>	<b>As at 1</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>January 2014</u></b>
			<b><u>\$'000</u></b>
<b>Current</b>			
Trade payables	34,547	86,214	51,635
Other payables	-	13,234	16,652
Other taxes	194	-	-
Accruals and deferred income	359,504	619,511	576,499
Amounts due to related parties	<u>7,694</u>	<u>207,787</u>	<u>234,849</u>
	<u>401,939</u>	<u>926,746</u>	<u>879,635</u>
<b>Non-current</b>			
Amounts due to related parties	<u>-</u>	<u>850,840</u>	<u>1,397,982</u>

Trade payables are unsecured and are usually paid within 30 days of recognition.

**16. Cash and cash equivalents**

The carrying value of the group's cash and cash equivalents is considered to be a reasonable approximation to their fair value due to their short term maturities.

**17. Loans**

Loans repayable, included in creditors within amounts due to related parties are analysed as follows:

	<b>2015</b>	<b>2014</b>	<b>As at 1</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>January 2014</u></b>
			<b><u>\$'000</u></b>
<b>Amounts repayable within five years:</b>			
Wholly repayable	<u>-</u>	<u>1,040,153</u>	<u>1,630,096</u>

The loans were from Talisman Finance (UK) Limited and TipTop Energy Limited (related parties). They were repayable by quarterly instalments, bearing interest at variable rates. On 16 July 2015, \$1,060.8 million proceeds from the issue of shares (note 23) were used as repayment of the related party loans and interest outstanding at that date, with \$541.0 million repaid to Talisman Finance (UK) Limited and \$519.8 million repaid to TipTop Energy Limited.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015 (continued)**

**18. Pensions**

The group's main pension scheme is a defined contribution scheme (the "DC Scheme"), which is offered to all employees. Contributions totalling \$14.2 million were paid into the DC Scheme during the year ended 31 December 2015 (2014: \$14.3 million).

The group also operates a defined benefit scheme (the "DB Scheme"), which was closed to new entrants with effect from 1 January 2011 and closed to existing members for future benefit accrual on 31 March 2016. The DB Scheme provides benefits based on final pensionable pay; for existing members, future benefits will be based on accrued pension as at 31 March 2016.

The assets of the DB Scheme are held separately from those of the group and company, and are invested in a mixture of equities, debt instruments and investment funds. The group contributions made to the DB Scheme in 2015 were based on the contribution rate set for the year of 37.9%. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent actuarial valuation was at 31 March 2015. The valuation used for disclosures below is for the DB Scheme and has been based on the preliminary results of the most recent actuarial valuation at 31 March 2015 and updated by Mercer Limited to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at 31 December 2015.

Independent actuaries reported on the financial position of the DB Scheme as at 31 December 2015 in accordance with the requirements of IAS 19. The fair value of plan assets, the present value of plan liabilities and the net statement of financial position liability were as follows:

	<b>2015</b>	<b>2014</b>	<b>As at 1</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>January 2014</u></b>
			<b><u>\$'000</u></b>
Fair value of plan assets	291,532	290,345	262,180
Present value of liabilities	<u>(312,193)</u>	<u>(321,983)</u>	<u>(254,746)</u>
Net financial statement (liability)/asset	<u>(20,661)</u>	<u>(31,638)</u>	<u>7,434</u>

The following table shows the movements in the defined benefit obligation (DB), the fair values on plan assets and the net defined benefit obligation in the period, separately identifying the impact on the income statement and other comprehensive income:

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**  
**Notes to the consolidated financial statements – 31 December 2015 (continued)**

**18. Pensions (continued)**

	2015	2015	2015	2014	2014	2014
	Defined benefit obligation	Fair value of plan assets	Net defined benefit obligation	Defined benefit obligation	Fair value of plan assets	Net defined benefit (asset)/obligation
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January	321,983	290,345	31,638	254,746	262,180	(7,434)
Pension (cost)/credit to income statement:						
Current service cost	16,287	-	16,287	16,047	-	16,047
Past service cost	92	-	92	-	-	-
Net interest	11,762	10,663	1,099	11,627	14,183	(2,556)
Currency translation adjustment	(15,399)	(13,886)	(1,513)	(15,078)	(15,518)	440
Subtotal recognised in the income statement	12,742	(3,223)	15,965	12,596	(1,335)	13,931
Return on plan assets (excluding amounts included in net interest)	-	(4,454)	4,454	-	11,828	(11,828)
Actuarial changes arising from changes in financial assumptions	(13,230)	-	(13,230)	52,840	-	52,840
Actuarial changes arising from changes in demographic assumptions	589	-	589	2,438	-	2,438
Experience adjustments	(3,788)	-	(3,788)	-	-	-
Subtotal recognised in other comprehensive income:	(16,429)	(4,454)	(11,975)	55,278	11,828	43,450
Benefits paid	(7,009)	(7,009)	-	(1,793)	(1,793)	-
Contributions by employees	906	906	-	1,156	1,156	-
Contributions by employers	-	14,967	(14,967)	-	18,309	(18,309)
At 31 December	<u>312,193</u>	<u>291,532</u>	<u>20,661</u>	<u>321,983</u>	<u>290,345</u>	<u>31,638</u>

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015 (continued)**

**18. Pensions (continued)**

The pension contributions for the year for the DB Scheme were \$15.0 million (2014: \$18.3 million). The total contributions in the next year are expected to be \$5.9 million, including \$3.4 million payments to be made under a deficit recovery plan in order to improve the funding position. A five year deficit recovery plan from 31 March 2012 to 31 March 2017 was agreed with quarterly payments of \$0.9 million until March 2017. Quarterly reviews of the funding position will be carried out, with provision to postpone the next quarterly payment if the funding position exceeds 110% or to accelerate the next quarterly payment if the funding position is below 90%.

The weighted average duration of the DB Scheme as at 31 December 2015 is 25 years. As at 31 December 2015, \$112 million of the total liabilities relate to deferred pensioners and \$35 million relates to pensions in payment, with the remaining \$165 million relating to members who were still active at 31 December 2015.

The valuations as at 31 December were based on the following significant assumptions:

	<b>2015</b>	<b>2014</b>
	<u>%</u>	<u>%</u>
Rate of salary increase	5.2	5.1
Rate of price inflation	3.2	3.1
Discount rate	4.0	3.8

The assumptions set out in the table above are those applicable to pounds sterling, being the currency in which the DB scheme is denominated.

If the discount rate used for the valuation of the Defined Benefit Obligation was reduced by 0.25% to 3.75%, the Defined Benefit Obligation would increase by \$20.7m. A 0.25% increase in the inflation rate would have \$8.5m impact on the Defined Benefit Obligation.

In determining the Defined Benefit Obligation as at 31 December 2015, mortality assumptions are based on the 'Self Administered Pension Schemes' (SAPS) S2PA (Light) CMI (2014) tables, with an allowance for projected longevity improvements converging to a long-term rate of improvement of the projected mortality rates of 1.5% per annum with -1 year age rating for females.

Based on these assumptions, the life expectancies of pensioners on the measurement date and also of pensioners in 20 years' time are as follows:



**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**18. Pensions (continued)**

As at 31 December	<b>2015 Years</b>	<b>2014 Years</b>
Male age 60 (current life expectancy)	28.7	29.0
Female age 60 (current life expectancy)	30.8	30.4
Male age 40 (life expectancy at age 60)	31.0	31.3
Female age 40 (life expectancy at age 60)	33.2	32.8

If the life expectancy of a member currently age 60 was increased by one year, with consistent changes for members at other ages, the defined benefit obligation would increase by \$6.8m.

As at 31 December, the fair value of the plan assets was as follows:

	<b>2015</b>		<b>2014</b>	
	<b>% of plan assets</b>	<b>Value \$'000</b>	<b>% of plan assets</b>	<b>Value \$'000</b>
Equity instruments	34.82	101,507	39.25	113,960
Debt instruments	35.50	103,495	25.12	72,935
Investment funds	29.22	85,171	34.94	101,447
Cash and cash equivalents	0.46	1,359	0.69	2,003
Fair value of plan assets		<u>291,532</u>		<u>290,345</u>

**19. Share based payments**

Under its Long Term Incentive Plan up to 2013, the company made awards to employees using several different vehicles based on the common shares of Talisman Energy Inc. Cash units were granted up to 2012; performance share units (equity settled) were granted between 2009 and 2012, and restricted share units (cash settled) were granted in 2013. All share-based payment units were settled and paid in May 2015 subsequent to the acquisition of Talisman Energy Inc by Repsol.

A cash-based Long Term Incentive Plan was introduced in 2014, with pay-outs being determined by the company's performance against a set of key performance indicators.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**19. Share based payments (continued)**

*Employee long term cash unit plan*

Share appreciation rights were issued under the cash unit plan. The holder had the right to receive a cash payment equal to the appreciated value of the underlying shares in Talisman Energy Inc, but did not have the right to purchase the underlying shares. Units granted under the cash unit plan were generally exercisable after three years and expired ten years after the grant date.

Subsequent to the acquisition of Talisman Energy Inc by Repsol, all cash units were settled and paid in May 2015. The number of units outstanding at the year end is detailed below, along with details of movements during the year and the average exercise price of the units (in Canadian dollars):

	2015	2015	2014	2014
Continuity of cash units	Number of units	Average exercise price (\$)	Number of units	Average exercise price (\$)
Outstanding at 1 January	5,031,241	17.26	6,501,307	17.23
Transfers	-		(653,945)	17.23
Exercised	(5,031,241)	17.26	(40,397)	8.79
Forfeited	-		(594,349)	16.97
Expired	-		(181,375)	18.10
Outstanding at 31 December	<u>-</u>		<u>5,031,241</u>	17.26
Exercisable at 31 December	<u>-</u>		<u>4,353,963</u>	17.69

## **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

### **Notes to the consolidated financial statements – 31 December 2015 (continued)**

#### **19. Share based payments (continued)**

##### *Long-term performance share unit ('PSU') plan*

In 2009, Talisman Energy Inc. implemented a long-term PSU plan which allowed the granting of PSUs to employees, vesting after three years to varying degrees (75%-150%) subject to predetermined performance measures being achieved. Each PSU represented the right, subject to performance, to receive one common share of Talisman Energy Inc. Subsequent to the acquisition of Talisman Energy Inc by Repsol, all PSU's were settled and paid in May 2015.

##### *Long-term restricted share unit ('RSU') plan*

In 2013, Talisman Energy Inc. implemented a long-term RSU plan which allowed the granting of RSUs to employees. Each RSU permitted the holder to receive a cash payment equal to the market value of one common share of Talisman Energy Inc at the vest date; there were no performance measures attached to the award. Units granted under the RSU plan vested evenly on an annual basis over a three year period. Subsequent to the acquisition of Talisman Energy Inc by Repsol, all RSU's were settled and paid in May 2015.

In total a credit of \$13.3 million was recognised for share based payments in respect of employee services during the year to 31 December 2015 (2014 credit: \$4.0 million).

#### **20. Obligations under operating leases**

Operating lease payments represent rentals payable by the company for vessels, helicopters and offices. The majority of the vessel leases have an average life of one year, helicopter leases have an average life of 90 days, and office leases have an average life of 10 years.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**20. Obligation under operating leases (continued)**

At the statement of financial position date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	<b>2015</b>		<b>2014</b>	
	<b>Land &amp; buildings \$'000</b>	<b>Other \$'000</b>	<b>Land &amp; buildings \$'000</b>	<b>Other \$'000</b>
Operating leases:				
Within 1 year	5,901	268,632	5,775	573,413
In 1 to 5 years	14,464	62,289	14,393	216,386
After 5 years	<u>18,080</u>	<u>-</u>	<u>22,428</u>	<u>-</u>
	<u><u>38,445</u></u>	<u><u>330,921</u></u>	<u><u>42,596</u></u>	<u><u>789,799</u></u>

**21. Provisions**

	<b>Abandonment provision \$'000</b>	<b>Onerous contracts \$'000</b>	<b>Total \$'000</b>
Current	14,060	-	14,060
Non-current	<u>2,965,671</u>	<u>-</u>	<u>2,965,671</u>
<b>At 1 January 2014</b>	<u>2,979,731</u>	<u>-</u>	<u>2,979,731</u>
New provision	-	237,860	237,860
Utilised	(40,416)	-	(40,416)
Acquisitions	18,806	-	18,806
Change in abandonment estimate	1,886,941	-	1,886,941
Unwinding of discount	<u>72,751</u>	<u>-</u>	<u>72,751</u>
<b>At 31 December 2014</b>	<u><u>4,917,813</u></u>	<u><u>237,860</u></u>	<u><u>5,155,673</u></u>
Current	36,665	171,590	208,255
Non-current	<u>4,881,148</u>	<u>66,270</u>	<u>4,947,418</u>
Utilised	(40,383)	(161,004)	(201,387)
Credit for the year	-	(18,389)	(18,389)
Change in abandonment estimate	113,216	-	113,216
Unwinding of discount	<u>118,373</u>	<u>-</u>	<u>118,373</u>
<b>At 31 December 2015</b>	<u><u>5,109,019</u></u>	<u><u>58,467</u></u>	<u><u>5,167,486</u></u>
Current	156,914	58,467	215,381
Non-current	<u>4,952,105</u>	<u>-</u>	<u>4,952,105</u>

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the consolidated financial statements – 31 December 2015 (continued)**

### **21. Provisions (continued)**

The provision for abandonment has been estimated using existing technology at existing prices and discounted using a risk free discount rate of 2.17% (2014: 2.45%). The costs are expected to be incurred within the next 32 years.

A provision has been recognised for onerous contracts for rigs and vessels that will be either stacked or sublet at a reduced rate during their contracted period.

### **22. Risk management**

The group's principal financial assets and liabilities comprise trade and other receivables, cash and short term deposits, and trade and other payables which arise solely through the normal operating activity of the group.

The group's activities expose it to various financial risks particularly associated with commodity price risk, foreign currency risk, interest rate risk, liquidity risk and credit risk. Management have a risk management structure and systems that enable it to identify, measure and control the risks to which the group is exposed.

The capital structure of the group consists of cash and cash equivalents as disclosed in Note 16 of these consolidated financial statements, and equity attributable to equity holders of the company, comprising issued capital, reserves and retained earnings as disclosed in Notes 23 and 24 of these consolidated financial statements and in the consolidated statement of changes in equity. Until 16 July 2015, on which date it was repaid in full, the capital structure included debt, which includes the interest bearing related party loans as disclosed in Note 17 of these consolidated financial statements.

#### *Commodity price risk*

The group is exposed to the risk of fluctuations in the prevailing market commodity prices on oil and gas products it produces. The group's policy is to manage these risks through the use of contract-based prices with customers. These contracts are not derivatives and are treated as executory contracts, which are recognised and measured at cost when the transactions occur.

#### *Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The group has transactional currency exposures that arise from sales or purchases in currencies other than the respective functional currencies. To the extent possible the group manages this risk by matching receipts and payments in the same currency and monitoring movements in exchange rates.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015 (continued)**

**22. Risk management (continued)**

*Foreign currency risk (continued)*

Approximately 1% of the group's sales are denominated in currencies other than the functional currencies, whereas 83% of costs are denominated in currencies other than the functional currencies of the entities in the group.

*Foreign currency sensitivity*

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the group's loss before tax due to changes in the carrying value of monetary assets and liabilities at reporting date. The impact on equity is the same as the impact on loss before tax.

Increase/decrease in foreign exchange rate	Effect on loss before tax	Effect on loss before tax
	2015	2014
	<u>\$'000</u>	<u>\$'000</u>
+5%	35,645	43,032
-5%	(35,645)	(43,032)

In addition to the above, all current and deferred tax assets and liabilities are translated, from GBP to the group's functional currency, at the closing exchange rate for the reporting period. The tax assets and liabilities recognised are, therefore, subject to fluctuations in the foreign exchange rate between GBP and the functional currency. The group continues to monitor the impact movements in the exchange rate has on taxes.

*Liquidity risk*

The combination of cash flow from operations and related party credit available is considered by management to be sufficient to enable the company to meet its short to medium term expenditure requirements. The company does not hold financial assets for the purpose of managing liquidity risk.

*Credit risk*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The group trades only with recognised, creditworthy third parties. It is the group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, which include an assessment of credit rating, short-term liquidity and financial position. The group monitors balances on an ongoing basis. The group's maximum exposure to credit risk in respect of its financial assets is their carrying value. Aging of the trade receivable balances as at the year end is shown in note 14.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**22. Risk management (continued)**

*Credit risk (continued)*

The company only sells hydrocarbons to recognised and creditworthy parties, typically the trading arm of large, international oil and gas companies. Cash balances are held with internationally recognised banking institutions and are considered to represent minimal credit risk.

The only material financial liabilities of the company, other than the lease obligation, are trade payables. For the company's non-operated interests payments to suppliers occur only after goods or services have been received. For operated interests material or long term contracts will generally only be awarded after a tender process during which supplier creditworthiness will be evaluated.

The directors consider the book value of all financial assets and liabilities in the financial statements to not be materially different from the fair value. No fair value hierarchy analysis of financial instruments has been presented given the nature of the financial instruments of the company and given no financial instruments are subsequently measured at fair value after initial recognition.

There were no customers (2014: one customer) with balances greater than US\$100 million at the balance sheet date. In 2014 this accounted for just over 17% of total accounts receivable. The need for impairment is analysed at each reporting date on an individual basis for major clients.

With respect to credit risk arising from the other financial assets of the group, which comprise cash, short-term investments and derivative financial assets, the group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings of at least A or equivalent, with the exception of The Royal Bank of Scotland (rated BBB+) where the group's Cash Policy limits exposure to \$1million.

Management consider that due to the short term nature of current assets and liabilities, the carrying values equates to their fair value.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**23. Called up share capital**

	2015 <u>\$'000</u>	2014 <u>\$'000</u>	As at 1 January 2014 <u>\$'000</u>
<b>Allotted, issued and fully paid:</b>			
41,891,045,455 (2014:			
20,432,524,155) ordinary shares of			
£0.05 each	<u>3,368,589</u>	<u>1,710,602</u>	<u>122,571</u>

During the year a total of 21,458,521,300 (2014: 18,873,771,600) ordinary shares of £0.05 each were allocated with an aggregate nominal value of £1,072,926,065 (2014: £943,688,580) for an aggregate consideration of \$2,145.9 million (2014: \$1,887.4 million) including share premium of \$487.9 million (2014: \$299.3 million).

Of the total consideration shown above \$1,060.8 million (2014: \$1,262.4 million) was used to reduce loans due by the company to related parties (note 17) and a total of \$1,085.1 million (2014: \$625.0 million) was equity funding provided under the Subscription Agreements.

**24. Reserves**

*Share premium account*

The balance on the share premium account represents the amounts received in excess of the nominal value of the ordinary shares.

*Other reserves*

The other reserves are used to record amounts in relation to equity-settled share based payments.

*Retained earnings*

The balance held on this reserve is the accumulated losses of the group.

**25. Capital commitments and contingencies**

At 31 December 2015 the capital expenditure that has been contracted for but not provided in the financial statements amounted to \$187.0 million (2014: \$637.8 million). The group has also provided letters of credit in the amount of \$1,780.2 million (2014: \$1,614.3 million) as security for the costs of future dismantlement, site restoration and abandonment costs for certain North Sea fields. Estimated costs are subject to uncertainty associated with the method, timing and extent of future dismantlement, site restoration and abandonment.



# Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)

## Notes to the consolidated financial statements – 31 December 2015 (continued)

### 26. Related party transactions

Related parties comprise associated companies, directors and key management personnel of the Company and companies of which they are principal owners. All purchases from related parties are made at normal market prices and the pricing policies and terms of these transactions are approved by the company's management.

Interest charged to the income statement during the year and balances outstanding at 31 December, on loans entered into in the ordinary course of business, are as follows:

Related party	Total interest charged		Amounts owed to related party		Amounts due from related party	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Talisman Finance (UK) Limited	10,557	27,875	100	530,478	-	-
TipTop Energy Limited	10,143	26,782	96	509,675	-	-
Talisman Colombia Holdco Limited	-	-	2,860	13,723	-	-
Talisman Energy Norge AS	-	-	-	-	106	517
Addax Petroleum UK Limited	-	-	46	43	-	-
Addax Petroleum Holdings Limited	-	-	4,550	4,397	-	-
Addax Petroleum Limited	-	-	42	115	-	-
	<u>20,700</u>	<u>54,657</u>	<u>7,694</u>	<u>1,058,431</u>	<u>106</u>	<u>517</u>

Total interest charged includes interest capitalised of \$4.7 million (2014: \$13.6 million) (Note 8).

Talisman Colombia Holdco Limited owns 51% of the shares in Repsol Sinopec Resources UK Limited. The ultimate parent company of both Talisman Colombia Holdco Limited and Talisman Finance (UK) Limited at the statement of financial position date is Repsol S.A., which is registered in Spain.

Addax Petroleum UK Limited owns 49% of the shares in Repsol Sinopec Resources UK Limited. Addax Petroleum UK Limited is a 100% subsidiary of Addax Petroleum Holdings Limited. Addax Petroleum Holdings Limited is an indirect subsidiary of TipTop Energy Limited.

### 27. Comparative figures

Certain prior year figures have been reclassified to conform to the 2015 presentation. This had no impact on the profit and loss for the year or net liabilities.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the consolidated financial statements – 31 December 2015  
(continued)**

**28. Controlling party**

Repsol Sinopec Resources UK Limited is jointly controlled by Talisman Colombia Holdco Limited and Addax Petroleum UK Limited.

The ultimate parent company of Talisman Colombia Holdco Limited is Repsol S.A., which is registered in Spain. The ultimate parent company of Addax Petroleum UK Limited at the statement of financial position date was China Petrochemical Corporation (Sinopec Group), which is registered in China. The ultimate beneficial owners of Addax Petroleum UK Limited are now China Chengtong Holdings Group Ltd., China Reform Holdings Corporation Limited and China Petrochemical Corporation, which are all state owned entities of the People's Republic of China.

## **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

### **Directors' responsibilities statement for the parent company financial statements**

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

# Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)

## Parent company income statement for the year ended 31 December 2015

	<u>Note</u>	<u>2015</u> <u>\$'000</u>	<u>2014</u> <u>\$'000</u>
Sales revenue	3	320,595	610,970
Other operating income		<u>21,450</u>	<u>6,360</u>
<b>Operating revenue</b>		342,045	617,330
Operating costs		(409,023)	(567,704)
Royalties		(3,501)	(12,345)
Depreciation of oil and gas assets		(180,970)	(985,198)
Impairment of oil and gas assets		(206,947)	(1,733,756)
Impairment of investments in subsidiaries		8,344	(226,218)
Exploration expenses		(29,956)	(8,296)
Provision for stock obsolescence		(31,855)	-
Provision for abandonment cost		-	(385,185)
Provision for onerous contracts		18,389	(237,860)
Provision for doubtful debts		-	(1,000)
Other operating expenses		(10,019)	(37,339)
Stock based compensation		<u>13,320</u>	<u>4,041</u>
		<u>(832,218)</u>	<u>(4,190,860)</u>
<b>Operating loss</b>		(490,173)	(3,573,530)
Finance income	7	19,673	4,093
Finance costs	8	(75,533)	(85,501)
Net exchange (losses)/gains		<u>(303)</u>	<u>4,590</u>
<b>Loss before taxation</b>		(546,336)	(3,650,348)
Taxation	9	<u>14,531</u>	<u>1,228,893</u>
<b>Loss for the financial year</b>		<u>(531,805)</u>	<u>(2,421,455)</u>

The loss of \$531.8 for the year ended 31 December 2015 was derived in its entirety from continuing operations.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Parent company statement of comprehensive income for the year ended 31 December 2015**

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
<b>Loss for the financial year</b>	(531,805)	(2,421,455)
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Re-measurements of the net pension liability	11,975	(43,450)
Deferred income tax relating to net pension liability	<u>(11,558)</u>	<u>26,938</u>
<b>Other comprehensive income/(loss) for the year net of tax</b>	<u>417</u>	<u>(16,512)</u>
<b>Total comprehensive loss for the year</b>	<u>(531,388)</u>	<u>(2,437,967)</u>

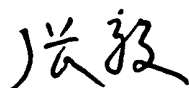
# Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)

## Parent company statement of financial position as at 31 December 2015

	<u>Note</u>	<u>2015</u> <u>\$'000</u>	<u>2014</u> <u>\$'000</u>
<b>Assets</b>			
<b>Non-current assets</b>			
Exploration and evaluation assets	10	168,716	173,646
Property, plant and equipment	11	1,501,029	1,306,097
Investments	12	82,746	74,402
Deferred income tax asset	9	<u>562,824</u>	<u>683,524</u>
		2,315,315	2,237,669
<b>Current assets</b>			
Inventories	13	48,119	90,041
Trade and other receivables	14	1,136,309	650,148
Cash and cash equivalents		<u>20,319</u>	<u>36,930</u>
		1,204,747	777,119
<b>Total assets</b>		<u>3,520,062</u>	<u>3,014,788</u>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade and other payables	15	673,339	1,029,827
Provisions	18	<u>120,256</u>	<u>181,797</u>
		793,595	1,211,624
<b>Non-current liabilities</b>			
Trade and other payables	15	-	502,449
Retirement benefit liability		20,661	31,638
Deferred income tax liability		-	81,479
Deferred petroleum revenue tax liability	9	21,825	45,183
Provisions	18	<u>2,317,371</u>	<u>2,374,989</u>
		2,359,857	3,035,738
<b>Total liabilities</b>		<u>3,153,452</u>	<u>4,247,362</u>
<b>Equity</b>			
Called up share capital	19	3,368,589	1,710,602
Share premium account	20	787,211	299,346
Other reserves	20	-	15,280
Retained earnings	20	<u>(3,789,190)</u>	<u>(3,257,802)</u>
<b>Total equity</b>		<u>366,610</u>	<u>(1,232,574)</u>
<b>Total liabilities and equity</b>		<u>3,520,062</u>	<u>3,014,788</u>

The financial statements were approved by the board of directors on 2 September 2016 and were signed on its behalf by:

Y Zhang  
Director



**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Parent company statement of changes in equity for the year ended 31 December 2015**

	<b>Called up share capital (Note 19) \$'000</b>	<b>Share premium account (Note 20) \$'000</b>	<b>Other reserves (Note 20) \$'000</b>	<b>Retained earnings (Note 20) \$'000</b>	<b>Total \$'000</b>
<b>Balance at 1 January 2014</b>	122,571	-	15,102	(819,835)	(682,162)
Loss for the year	-	-	-	(2,421,455)	(2,421,455)
Other comprehensive loss for the year	-	-	-	(16,512)	(16,512)
<b>Total comprehensive loss for the year</b>	-	-	-	(2,437,967)	(2,437,967)
Shares issued	1,588,031	299,346	-	-	1,887,377
Share-based payments	-	-	178	-	178
<b>Balance at 31 December 2014</b>	1,710,602	299,346	15,280	(3,257,802)	(1,232,574)
Loss for the year	-	-	-	(531,805)	(531,805)
Other comprehensive loss for the year	-	-	-	417	417
<b>Total comprehensive loss for the year</b>	-	-	-	(531,388)	(531,388)
Shares issued	1,657,987	487,865	-	-	2,145,852
Share-based payments	-	-	(15,280)	-	(15,280)
<b>Balance at 31 December 2015</b>	3,368,589	787,211	-	(3,789,190)	366,610

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the parent company financial statements – 31 December 2015**

### **1. Authorisation of financial statements and statement of compliance with FRS 101**

The financial statements of Repsol Sinopec Resources UK Limited (the “company”) for the year ended 31 December 2015 were authorised for issue by the board of directors on 2 September 2016 and the statement of financial position was signed on the board’s behalf by Y. Zhang. Repsol Sinopec Resources UK Limited is incorporated and domiciled in England and Wales.

The company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2015 the company has changed its accounting framework from previously extant United Kingdom Generally Accepted Accounting Practice (UK GAAP) to FRS 101 as issued by the Financial Reporting Council. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the provisions of the Companies Act 2006.

### **2. Accounting policies**

#### **(a) Basis of preparation**

The financial statements have been prepared in accordance with FRS 101. The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for the assets transitioned from UK GAAP to FRS 101 for all periods presented.

The accounting policies that follow have been consistently applied to all years presented. Where retrospective restatements were required as a result of the implementation of new accounting standards or changes to existing accounting standards, these have been applied to all comparative years presented. Transition tables showing all material adjustments on the adoption of FRS 101 are disclosed in note 24.

Where relevant equivalent disclosures have been made in the consolidated financial statements of Repsol Sinopec Resources UK Limited, the company has taken advantage of the following disclosure exemptions under FRS101:

- a) The requirements of paragraph 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64 (m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- b) The requirements of IFRS 7 Financial Instruments Disclosures;
- c) The requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- d) The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of;
  - Paragraph 79 (a)(iv) of IAS 1;
  - Paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
  - Paragraph 118(e) of IAS 38 Intangible Assets;
- e) The requirements of paragraphs 134(d)-134(f) and 6, Impairment of Assets;



# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the parent company financial statements – 31 December 2015 (continued)**

### **2. Accounting policies (continued)**

#### **(a) Basis of preparation (continued)**

- f) The requirements of IAS 7 Statement of Cash Flows;
- g) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to standards not yet effective;
- h) The requirements of paragraph 17 of IAS 24 Related Party Disclosures; and
- i) The requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Where required, equivalent disclosures are given in the consolidated financial statements of Repsol Sinopec Resources UK Limited.

The company has early adopted the new Accounting Regulations (SI 2015/980) for FRS 101 Amendments which provides an option for companies to use the income statement and statement of financial position formats specified by IAS 1, rather than the formats specified by Company Law.

The financial statements are presented in US dollars and all values are rounded to the nearest thousand dollars (\$'000), except where otherwise indicated.

#### **(b) Non-current assets, depreciation and depletion**

The successful efforts method is used to account for oil and gas exploration and development costs. Under this method, acquisition costs of oil and gas properties and costs of drilling and equipping development wells are capitalised. Expenditure incurred prior to the acquisition of a licence and the costs of other exploration activities which are not specifically directed to an identified structure are written off in the year. After appraisal, if commercial reserves are found, then the net capitalised costs incurred in discovering the field are transferred into fixed assets. Any subsequent development costs are capitalised in these areas. General and administrative expenditure is capitalised only where it directly relates to activities, the costs of which are also capitalised. All other costs including periodic licence fees and exchange gains and losses are expensed.

Exploration well costs are initially capitalised and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to dry hole expense. Exploration well costs that have found sufficient reserves to justify commercial production, but those reserves cannot be classified as proved, continue to be capitalised as long as sufficient progress is being made to assess the reserves and economic viability of the well and related project. All other exploration costs, including geological and geophysical costs and annual lease rentals, are written off to exploration costs.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the parent company financial statements – 31 December 2015 (continued)**

### **2. Accounting policies (continued)**

#### **(b) Non-current assets, depreciation and depletion (continued)**

Unamortised exploration and development costs are depleted using the unit of production method on an area basis using estimated proved reserves of oil and gas at the end of the financial year plus the production in the year. For the purpose of these calculations, production of crude oil, natural gas liquids, natural gas and proved reserves are converted to a common unit of measure on the basis of their approximate relative energy content.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. Any impairment loss is measured by reference to the value of an income generating unit, with cash flows discounted at an appropriate rate.

The carrying value of intangible non-current assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Prior years' impairments are reversed should there be a change in economic conditions from those in existence at the time the impairment was recognised.

Interest incurred on the construction of oil and gas interests is capitalised as part of the costs of the asset.

#### **(c) Foreign currency translation**

The functional and presentational currency of the financial statements is US dollars. The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account. Non-monetary assets and liabilities, other than those measured at fair value are not retranslated subsequent to initial recognition.

#### **(e) Revenue**

Revenue from sales is recognised when the significant risks and rewards of ownership have been passed to the buyer and when the amount is recoverable and can be reasonably measured.

Revenue associated with sales of oil and gas is recorded upon transfer of title, according to the terms of the sales contract.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the parent company financial statements – 31 December 2015 (continued)**

### **2. Accounting policies (continued)**

#### **(e) Revenue (continued)**

Revenue represents the company's share of crude oil and gas liftings and tariff income invoiced during the year.

#### **(f) Joint ventures**

The operation of substantially all of the oil and gas exploration, development and production activity is conducted through joint arrangements that are not entities. The company is involved as a co-participant in joint operations with other companies in exploring for oil and gas and in the exploitation of producing fields. The company's interests in its joint operations are accounted for under the proportional method of consolidation.

#### **(g) Over and underlifts**

The quantities of oil and other hydrocarbons lifted by the company may differ from its equity share of production giving rise to over or underlifts which are accounted for as follows:

- An underlift is included in inventory and valued at the lower of cost of production and net realisable value.
- An overlift is included in current liabilities and valued at market price.

#### **(h) Abandonment**

Liabilities for abandonment costs are provided for in full when the company has an obligation to dismantle and remove oil and gas properties and to restore the site on which it is located, and when a reasonable estimate of the liability can be made. The provision for abandonment has been estimated using existing technology at existing prices and in accordance with existing legislation and industry practice. The provision for abandonment is included in provisions for liabilities.

In addition, the company has capitalised an amount equivalent to the provision as a non-current asset which is amortised over the life of the field on a unit-of-production basis.

#### **(i) Taxation**

##### *Current tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

# Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)

## Notes to the parent company financial statements – 31 December 2015 (continued)

### 2. Accounting policies (continued)

#### (i) Taxation (continued)

##### *Deferred tax*

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax losses and the carry back of ring fence tax losses, to the extent that it is probable that taxable profit will be available against which the temporary differences and the carry forward or carry back of unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future or historic taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

##### *Group relief*

The company is a member of a group for the purposes of group relief under Part 5 of the Corporation Tax Act 2010. The company accounts for group relief as follows:

- Payment is received for group relief losses surrendered to other group companies;
- Payment is charged for group relief losses claimed from other group companies.

The value of the payment is determined by the amount of corporation tax saved by reason of the group relief being surrendered or claimed.

##### *Petroleum revenue tax*

Both current and deferred petroleum revenue taxes are recognised on the same basis as corporate income taxes under IAS 12.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the parent company financial statements – 31 December 2015 (continued)**

### **2. Accounting policies (continued)**

#### **(j) Inventories**

Held within inventories are the following:

- The company's share of purchased materials held under joint venture agreements for utilisation in conducting the affairs of the joint venture.
- The company's share of underlifted crude oil.

Underlift inventory is stated at the lower of direct cost and net realisable value. Materials stock is valued at moving average less provision for obsolescence.

#### **(k) Operating leases**

Costs incurred under operating leases are charged to income statement as incurred.

#### **(l) Related party transactions**

The company has taken advantage of the exemption in para 2(a) (n) in IAS 24 not to disclose transactions with other group companies which meet the criteria that all subsidiary undertakings which are party to the transactions are wholly owned by the controlling parent.

#### **(m) Effect of changing estimates**

The effects of changes in estimated costs, reserves or other factors affecting unit-of-production calculations for depreciation and abandonment are reflected in the year of change and thereafter over the estimated remaining reserves of each field.

### **3. Operating revenue**

All of the company's revenue and operating loss arises from continuing activities in the North Sea. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business and is stated net of value added tax.

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Revenue from oil and gas sales	320,595	610,970
Other operating income	<u>21,450</u>	<u>6,360</u>
	<b><u>342,045</u></b>	<b><u>617,330</u></b>

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the parent company financial statements – 31 December 2015 (continued)**

**4. Auditor's remuneration**

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Fees for the audit of the financial statements	357	211
Statutory audit of subsidiaries	729	650
Other assurance services	49	53
Audit of the Repsol Sinopec Pension and Life Scheme	<u>21</u>	<u>23</u>
	<u><b>1,156</b></u>	<u><b>937</b></u>

**5. Directors' remuneration**

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Aggregate remuneration in respect of qualifying services	<u><b>1,630</b></u>	<u><b>343</b></u>

No directors exercised any share options during 2015 or 2014.

In respect of the highest paid director:

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Aggregate remuneration in respect of qualifying services	<u><b>1,546</b></u>	<u><b>249</b></u>

A director of the company is also a director of the subsidiary companies. The director does not believe that it is practicable to apportion his remuneration between his services as director of this company and his services as director of the subsidiary companies.

**6. Staff numbers and costs**

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Wages and salaries	137,118	155,964
Social security costs	19,380	19,143
Staff pension contributions	<u>25,704</u>	<u>29,014</u>
	<u><b>182,202</b></u>	<u><b>204,121</b></u>

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the parent company financial statements – 31 December 2015 (continued)**

**6. Staff numbers and costs (continued)**

Included within staff costs is a share based payment credit of \$13.3 million (2014: credit of \$4.0 million).

The average weekly number of employees during the year was as follows:

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Administration	129	140
Technical	<u>790</u>	<u>840</u>
	<u>919</u>	<u>980</u>

**7. Finance income**

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Intercompany interest	18,574	3,602
Finance fee	214	279
Bank interest	112	91
Other interest	<u>773</u>	<u>121</u>
	<u>19,673</u>	<u>4,093</u>

**8. Finance costs**

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Intercompany interest	12,566	12,499
Other interest	1,104	11,638
Finance fee	30	33
Interest due to related parties	7,118	24,468
Interest on corporation tax	-	3,481
Unwinding of discount on abandonment provision	<u>54,715</u>	<u>33,382</u>
	<u>75,533</u>	<u>85,501</u>

# Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)

## Notes to the parent company financial statements – 31 December 2015 (continued)

### 9. Taxation

The taxation credit in the income statement is made up as follows:

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Current income tax:		
- UK corporation tax credit for the year	6,250	7,341
- adjustments for previous years	(270)	2,224
- group relief – adjustments to prior years	<u>-</u>	<u>(937)</u>
Total current income tax	<u>5,980</u>	<u>8,628</u>
UK deferred income tax:		
- current year (charge)/credit	(87,992)	1,141,262
- adjustment for previous years	-	(7,848)
- impact of tax rate changes	87,050	-
- write off RDEC	(4,430)	(5,500)
- foreign exchange loss on deferred tax asset	<u>(26,721)</u>	<u>(6,348)</u>
Total deferred income tax (charge)/credit	<u>(32,093)</u>	<u>1,121,566</u>
Petroleum revenue tax		
- current tax credit	17,286	26,149
- deferred tax credit	<u>23,358</u>	<u>72,550</u>
Total petroleum revenue tax credit	<u>40,644</u>	<u>98,699</u>
Total tax credit	<u>14,531</u>	<u>1,228,893</u>

Factors affecting tax credit for the year

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Loss before taxation	<u>546,336</u>	<u>3,650,348</u>
Tax on loss before taxation at 50% (2014: 62%)	273,168	2,263,216
Effects of:		
Expenses disallowed and non-taxable income	6,452	(165,873)
Tax losses	141,111	106,391
Supplementary charge adjustments	-	(133,840)
Petroleum revenue tax	20,699	38,704
Deferred tax assets not recognised	(482,528)	(861,570)
Impact of tax rate changes	87,050	-
Foreign exchange loss on deferred tax asset	(26,721)	(6,348)
RDEC adjustments	(4,430)	(5,500)
Other	-	273
Adjustments for previous years	<u>(270)</u>	<u>(6,560)</u>
Total tax credit for the year	<u>14,531</u>	<u>1,228,893</u>



## **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

### **Notes to the parent company financial statements – 31 December 2015 (continued)**

#### **9. Taxation (continued)**

Ring fence corporation tax applies at a rate of 30% to companies engaged in UK oil extraction activities. The supplementary corporation tax charge (SCT) is 20%. SCT is payable on ring fence profits adjusted for finance costs and investment allowances.

Finance Act 2015 reduced the rate of the supplementary charge from 32% to 20% for accounting periods beginning on or after 1 January 2015. As such, the combined rate of ring fence corporation tax and supplementary charge is 50% from 1 January 2015.

For periods prior to 2015, relief for decommissioning expenditure was restricted to a combined corporation tax and supplementary charge rate of 50%. This was 12% lower than the combined rate of corporation tax and supplementary charge that applied. From 1 January 2015, there is no cap applied to relief for decommissioning expenditure.

Finance Act 2015 replaced field allowances with a new investment allowance for expenditure incurred in the UKCS. Investment spend from 1 April 2015 should generate investment allowance which may reduce future ring fence profits chargeable to supplementary charge.

Petroleum revenue tax (PRT) applies to the company's share of profits arising from certain oil fields in the North Sea. PRT is applied at a rate of 50% for chargeable periods up to and including 31 December 2015. Finance Act 2015 reduced the rate of PRT to 35% for chargeable periods commencing after 31 December 2015.

Non ring fence profits are subject to the main rate of corporation tax, being 20.25% for the year ended 31 December 2015.

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the parent company financial statements – 31 December 2015 (continued)**

**9. Taxation (continued)**

**Deferred income tax**

	<b>Income statement</b>		<b>Statement of financial position</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
<b>Income tax related:</b>				
Deferred tax assets				
Abandonment timing differences	17,509	518,737	1,046,410	1,028,901
Deferred petroleum revenue tax	(18,512)	(43,570)	10,913	29,425
Tax losses	(87,921)	(6,252)	227,481	315,402
			<u>1,284,804</u>	<u>1,373,728</u>
Deferred tax liabilities				
Accelerated capital allowances	42,540	703,325	(709,931)	(752,471)
Other timing differences	<u>18,721</u>	<u>(45,174)</u>	<u>(12,049)</u>	<u>(19,212)</u>
	<u>(27,663)</u>	<u>1,127,066</u>	<u>(721,980)</u>	<u>(771,683)</u>
RDEC write-off	<u>(4,430)</u>	<u>(5,500)</u>		
<b>Deferred tax (charge)/benefit</b>	<u><u>(32,093)</u></u>	<u><u>1,121,566</u></u>		
<b>Deferred tax (liability)</b>			<u>-</u>	<u>(81,479)</u>
<b>Deferred tax asset</b>			<u><u>562,824</u></u>	<u><u>683,524</u></u>
<b>Petroleum revenue tax related:</b>				
Deferred tax liabilities				
Oil and gas properties	<u>23,358</u>	<u>72,550</u>	<u>(21,825)</u>	<u>(45,183)</u>
<b>Deferred tax benefit</b>	<u><u>23,358</u></u>	<u><u>72,550</u></u>		
<b>Deferred tax liability</b>			<u><u>(21,825)</u></u>	<u><u>(45,183)</u></u>

**Reconciliation of deferred income tax asset/(liability), net**

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
At 1 January	602,045	(551,959)
Tax (charge)/benefit during the period recognised in income statement	(27,663)	1,127,066
Tax (charge)/benefit during the period recognised in other comprehensive income	<u>(11,558)</u>	<u>26,938</u>
At 31 December	<u><u>562,824</u></u>	<u><u>602,045</u></u>

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the parent company financial statements – 31 December 2015 (continued)**

### **9. Taxation (continued)**

The company's deferred tax asset at 31 December 2015 has been recognised to the extent that future decommissioning expenditure can be carried back and offset against the taxable ring fence profits of the company for earlier accounting periods. In accordance with IAS 12 – Income taxes, the company has assessed the recoverability of its deferred tax asset at 31 December 2015 with respect to the ring fence treatment of losses arising as a result of decommissioning. Future decommissioning expenditure, as reflected in the closing abandonment provision has been matched to ring fence corporation tax paid in prior years to determine the amount of taxes recoverable.

A deferred tax asset of \$1.2 billion has not been recognised in relation to the ring fence losses carried forward as at 31 December 2015.

A deferred tax asset amounting to \$7.6 million has not been recognised in respect of the company's pool of activated investment allowance as at 31 December 2015 due to the uncertainty of the recovery of this asset.

The company has non-ring fence losses of \$10.3 million. No deferred tax asset has been recognised at the balance sheet date due to the uncertainty of the recovery of these losses.

The rate of PRT was reduced from 50% to 35% for chargeable periods commencing after 31 December 2015. This rate has been reduced to 0% following the Chancellor's Budget Statement on 16 March 2016. The rate of 0% will apply to chargeable periods commencing after 31 December 2015 and has been enacted under the provisions of the Provisional Collection of Taxes Act 1968. This will result in the deferred PRT liability reducing to nil. As a result of the reduction in the PRT rate the deferred corporation tax asset would increase to \$567.4 million (based on the position as at 31 December 2015).

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the parent company financial statements – 31 December 2015 (continued)**

**10. Exploration and evaluation assets**

	<b>Oil and gas interests \$'000</b>
<b>Cost:</b>	
At 1 January 2014	73,610
Additions	108,791
Exploration write-off	<u>(8,755)</u>
At 31 December 2014	<u>173,646</u>
Additions	27,664
Write offs	<u>(29,836)</u>
At 31 December 2015	<u>171,474</u>
<b>Provision for impairment:</b>	
At 1 January 2014 and 31 December 2014	<u>-</u>
Impairment charge for the year	<u>2,758</u>
At 31 December 2015	<u>2,758</u>
<b>Net carrying amount:</b>	
At 31 December 2015	<u>168,716</u>
At 31 December 2014	<u>173,646</u>

All assets are within the North Sea area.

The impairment was measured by reference to the value in use of the assets. The discount rate applied to cash flows was 7% nominal (2014: 8% nominal).

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the parent company financial statements – 31 December 2015 (continued)**

**11. Property, plant and equipment**

	<b>Oil and gas interests \$'000</b>	<b>Corporate \$'000</b>	<b>Total \$'000</b>
<b>Cost:</b>			
At 1 January 2014	2,626,342	59,631	2,685,973
Additions	831,662	2,977	834,639
Expenditure written off	(939)	-	(939)
Change in abandonment estimate	544,621	-	544,621
At 31 December 2014	<u>4,001,686</u>	<u>62,608</u>	<u>4,064,294</u>
Additions	560,319	1,873	562,192
Expenditure written off	(120)	-	(120)
Change in abandonment estimate	18,019	-	18,019
At 31 December 2015	<u>4,579,904</u>	<u>64,481</u>	<u>4,644,385</u>
<b>Depreciation and impairment:</b>			
At 1 January 2014	-	39,243	39,243
Charge for the year	979,610	5,588	985,198
Impairment charge for the year	1,733,756	-	1,733,756
At 31 December 2014	<u>2,713,366</u>	<u>44,831</u>	<u>2,758,197</u>
Charge for the year	175,856	5,114	180,970
Impairment charge for the year	204,189	-	204,189
At 31 December 2015	<u>3,093,411</u>	<u>49,945</u>	<u>3,143,356</u>
<b>Net carrying amount:</b>			
At 31 December 2015	<u>1,486,493</u>	<u>14,536</u>	<u>1,501,029</u>
At 31 December 2014	<u>1,288,320</u>	<u>17,777</u>	<u>1,306,097</u>
At 1 January 2014	<u>2,626,342</u>	<u>20,388</u>	<u>2,646,730</u>

All assets are within the North Sea area.

Included in property, plant and equipment at 31 December 2015 was an amount of \$904.8 million (2014: \$796.8 million) relating to expenditure for facilities in the course of construction. The expenditure includes finance costs capitalised during the year of \$4.7 million (2014: \$13.6 million).

Included within the net book value of oil and gas interests above is \$211.3 million (2014: \$228.0 million) in respect of abandonment costs capitalised.

The impairment was measured by reference to the value in use of the assets. The discount rate applied to cash flows was 7% nominal (2014: 8% nominal).

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the parent company financial statements – 31 December 2015 (continued)**

**12. Investments**

	<b>Shares in subsidiary undertakings \$'000</b>
<b>Cost:</b>	
At 1 January 2014	83,390
Additions	<u>217,230</u>
<b>At 31 December 2014 and 2015</b>	<u><b>300,620</b></u>
<b>Amounts provided:</b>	
At 1 January 2014	-
Impairment charge for the year	<u>226,218</u>
<b>At 31 December 2014</b>	<u>226,218</u>
Impairment credit for the year	<u>(8,344)</u>
<b>At 31 December 2015</b>	<u><b>217,874</b></u>
<b>Net book value:</b>	
<b>At 31 December 2015</b>	<u><b>82,746</b></u>
<b>At 31 December 2014</b>	<u><b>74,402</b></u>
At 1 January 2014	<u>83,390</u>

The investments in the subsidiary undertakings are unlisted.

The subsidiary undertakings, associated undertakings and joint ventures and other significant investments of the company at 31 December 2015 and the percentage of equity capital held set out below are the investments which principally affected the profits or net assets of the company. The principal country of operation is generally indicated by the company's country of incorporation or by its name.

# Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)

## Notes to the parent company financial statements – 31 December 2015 (continued)

### 12. Investments (continued)

<b>Subsidiary undertakings</b>	<b>Class of share held</b>	<b>%</b>	<b>Country of incorporation</b>	<b>Principal activity</b>
Repsol Sinopec North Sea Limited	Ordinary shares	100	England and Wales	Exploration, development and production of oil and gas
Repsol Sinopec Oil Trading Limited	Ordinary shares	100‡	England and Wales	Exploration, development and production of oil and gas
Transworld Petroleum (U.K.) Limited	Ordinary shares	100‡	England and Wales	Exploration, development and production of oil and gas
Repsol Sinopec Transportation (UT) Limited	Ordinary shares	100‡	England and Wales	Transportation of oil and gas
Repsol Sinopec LNS Limited	Ordinary shares	100	England and Wales	Exploration, development and production of oil and gas
Rigel Petroleum UK Limited	Ordinary shares	100	England and Wales	Exploration, development and production of oil and gas
Rigel Petroleum (NI) Limited	Ordinary shares	100 R	Northern Ireland	Exploration, development and production of oil and gas
Repsol Sinopec Alpha Limited	Ordinary shares	100	England and Wales	Exploration, development and production of oil and gas
Repsol Sinopec Beta Limited	Ordinary shares	100	England and Wales	Exploration, development and production of oil and gas
Repsol Sinopec Trustees (UK) Limited	Ordinary shares	100	England and Wales	Non-trading
Repsol Sinopec Pension and Life Scheme Limited	Ordinary shares	100	England and Wales	Non-trading

‡ held by Repsol Sinopec North Sea Limited  
R held by Rigel Petroleum UK Limited

**Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

**Notes to the parent company financial statements – 31 December 2015 (continued)**

**13. Inventories**

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Crude oil	3,358	3,078
Purchased materials	<u>44,761</u>	<u>86,963</u>
	<u>48,119</u>	<u>90,041</u>

The difference between the carrying value of inventories and their replacement cost is not material.

**14. Trade and other receivables**

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
<b>Current</b>		
Trade debtors	88,309	206,893
Other taxes	-	3,267
Other debtors	14,652	73,580
Prepayments and accrued income	12,166	31,898
Petroleum revenue tax	19,813	27,681
Corporation tax	50,734	30,425
Amounts due from subsidiary undertakings	950,529	275,887
Amounts due from related parties (note 22)	<u>106</u>	<u>517</u>
	<u>1,136,309</u>	<u>650,148</u>

**15. Trade and other payables**

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
<b>Current</b>		
Trade creditors	11,777	56,089
Other creditors	1,325	11,892
Accruals and deferred income	266,415	445,948
Other taxes and social security	7,190	-
Amounts due to subsidiary undertakings	378,938	413,298
Amounts due to related parties (note 22)	<u>7,694</u>	<u>102,600</u>
	<u>673,339</u>	<u>1,029,827</u>
<b>Non-current</b>		
Amounts due to related parties (note 22)	<u>-</u>	<u>502,449</u>



# Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)

## Notes to the parent company financial statements – 31 December 2015 (continued)

### 16. Loans

Loans repayable, included in creditors within amounts due to related parties and amounts due to subsidiary undertakings are analysed as follows:

	<b>2015</b>	<b>2014</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Wholly repayable within five years	<u>283,486</u>	<u>861,002</u>

Loans repayable relate to previously established loans from related parties and promissory notes. The loans were from Talisman Finance (UK) Limited and TipTop Energy Limited (related parties). They were repayable by quarterly instalments, bearing interest at variable rates. The promissory notes bear interest at 3.5%. The full amount of the promissory notes along with accrued interest is repayable on demand.

On 16 July 2015 as part of a restructuring of the group's debt and equity funding, Repsol Sinopec Resources UK Limited agreed to assume the obligation to repay loans payable by its direct and indirect subsidiary companies to Talisman Finance (UK) Limited and TipTop Energy Limited. In consideration for the assumption of these obligations the subsidiary companies issued Promissory Notes to Repsol Sinopec Resources UK Limited. \$1,060.8 million proceeds from a share issue were used as repayment of the related party loans and interest outstanding at that date, with \$541.0 million repaid to Talisman Finance (UK) Limited and \$519.8 million repaid to TipTop Energy Limited. This reduced loans due by the company and the group to related parties to \$nil.

### 17. Obligations under operating leases

Operating lease payments represent rentals payable by the company for vessels, helicopters and offices. The majority of the vessel leases have an average life of one year, helicopter leases have an average life of 90 days, and office leases have an average life of 10 years.

At the reporting date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>
	<b>Land &amp;</b>	<b>Other</b>	<b>Land &amp;</b>	<b>Other</b>
	<b><u>buildings</u></b>	<b><u>\$'000</u></b>	<b><u>buildings</u></b>	<b><u>\$'000</u></b>
Operating leases:				
Within one year	5,729	266,253	5,622	565,468
In 1 to 5 years	14,286	55,171	14,124	206,890
After 5 years	<u>18,080</u>	<u>-</u>	<u>22,428</u>	<u>-</u>
	<u>38,095</u>	<u>321,424</u>	<u>42,174</u>	<u>772,358</u>

# Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)

## Notes to the parent company financial statements – 31 December 2015 (continued)

### 18. Provisions

	<b>Abandon -ment \$'000</b>	<b>Onerous contracts \$'000</b>	<b>Total \$'000</b>
At 1 January 2015			
Current	10,207	171,590	181,797
Non-current	2,308,719	66,270	2,374,989
Utilised	(12,500)	(161,004)	(173,504)
Credit for the year	-	(18,389)	(18,389)
Change in abandonment estimate	18,019	-	18,019
Unwinding of discount	<u>54,715</u>	<u>-</u>	<u>54,715</u>
At 31 December 2015	<u>2,379,160</u>	<u>58,467</u>	<u>2,437,627</u>
Analysed as:			
Current	<u>61,789</u>	<u>58,467</u>	<u>120,256</u>
Non-current	<u>2,317,371</u>	<u>-</u>	<u>2,317,371</u>

At 31 December 2015, the provision for the future estimated costs of abandonment was \$2,379.2 million (2014: \$2,318.9 million). The provision for abandonment has been estimated using existing technology at existing prices and discounted using a risk free discount rate of 2.17% (2014: 2.45%). The costs are expected to be incurred over the next 32 years.

At 31 December 2015, a provision has been recognised for onerous contracts for rigs and vessels that will be either stacked or sublet at a reduced rate during their contracted period.

### 19. Called up share capital

	<b>2015 \$'000</b>	<b>2014 \$'000</b>
<b>Allotted, called up and fully paid</b>		
41,891,045,455 ordinary shares (2014: 20,432,524,155) of £0.05 each	<u>3,368,589</u>	<u>1,710,602</u>

During the year a total of 21,458,521,300 (2014: 18,873,771,600) ordinary shares of £0.05 each were allocated with an aggregate nominal value of £1,072,926,065 (2014: £943,688,580) for an aggregate consideration of \$2,145.9 million (2014: \$1,887.4 million) including share premium of \$487.9 million (2014: \$299.3 million). Of the total consideration shown above \$1,060.8 million (2014: \$1,262.4 million) was used to reduce loans due by the company to related parties (note 16) and a total of \$1,085.1 million (2014: \$625.0 million) was equity funding provided under the Subscription Agreements.

# Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)

## Notes to the parent company financial statements – 31 December 2015 (continued)

### 20. Reserves

#### *Share premium account*

The balance on the share premium account represents the amounts received in excess of the nominal value of the ordinary shares.

#### *Other reserves*

The other reserves are used to record amounts in relation to equity-settled share based payments.

#### *Retained earnings*

The balance held on this reserve is the accumulated losses of the company.

### 21. Capital commitments and contingencies

At 31 December 2015 the capital expenditure that has been contracted for but not provided in the financial statements amounted to \$187.0 million (2014: \$444.4 million).

At 31 December 2015 the company has provided letters of credit in the amount of \$847.8 million (2014: \$695.2 million) as security for the costs of future dismantlement, site restoration and abandonment costs for certain North Sea fields. Estimated costs are subject to uncertainty associated with the method, timing and extent of future dismantlement, site restoration and abandonment.

### 22. Related party transactions

The company has taken advantage of the exemption contained within paragraphs 8(k) and (j) of FRS 101, and has not disclosed transactions entered into with wholly-owned group companies or key management personnel.

Interest charged to the income statement during the year and balances outstanding at 31 December, on loans entered into in the ordinary course of business, are as follows:

Related party	Total interest charged		Amounts owed to related party		Amounts due from related party	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Talisman Finance (UK) Limited	6,022	19,392	100	299,253	-	-
TipTop Energy Limited	5,786	18,632	96	287,518	-	-
Talisman Colombia Holdco Limited	-	-	2,860	13,723	-	-
Talisman Energy Norge AS	-	-	-	-	106	517
Addax Petroleum UK Limited	-	-	46	43	-	-
Addax Petroleum Holdings Limited	-	-	4,550	4,397	-	-
Addax Petroleum Limited	-	-	42	115	-	-
	<u>11,808</u>	<u>38,024</u>	<u>7,694</u>	<u>605,049</u>	<u>106</u>	<u>517</u>

## **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

### **Notes to the parent company financial statements – 31 December 2015 (continued)**

#### **22. Related party transactions (continued)**

Total interest charged includes interest capitalised of \$4.7 million (2014: \$13.6 million) (Note 8).

Talisman Colombia Holdco Limited owns 51% of the shares in Repsol Sinopec Resources UK Limited. The ultimate parent company of Talisman Colombia Holdco Limited, Talisman Finance (UK) Limited and Talisman Energy Norge AS at the balance sheet date was Repsol Oil & Gas Canada Inc (formerly Talisman Energy Inc), which is registered in Canada; the ultimate parent company of Talisman Colombia Holdco Limited, Talisman Finance (UK) Limited and Talisman Energy Norge AS is now Repsol S.A., which is registered in Spain.

Addax Petroleum UK Limited owns 49% of the shares in Repsol Sinopec Resources UK Limited. Addax Petroleum UK Limited and Addax Petroleum Limited are wholly-owned subsidiaries of Addax Petroleum Holdings Limited. Addax Petroleum NZE Inc. is an indirect wholly-owned subsidiary of Addax Petroleum Holdings Limited. Addax Petroleum Holdings Limited is an indirect, wholly-owned subsidiary of TipTop Energy Limited.

#### **23. Comparative figures**

Certain prior year figures have been reclassified to conform to the 2015 presentation. This had no impact on the loss for the year or net liabilities.

#### **24. Explanation of transition of FRS 101**

For all periods up to and including the year ended 31 December 2014, the company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2015, are the first the company has prepared in accordance with FRS 101.

Accordingly, the company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2014 and the significant accounting policies meeting those requirements are described in Note 2.

On transition to FRS 101, the company has applied the requirements of paragraphs 6 – 33 of IFRS 1 'First time adoption of International Financial Reporting Standards'.

##### *Exemptions applied*

IFRS 1 allows first time adopters certain exemptions from the general requirements to apply IFRSs as effective for December 2015 year ends retrospectively. The company has taken advantage of the following exemptions:

- (a) business combinations (paragraphs C1 – C5);
- (b) deemed cost (paragraphs D5-D8A B);
- (c) investments in subsidiaries (paragraphs D14 and D15); and
- (d) borrowing costs (paragraph D23).

# Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)

## Notes to the parent company financial statements – 31 December 2015 (continued)

### 24. Explanation of transition of FRS 101 (continued)

In preparing these financial statements, the company has started from an opening balance sheet as at 1 January 2014, the company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first time adoption of FRS 101. As such, this note explains the principal adjustments made by the company in restating its balance sheet as at 1 January 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2014.

#### Reconciliation of equity

	1 January 2014 \$000	31 December 2014 \$000
Equity reported under previous UK GAAP	(359,789)	(1,454,657)
<b>Adjustments to equity on transition to FRS 101</b>		
Adjustment to property, plant and equipment	5,823	349,212
Adjustment to investments	4,561	(1,519)
Adjustment to retirement benefit asset	4,609	-
Adjustment to deferred taxation	(241,759)	(115,437)
Adjustment to deferred petroleum revenue taxation	(95,607)	(10,173)
Equity reported under FRS 101	(682,162)	(1,232,574)

#### Notes to the reconciliation of equity at 1 January 2014

The adjustments to property, plant and equipment and investments at 1 January 2014 are a result of the company's election to measure these non-current assets at the date of transition to IFRS at its fair value and use that fair value as deemed cost at that date.

The adjustment to the retirement benefit asset at 1 January 2014 relates to the deferred tax element which was netted off against the retirement benefit asset balance under UK GAAP, but is shown in the deferred income tax balance under IFRS.

The adjustments to deferred taxes at 1 January 2014 relate to the tax impacts of the restatement of property, plant and equipment to fair value.

# **Repsol Sinopec Resources UK Limited (formerly Talisman Sinopec Energy UK Limited)**

## **Notes to the parent company financial statements – 31 December 2015 (continued)**

### **24. Explanation of transition of FRS 101 (continued)**

#### **Reconciliation of total comprehensive income for the year ended 31 December 2014**

	<b>2014 \$'000</b>
Total comprehensive income for the financial year under previous UK GAAP	<u>(2,982,423)</u>
Adjustments to property, plant and equipment	343,389
Adjustments to investments	(6,080)
Adjustments to deferred taxation	121,713
Adjustments to deferred petroleum revenue taxation	85,434
Total comprehensive income for the financial year under FRS 101	<u>(2,437,967)</u>

#### **Notes to the reconciliation of total comprehensive income for the year ended 31 December 2014**

The adjustments to total comprehensive income for the year ended 31 December 2014 relating to property, plant and equipment relate to the recalculation of DD&A and impairment, following the company's election to measure property, plant and equipment at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date.

The adjustments to investments for the year ended 31 December 2014 relate to the recalculation of impairment of investments following the company's election to measure investments at the date of transition to IFRS at fair value and use that fair value as its deemed cost at that date.

The taxation adjustments to total comprehensive income for the year ended 31 December 2014 relate to the deferred tax impacts of the restatement of property, plant and equipment to fair value.

### **25. Controlling party**

Repsol Sinopec Resources UK Limited is jointly controlled by Talisman Colombia Holdco Limited and Addax Petroleum UK Limited.

The ultimate parent company of Talisman Colombia Holdco Limited is Repsol S.A., which is registered in Spain. The ultimate parent company of Addax Petroleum UK Limited at the balance sheet date was China Petrochemical Corporation (Sinopec Group), which is registered in China. The ultimate beneficial owners of Addax Petroleum UK Limited are now China Chengtong Holdings Group Ltd., China Reform Holdings Corporation Limited and China Petrochemical Corporation, which are all state owned entities of the People's Republic of China.