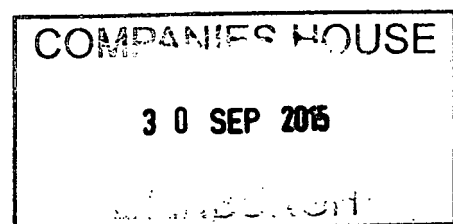


TALISMAN SINOPEC ENERGY UK LIMITED

Report and Consolidated Financial Statements

For the year ended 31 December 2014

Registered number: 825828



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Talisman Sinopec Energy UK Limited

Strategic report for the year ended 31 December 2014

The directors present their strategic report for the year ended 31 December 2014 for Talisman Sinopec Energy UK Limited (“the company”) and its subsidiary companies (“the group”) for the year ended 31 December 2014.

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

During the year an injection of \$1,262.4 million of equity into the company by its shareholders Talisman Colombia Holdco Limited and Addax Petroleum UK Limited on 20 June 2014 enabled the repayment of an equivalent amount of the related party loans which were outstanding at that time. The effect of this group restructuring step was to decrease the group’s net liabilities by \$1,262.4 million.

Subsequent to the year end, the directors and shareholders of the company have undertaken further steps to improve the financial position of the group and company. 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 of equity into the company by its shareholders Talisman Colombia Holdco Limited and Addax Petroleum UK Limited, and subsequent repayment 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, the shareholders also entered into a Subscription Agreement 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. The unutilised capacity of this facility is \$1.51 billion as at 29 September 2015. Under these subscription agreements, a total of \$625.0 million was provided by equity injection during the year ended 31 December 2014, with a further total of \$900.0 million provided during the period from 1 January 2015 to 29 September 2015.

The total equity injected during the year 2014 relating to both of the above headings ‘*Issue of share capital and repayment of debt*’ and ‘*Financing arrangements*’ was \$1,887.4 million, with a further total of \$1,960.8 million injected during the period from 1 January 2015 to 29 September 2015.

Talisman Sinopec Energy UK Limited

Strategic report for the year ended 31 December 2014 (continued)

Group restructuring (continued)

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 2016 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 the end of 29 September 2015.

Subsidiaries

On 20 June 2014 the company made capital contributions totalling \$165.0 million to certain of its subsidiaries and waived certain intercompany receivables totalling \$52.2 million, in order to improve the financial position of those subsidiary companies. This had no impact on the consolidated group position.

Review of the business

The group's principal activities during the year continued to be the exploration for, and development and production of, oil and gas.

Acquisitions and Business Development

During the year Talisman Sinopec Energy UK Limited and joint venture partners in the Ross and Blake fields negotiated an agreement to allow Talisman Sinopec Energy UK Limited to continue operating the Bleo Holm floating production, storage and off-loading vessel (FPSO) for both fields. On 4 November 2014 the group (through its subsidiary entity Rigel Petroleum UK Limited) and Idemitsu Petroleum UK Limited acquired the full equity interests of the other joint venture partners in the Blake field. This increased the group's interest in the Blake field by 15.58% to 69.18%.

Results for the year to 31 December 2014

The group's key financial and other performance indicators during the year were as follows:

	2014	2013
	\$'000	\$'000
Group turnover	1,185,059	1,420,405
Cost of sales	5,873,349	3,405,185
Total net liabilities	(2,162,608)	(1,028,066)
Production (boe/day)	32,683	35,829
Operating cost per barrel	\$108.20	\$95.93
Capital expenditure	1,168,598	876,468

Talisman Sinopec Energy UK Limited

Strategic report for the year ended 31 December 2014 (continued)

Review of the business (continued)

Production and Revenue

Production volumes decreased by 3,146 boe/day to 32,683 boe/day in 2014 from 35,829 boe/day in 2013, with decreases at Montrose, Arbroath, Auk North, Fulmar, and Tweedsmuir mainly due to extended shutdowns to effect planned maintenance programmes, and additional unplanned repairs, partially offset by increases on Claymore and Piper due to the acquisition of additional equity interests in these areas in December 2013 and increased operating efficiency in 2014. The Tartan area remained shut down in 2014 with work ongoing throughout the period to re-instate production following the failure in 2012 of the Galley field pipeline. The work carried out during the year resulted in Tartan production restarting in 2015.

Turnover decreased by \$235.3 million to \$1,185.1 million in 2014 from \$1,420.4 million in 2013 due to lower production and price in 2014.

Cost of Sales

Cost of sales increased by \$2,468.1 million to \$5,873.3 million in 2014 from \$3,405.2 million in 2013 mainly due to increases of \$650.4 million in impairment charges, \$787.4 million in depreciation charges, \$503.1 million in abandonment provision, \$275.7 million in the charge for petroleum revenue taxes, \$237.9 million for onerous contracts provision and \$36.6 million in operating and other costs, with a decrease of \$23.0 million in exploration write offs.

A net impairment charge totalling \$1,810.9 million (2013 charge: \$1,160.5 million) mainly relates to the Montrose area. 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 increased by \$787.4 million to \$1,935.0 million in 2014 from \$1,147.6 million in 2013, due to higher abandonment cost estimates on the decommissioning assets, together with a reduction in estimated recoverable oil and gas reserves.

Operating costs increased by \$36.2 million to \$1,290.7 million (\$108.20/boe) in 2014 compared to \$1,254.5 million (\$95.93/boe) in 2013 with the increase in operating cost per barrel mainly being a function of the decrease in production.

The credit for petroleum revenue taxes decreased by \$275.7 million to \$0.6 million in 2014 from a credit of \$276.3 million in 2013, mainly due to a release of the provisions for Buchan and Auk which is a non-recurring event arising in 2013.

Talisman Sinopec Energy UK Limited

Strategic report for the year ended 31 December 2014 (continued)

Review of the business (continued)

Taxation

The tax credit for the year of \$1,834.1 million (2013: credit of \$1,082.0 million) was the expected credit on the pre-tax loss of \$4,820.0 million, plus the impact of adjustments in respect of non-deductible expenses and the impact of 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 2014 with expenditure of \$1,168.6 million. The major areas of capital expenditure were the continuing development of the Montrose area; the Seagull exploration well; a well workover at Auk North; the Godwin development well; wells and offshore facilities on Piper and Claymore; the Flyndre/Cawdor development; and wells and offshore facilities at Fulmar.

Principal risks and uncertainties

The group 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 group'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 group mitigates insurable risks to protect against significant losses by maintaining a comprehensive insurance program, while maintaining levels and amounts of risk within the group that management believes to be acceptable. The group 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.

Talisman Sinopec Energy UK Limited

Strategic report for the year ended 31 December 2014 (continued)

Principal risks and uncertainties (continued)

Project Completion Risks

The group 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 group's ability to complete projects depends upon numerous factors beyond the group'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.

Commodity price risk

The group'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 turnover 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
29 September 2015

Registered Office
20-22 Bedford Row
London
WC1R 4JS

Talisman Sinopec Energy UK Limited

Registered No. 825828

Directors' Report

The directors present their annual report together with the audited financial statements of Talisman Sinopec Energy UK Limited ("the company") and its subsidiary companies ("the group") for the year ended 31 December 2014.

Results and dividends

The group loss for the year amounted to \$2,986.0 million (2013: loss of \$1,003.9 million). The directors do not recommend the payment of a final dividend for the year (2013: \$nil).

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 group has embarked on a transformation programme focused on delivering improved performance over the next five years. The directors consider that with the successful completion of the transformation programme and by virtue of 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.

Post balance sheet events

On 18 February 2015 at a special meeting of the shareholders of Talisman Energy Inc. the common and preferred shareholders approved the proposed acquisition of all outstanding Talisman shares by a wholly owned subsidiary of Repsol S.A. On 8 May 2015, the acquisition was completed and Repsol S.A became the ultimate parent company of Talisman Colombia Holdco Limited. Talisman Sinopec Energy UK Limited is jointly controlled by Talisman Colombia Holdco Limited and Addax Petroleum UK Limited.

Group restructuring

During the year steps were taken by the directors and shareholders of the company to improve the financial position of the group and company. The total net effect of these group restructuring steps was to decrease the net liabilities of the group by \$1,887.4 million. Details of these steps are described in Note 18 (Loans) and Note 21 (Share Capital) and in the Strategic Report.

Subsequent to the year end, the directors and shareholders of the company have undertaken further steps to improve the financial position of the group and company. The total net effect of the group restructuring steps, during the period from 1 January 2015 to date of signing of the balance sheet, was to decrease the net liabilities of the group by \$1,960.8 million. Details of these steps are described in Note 29 to the Financial Statements and in the Strategic Report.

Talisman Sinopec Energy UK Limited

Directors' Report (continued)

Post balance sheet events (continued)

Talbot

At the balance sheet date there was intent by all partners to proceed with the Talbot development. Work plans and budgets have been approved to undertake appraise/select phase studies. However subsequent to the year end, in April 2015 the joint venture partner decided in the light of the deteriorating economic environment not to proceed with the expenditure for the appraise/select phase studies nor with the field development and therefore the carrying value was written off. The impact of writing off the carrying value in these financial statements would be a charge to the profit and loss account of \$25.2 million.

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. In the period 2015 to 2016 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. Throughout this period funding will be met primarily by continued support from 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 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. The unutilised capacity of this facility is \$1.51 billion as at 29 September 2015. 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.

Directors of the company

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

P. Warwick

Y. Zhang

R. S. Ramshaw

L. Cabra (appointed 8 May 2015)

J. R. Baillie (appointed 27 October 2014; appointed alternate director 15 September 2014, revoked 26 October 2014)

R. R. Rooney (resigned 8 May 2015)

J. Ye (resigned 27 October 2014)

G. C. Ingram (appointed alternate director 15 September 2014, revoked 25 November 2014)

Talisman Sinopec Energy UK Limited

Directors' Report (continued)

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 views 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 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 practical to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Directors' qualifying third party indemnity provisions

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 provision remains in force as at the date of approving the directors' report.

Disclosure of information to auditors

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
29 September 2015

Registered Office
20-22 Bedford Row
London
WC1R 4JS

Talisman Sinopec Energy UK Limited

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors 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 group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Talisman Sinopec Energy UK Limited

We have audited the financial statements of Talisman Sinopec Energy UK Limited for the year ended 31 December 2014 which comprise the Group Profit and Loss Account, the Group Balance Sheet, the Parent Company Balance Sheet, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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 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.

Independent auditor's report to the members of Talisman Sinopec Energy UK Limited (continued)

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the group and the company's affairs as at 31 December 2014 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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

..... 29 September 2015

Talisman Sinopec Energy UK Limited

Group profit and loss account for the year ended 31 December 2014

	<u>Note</u>	<u>2014</u> <u>\$'000</u>	<u>2013</u> <u>\$'000</u>
Turnover	2	1,185,059	1,420,405
Cost of sales		<u>(5,873,349)</u>	<u>(3,405,185)</u>
Gross loss		(4,688,290)	(1,984,780)
Administrative expense		(10,715)	(16,620)
Other operating income	3	<u>5,932</u>	<u>3,204</u>
Operating loss	4	(4,693,073)	(1,998,196)
Profit on disposal of fixed assets	8	<u>11</u> (4,693,062)	<u>2,500</u> (1,995,696)
Interest receivable and similar income	9	2,080	579
Interest payable and similar charges	10	<u>(129,054)</u>	<u>(90,722)</u>
Loss on ordinary activities before taxation		(4,820,036)	(2,085,839)
Tax on loss on ordinary activities	11	<u>1,834,066</u>	<u>1,081,988</u>
Loss on ordinary activities after taxation	22	<u>(2,985,970)</u>	<u>(1,003,851)</u>

All activities relate to continuing operations.

Talisman Sinopec Energy UK Limited

Group statement of total recognised gains and losses for the year ended 31 December 2014


	<u>Note</u>	<u>2014</u> <u>\$'000</u>	<u>2013</u> <u>\$'000</u>
Loss for the financial year	22	(2,985,970)	(1,003,851)
Actuarial loss on pension scheme	24	(43,450)	(1,483)
Movement on deferred tax relating to pension scheme liability/asset	11	<u>7,323</u>	<u>920</u>
Total recognised gains and losses		<u>(3,022,097)</u>	<u>(1,004,414)</u>

Talisman Sinopec Energy UK Limited

Group balance sheet as at 31 December 2014

	<u>Note</u>	<u>2014</u> <u>\$'000</u>	<u>2013</u> <u>\$'000</u>
Fixed assets			
Intangible assets	12	462,535	868,203
Tangible assets	13	<u>1,925,536</u>	<u>2,713,158</u>
		<u>2,388,071</u>	<u>3,581,361</u>
Current assets			
Stocks	15	147,079	116,145
Debtors	16		
- amounts falling due within one year		509,374	505,482
- amounts falling due after more than one year		2,045,583	185,494
Cash at bank		<u>36,930</u>	<u>40,605</u>
		<u>2,738,966</u>	<u>847,726</u>
Creditors - amounts falling due within one year	17	<u>(1,135,001)</u>	<u>(893,695)</u>
Net current assets/(liabilities)		<u>1,603,965</u>	<u>(45,969)</u>
Total assets less current liabilities		3,992,036	3,535,392
Creditors - amounts falling due after more than one year	17	(850,840)	(1,397,982)
Provisions for liabilities	20	<u>(5,272,166)</u>	<u>(3,168,301)</u>
Net liabilities excluding pension scheme (liability)/asset		(2,130,970)	(1,030,891)
Pension scheme (liability)/asset	24	<u>(31,638)</u>	<u>2,825</u>
Net liabilities including pension scheme (liability)/asset		<u>(2,162,608)</u>	<u>(1,028,066)</u>
Capital and reserves			
Called up share capital	21	1,710,602	122,571
Share premium	22	299,346	-
Other reserves	22	15,280	15,102
Profit and loss account	22	<u>(4,187,836)</u>	<u>(1,165,739)</u>
Total shareholders' deficit	22	<u>(2,162,608)</u>	<u>(1,028,066)</u>

The financial statements were approved by the board of directors on 29 September 2015 and were signed on its behalf by:


P. Warwick
Director

Talisman Sinopec Energy UK Limited

Parent company balance sheet as at 31 December 2014

	<u>Note</u>	<u>2014</u> <u>\$'000</u>	<u>2013</u> <u>\$'000</u>
Fixed assets			
Intangible assets	12	438,260	850,580
Tangible assets	13	692,271	1,863,937
Investments	14	<u>75,920</u>	<u>78,828</u>
		<u>1,206,451</u>	<u>2,793,345</u>
Current assets			
Stocks	15	90,041	82,459
Debtors - amounts falling due within one year	16	650,148	502,788
- amounts falling due after more than one year	16	743,475	-
Cash at bank		<u>36,930</u>	<u>40,605</u>
		<u>1,520,594</u>	<u>625,852</u>
Creditors - amounts falling due within one year	17	<u>(1,211,623)</u>	<u>(998,656)</u>
Net current assets/(liabilities)		<u>308,971</u>	<u>(372,804)</u>
Total assets less current liabilities		1,515,422	2,420,541
Creditors - amounts falling due after more than one year	17	(502,449)	(1,087,214)
Provisions for liabilities	20	<u>(2,435,992)</u>	<u>(1,695,941)</u>
Net liabilities excluding pension scheme (liability)/asset		(1,423,019)	(362,614)
Pension scheme (liability)/asset	24	<u>(31,638)</u>	<u>2,825</u>
Net liabilities including pension scheme (liability)/asset		<u>(1,454,657)</u>	<u>(359,789)</u>
Capital and reserves			
Called up share capital	21	1,710,602	122,571
Share premium	22	299,346	15,102
Other reserves	22	15,280	15,102
Profit and loss account	22	<u>(3,479,885)</u>	<u>(497,462)</u>
Total shareholders' deficit	22	<u>(1,454,657)</u>	<u>(359,789)</u>

The financial statements were approved by the board of directors on 29 September 2015 and were signed on its behalf by:


P. Warwick
Director

Talisman Sinopec Energy UK Limited

Group cash flow statement for the year ended 31 December 2014

	<u>Note</u>	2014 <u>\$'000</u>	2013 <u>\$'000</u>
Net cash (outflow)/inflow from operating activities	23(a)	(264,504)	63,406
Returns on investments and servicing of finance	23(b)	(61,116)	(5,567)
Taxation	23(c)	77,510	226
Capital expenditure and financial investment	23(d)	<u>(1,059,956)</u>	<u>(925,452)</u>
Cash outflow before financing		(1,308,066)	(867,387)
Financing	23(e)	<u>1,304,391</u>	<u>782,920</u>
Decrease in cash in the year		<u><u>(3,675)</u></u>	<u><u>(84,467)</u></u>

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014

1. Accounting policies

a) Basis of preparation

These financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

FRS 18 'Accounting Policies' requires compliance with the industry Statement of Recommended Practice (SORP) 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities'. Except for the items noted below, these accounts have been prepared in accordance with the provisions of the SORP:

- I. The group has chosen not to disclose the composition or capitalisation of pre-production costs or details of commercial reserve quantities as this information is regarded as commercially sensitive.
- II. The quantities of oil and other hydrocarbons lifted by the group may differ from its equity share of production giving rise to over or underlifts.

The SORP recommends that sales be recorded on a sales basis and that adjustments in respect of overlift or underlift should be recorded against cost of sales at market value, with the equivalent balance sheet entry being debited or credited to debtors or creditors respectively. This has the effect of recognising gross profits on an entitlement basis.

However, in order to comply with group accounting policies and meet income recognition rules under IFRS, the group has departed from the SORP:

- i) The year end position on over or underlift quantities is based on net terminal groupings for all fields held by the group;
- ii) The group values a net overlift position on a market value basis by adjustment to turnover, with the equivalent balance sheet entry being credited to accruals;
- iii) The group values a net underlift position on a cost of production basis by adjustment to cost of sales with the equivalent balance sheet entry being debited to stock;
- iv) If the group were to follow the SORP, the reported loss before tax for the financial year would be increased by \$4.6 million (2013: decreased by \$1.2 million).

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

1. Accounting policies (continued)

b) Basis of consolidation

The group financial statements consolidate the financial statements of Talisman Sinopec Energy UK Limited and all its subsidiary undertakings drawn up to 31 December 2014.

The loss for the year dealt with in the parent company accounts of Talisman Sinopec Energy UK Limited was \$2,946.3 million. No profit or loss account is presented for Talisman Sinopec Energy UK Limited as permitted by section 408 of the Companies Act 2006.

c) Fixed assets, depreciation and depletion

The group accounts for exploration and development costs on the “successful efforts” basis whereby all licence acquisition, exploration and appraisal drilling costs are initially capitalised as intangible fixed assets pending determination of commerciality. Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed.

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.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

1. Accounting policies (continued)

c) Fixed assets, depreciation and depletion (continued)

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 future development costs and estimated proved and probable reserves of oil and gas at the end of the financial year plus the production in the year. For purposes 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 tangible fixed assets 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.

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

Corporate assets, including leasehold improvements, computer equipment and office furniture and equipment, are depreciated using the straight-line method at annual rates of 5 to 25%.

d) Foreign currency translation

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.

e) 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 group companies are involved as co-participants in joint operations with other companies in exploring for oil and gas and in the exploitation of producing fields. The companies' interests in its joint operations are accounted for under the proportional method of consolidation.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

1. Accounting policies (continued)

f) Over and underlifts

The quantities of oil and other hydrocarbons lifted by the group 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 stock 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.

The year end position on over or underlift quantities is based on net terminal groupings for all fields held by the group.

g) Abandonment

Liabilities for abandonment costs are provided for in full when the group 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 group has capitalised an amount equivalent to the provision as a tangible fixed asset which is amortised over the life of the field on a unit-of-production basis.

h) Turnover

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

i) Taxation

Current tax

Current 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 by the balance sheet date.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

1. Accounting policies (continued)

i) Taxation (continued)

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Petroleum Revenue Tax

Provision is made on a unit of net revenue basis for petroleum revenue tax having estimated the full liability over the expected life of each field after taking account of uplift, oil allowance, safeguard, abandonment costs and available exploration and appraisal expenditure.

Group relief

The companies in the Talisman Sinopec Energy UK group are owned by a consortium for the purposes of group relief under Part 5 of the Corporation Tax Act 2010. The companies in the Talisman Sinopec Energy UK group account for group relief as follows:

- Payment is received for group relief losses surrendered by the companies in the Talisman Sinopec Energy UK group to other UK resident companies in the consortium.
- Payment is charged for group relief losses claimed by the companies in the Talisman Sinopec Energy UK group from other UK resident companies in the consortium.

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

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

1. Accounting policies (continued)

j) Stock

Held within stock are the following:

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

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

k) Related party transactions

The parent company has taken advantage of the exemption in FRS 8, para 3c 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.

l) 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.

m) Investments

Investments are held at directors' valuation less any provision for impairment. Provision is made for any reduction in value.

n) Operating leases

Costs incurred under operating leases are charged to the profit and loss account as incurred. Where operating lease costs are directly attributable to exploration and appraisal activity they are capitalised as intangible assets.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

1. Accounting policies (continued)

o) Share based payments

The company has offered share based payments to employees under a cash unit plan, a performance share unit plan and a restricted share unit plan, as described in Note 25.

The cost of the cash unit plan is measured at fair value using an appropriate pricing model. Fair value is established at the grant date and at each balance sheet date thereafter until the awards are settled. During the vesting period a liability is recognised representing the fair value of the award and the portion of the vesting period expired at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award at the balance sheet date. Changes in the carrying amount for the liability are recognised in the profit and loss account for the period.

The cost of the performance share unit plan is measured at fair value on the date of grant and recognised over the vesting period of the units as a share-based payment in the profit and loss account, with a corresponding increase in equity.

The cost of the restricted share unit plan is measured at fair value at each balance sheet date. Units granted vest evenly on an annual basis over a three year period. During the vesting period a liability is recognised representing the fair value of the award and the portion of the vesting period expired at the balance sheet date. Changes in the carrying amount of the liability are recognised in the profit and loss account for the period.

p) Pensions

The group operates two pension schemes for its UK employees: a defined benefit scheme which was closed to new entrants with effect from 1 January 2011 (the "DB Scheme"), and a defined contribution scheme, which is offered to all new employees (the "DC Scheme").

The cost of providing benefits under the defined benefits scheme is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice.

Past service costs are recognised in profit or loss on a straight line basis over the vesting period or immediately if the benefits have vested. When a settlement or a curtailment occurs, the change in the present value of the scheme liabilities and the fair value of the scheme assets reflects the gain or loss which is recognised in the profit and loss account. Losses are measured at the date that the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

1. Accounting policies (continued)

p) Pensions (continued)

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the defined benefit obligation, taking into account material changes in the obligation during the year. The expected return on scheme assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of scheme assets of contributions received and benefits paid during the year. The difference between the expected return on scheme assets and interest cost is recognised in the profit and loss account.

Actuarial gains and losses are recognised in full in the consolidated statement of total recognised gains and losses in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of scheme assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is limited to the amount that can be recovered either through reduced contributions or agreed refunds from the scheme.

Contributions to the defined contribution scheme are recognised in the profit and loss account in the period in which they become payable.

2. Turnover and segmental analysis

All of the group's turnover and operating loss arises from continuing activities in the North Sea. Crude oil is sold into international markets and other hydrocarbons are sold within the country of production.

Turnover is stated net of value added tax.

3. Other operating income

	2014	2013
	<u>\$'000</u>	<u>\$'000</u>
Crude oil trading sales	15,332	12,648
Crude oil trading purchases	(15,320)	(12,490)
Research and development expenditure credit	5,824	3,046
Other income	96	-
	<u>5,932</u>	<u>3,204</u>

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

4. Operating loss

	2014 <u>\$'000</u>	2013 <u>\$'000</u>
Operating loss is stated after charging/(crediting):		
Depreciation	1,934,975	1,147,604
Impairment charge	1,810,666	1,160,471
Petroleum revenue tax	(621)	(276,338)
Exploration write offs	9,086	22,774
Tangible expenditure written off	1,284	10,602
Amortisation of intangible assets	195	195
Operating expenditure	1,222,719	1,165,422
Provision for onerous contracts	237,860	-
Abandonment provision	513,580	10,520
Operating lease rentals in respect of:		
Plant & machinery	63,825	74,791
Other	4,150	3,776
Provision for doubtful debt	1,000	3,618
Foreign exchange (gain)/loss	(3,359)	3,784
Auditors' remuneration (Note 5)	937	902

5. Auditors' remuneration

The remuneration of the auditors is further analysed as follows:

	2014 <u>\$'000</u>	2013 <u>\$'000</u>
Audit of the financial statements	211	204
Fees for other services:		
Audit of subsidiaries	650	628
Other assurance services	53	49
Audit of the Talisman Sinopec Pension and Life Scheme	<u>23</u>	<u>21</u>
	<u>937</u>	<u>902</u>

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

6. Directors' remuneration

	2014 \$'000	2013 \$'000
Other remuneration	343	32
Pension contributions	<u>-</u>	<u>-</u>
	<u>343</u>	<u>32</u>
	2014 No.	2013 No.
Members of defined benefit scheme	<u>-</u>	<u>-</u>

The directors' remuneration disclosed above includes amounts paid to the highest paid director:

	2014 \$'000	2013 \$'000
Other remuneration	<u>249</u>	<u>32</u>
Pension contributions	<u>-</u>	<u>-</u>
Accrued pension amount at year end	<u>-</u>	<u>-</u>
Accrued lump sum amount at year end	<u>-</u>	<u>-</u>

R. S. Ramshaw received remuneration for services as a director of Talisman Sinopec Energy UK Limited during the financial year 2014. P. Warwick received remuneration for services as Interim Managing Director of Talisman Sinopec Energy UK Limited during the financial year 2014. 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 Talisman Sinopec Energy UK Limited during the financial year 2014.

7. Staff costs

	2014 \$'000	2013 \$'000
Wages and salaries	155,964	158,828
Social security costs	19,143	18,166
Other pension costs	<u>29,014</u>	<u>27,981</u>
	<u>204,121</u>	<u>204,975</u>

Included within staff costs is a share based payment credit of \$4.0 million (2013: charge \$6.2 million).

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

7. Staff costs (continued)

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

	2014	2013
	<u>No.</u>	<u>No.</u>
Administration	140	149
Technical	<u>840</u>	<u>834</u>
	<u>980</u>	<u>983</u>

8. Profit on disposal of fixed assets

	2014	2013
	<u>\$'000</u>	<u>\$'000</u>
Profit on disposal of fixed assets	<u>11</u>	<u>2,500</u>

The 2013 profit on disposal relates to the disposal during the year of the group's 50% interest in P324, Block 14/20c (Lowlander) to Faroe Petroleum (U.K.) Limited.

9. Interest receivable and similar income

	2014	2013
	<u>\$'000</u>	<u>\$'000</u>
Finance fee	304	292
Bank interest	91	178
Other interest	<u>1,685</u>	<u>109</u>
	<u>2,080</u>	<u>579</u>

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

10. Interest payable and similar charges

	2014 <u>\$'000</u>	2013 <u>\$'000</u>
Related party interest	41,101	33,395
Other interest	3,493	8
Interest on pension scheme liabilities (Note 24)	11,627	10,224
Finance fee	82	96
Unwinding of discount on abandonment provision	<u>72,751</u>	<u>46,999</u>
	<u>129,054</u>	<u>90,722</u>

11. Tax on loss on ordinary activities

	2014 <u>\$'000</u>	2013 <u>\$'000</u>
Current tax:		
- UK corporation tax credit for the year	(21,507)	(101,001)
- adjustments for previous years	<u>3,777</u>	<u>26,070</u>
Total current tax	<u>(17,730)</u>	<u>(74,931)</u>
UK deferred tax		
- current year credit	(1,863,249)	(992,126)
- adjustment for previous years	26,916	(22,784)
- foreign exchange loss on deferred tax	<u>11,783</u>	<u>-</u>
Total deferred tax	(1,824,550)	(1,014,910)
Deferred tax charge on pension scheme liability	2,714	7,853
Write-off of research and development credit	<u>5,500</u>	<u>-</u>
Total deferred tax	<u>(1,816,336)</u>	<u>(1,007,057)</u>
Tax on loss on ordinary activities	<u>(1,834,066)</u>	<u>(1,081,988)</u>

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

11. Tax on loss on ordinary activities (continued)

	<u>2014</u> <u>\$'000</u>	<u>2013</u> <u>\$'000</u>
Factors affecting tax credit in the year:		
Loss on ordinary activities before tax	(4,820,036)	(2,085,839)
Tax on loss on ordinary activities at 62% (2013: 62%)	(2,988,422)	(1,293,220)
Effects of:		
Expenses disallowed and non-taxable income	182,443	189,335
Capital allowances less than accounting depreciation and impairment	1,485,666	660,000
Short term timing differences	354,477	(104,319)
Exploration write off	6,428	20,693
Supplementary charge adjustments	3,541	9,095
Adjustment for previous years	3,779	26,690
Group relief adjustment	-	(86)
Tax losses	936,122	411,445
Non ring fence adjustments	115	2,267
Other	(1,879)	3,169
Current tax credit for the year	<u>(17,730)</u>	<u>(74,931)</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 32%. SCT is payable on ring fence profits, adjusted for finance costs and field allowances in the period. In addition relief for abandonment expenditure is restricted to a combined corporation tax and supplementary charge rate of 50%.

Non ring fence profits are subject to the main rate of corporation tax, being 21.5% for the year ended 31 December 2014.

Finance Act 2015 was enacted on 26 March 2015 and has 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 will be 50% from 1 January 2015 and the restriction on relief for abandonment expenditure will be nil.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

11. Tax on loss on ordinary activities (continued)

The amounts recognised at 31 December 2014 for deferred UK corporation tax at 62% and 50% with respect to the abandonment provision (2013: 62% / 50%) are as follows:

	2014 <u>\$'000</u>	2013 <u>\$'000</u>
Included in debtors (Note 16)	2,045,583	185,494
Included in provisions for liabilities (Note 20)	(36,039)	-
Included in pension scheme liability (Note 24)	-	(4,609)
	<u>2,009,544</u>	<u>180,885</u>
	2014 <u>\$'000</u>	2013 <u>\$'000</u>
Accelerated capital allowances	(1,219,708)	(1,421,547)
Deferred PRT	178,338	125,986
Abandonment timing differences	2,190,111	1,056,479
Other timing differences	(69,086)	(22,483)
Tax losses	929,889	447,059
Pension costs	-	(4,609)
	<u>2,009,544</u>	<u>180,885</u>
		<u>\$'000</u>
At 1 January 2014 including deferred tax on defined pension liability		180,885
Deferred tax credit in the profit and loss account		1,821,836
Deferred tax credit in the statement of total recognised gains and losses		7,323
Deferred tax acquired		(500)
At 31 December 2014 including deferred tax on defined pension liability		<u>2,009,544</u>

The deferred tax asset arising as a result of the abandonment provision is recognised after deducting the net book value of FRS 12 fixed assets as at 31 December 2014.

A deferred tax asset of \$788.2 million (2013: \$4.5 million) has not been recognised as after consideration of all available information it is uncertain that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. In addition there is a foreign exchange loss of \$11.8 million in the year end revaluation of the deferred tax asset recognised on abandonment timing differences.

A deferred tax asset on capital losses of \$2.6 million (2013: \$4.1 million) has not been recognised since it is not certain that the company will have future capital gains.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

11. Tax on loss on ordinary activities (continued)

The rate of supplementary charge has been reduced by Finance Act 2015 to 20% for accounting periods commencing on or after 1 January 2015. This change is a non-adjusting balance sheet event and this would increase the recognised deferred tax asset by \$36 million (based on the position as at 31 December 2014).

12. Intangible fixed assets

Group

	Oil and gas interests \$'000
Cost	
At 1 January 2014	983,881
Acquisitions	(3)
Additions	715,921
Change in abandonment estimates	91,325
Deletions	(13,100)
Exploration write-off	(9,086)
At 31 December 2014	<u>1,768,938</u>
Depreciation	
At 1 January 2014	115,678
Charge for year	1,203,825
Deletions	(13,100)
At 31 December 2014	<u>1,306,403</u>
Net book value	
At 31 December 2014	<u>462,535</u>
At 31 December 2013	<u>868,203</u>

All assets are within the North Sea area.

Included within the net book value of oil and gas interests above is \$2.4 million (2013: \$13.6 million) in respect of finance costs and \$91.3 million (2013: \$nil) in respect of abandonment costs capitalised. The amount of finance costs capitalised during the year was \$13.6 million (2013: \$7.4 million).

Included within the depreciation charge for the year is \$1,203.6 million charge (2013: \$nil) in respect of impairment. The impairment was measured by reference to the value in use of the assets. The discount rate applied to cash flows was 8% nominal (2013: 8% nominal).

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

12. Intangible fixed assets (continued)

Parent company

	Oil and gas interests \$'000
Cost	
At 1 January 2014	939,552
Additions	710,421
Change in abandonment estimate	89,644
Exploration write-off	<u>(8,755)</u>
At 31 December 2014	<u>1,730,862</u>
Depreciation	
At 1 January 2014	88,972
Charge for year	<u>1,203,630</u>
At 31 December 2014	<u>1,292,602</u>
Net book value	
At 31 December 2014	<u>438,260</u>
At 31 December 2013	<u>850,580</u>

All assets are within the North Sea area.

Included within the net book value of oil and gas interests above is \$2.4 million (2013: \$13.6 million) in respect of finance costs and \$89.6 million (2013: \$nil) in respect of abandonment costs capitalised. The amount of finance costs capitalised during the year was \$13.6 million (2013: \$7.4 million).

Included within the depreciation charge for the year is \$1,203.6 million charge (2013: \$nil) in respect of impairment. The impairment was measured by reference to the value in use of the assets. The discount rate applied to cash flows was 8% nominal (2013: 8% nominal).

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

13. Tangible fixed assets

Group

	Oil and gas interests <u>\$'000</u>	Corporate <u>\$'000</u>	Total <u>\$'000</u>
Cost			
At 1 January 2014	10,963,937	59,631	11,023,568
Change in abandonment estimate	1,282,036	-	1,282,036
Acquisitions	20,965	-	20,965
Additions	449,700	2,977	452,677
Expenditure written off	(1,284)	-	(1,284)
At 31 December 2014	<u>12,715,354</u>	<u>62,608</u>	<u>12,777,962</u>
Depreciation			
At 1 January 2014	8,271,167	39,243	8,310,410
Charge for year	<u>2,536,428</u>	<u>5,588</u>	<u>2,542,016</u>
At 31 December 2014	<u>10,807,595</u>	<u>44,831</u>	<u>10,852,426</u>
Net book value			
At 31 December 2014	<u>1,907,759</u>	<u>17,777</u>	<u>1,925,536</u>
At 31 December 2013	<u>2,692,770</u>	<u>20,388</u>	<u>2,713,158</u>

All assets are within the North Sea area.

Included within the net book value of oil and gas interests above is \$2.4 million (2013: \$30.8 million) in respect of finance costs and \$990.3 million (2013: \$854.7 million) in respect of abandonment costs capitalised. No finance costs were capitalised during the year (2013: \$nil).

Included within the depreciation charge for the year is \$607.0 million charge (2013: \$1,160.5 million charge) in respect of impairment. The impairment was measured by reference to the value in use of the assets. The discount rate applied to cash flows was 8% nominal (2013: 8% nominal).

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

13. Tangible fixed assets (continued)

Parent company

	Oil and gas interests <u>\$'000</u>	Corporate <u>\$'000</u>	Total <u>\$'000</u>
Cost			
At 1 January 2014	6,106,069	59,631	6,165,700
Change in abandonment estimate	454,977	-	454,977
Additions	230,033	2,977	233,010
Expenditure written off	(939)	-	(939)
At 31 December 2014	<u>6,790,140</u>	<u>62,608</u>	<u>6,852,748</u>
Depreciation			
At 1 January 2014	4,262,520	39,243	4,301,763
Charge for year	<u>1,853,126</u>	<u>5,588</u>	<u>1,858,714</u>
At 31 December 2014	<u>6,115,646</u>	<u>44,831</u>	<u>6,160,477</u>
Net book value			
At 31 December 2014	<u>674,494</u>	<u>17,777</u>	<u>692,271</u>
At 31 December 2013	<u>1,843,549</u>	<u>20,388</u>	<u>1,863,937</u>

All assets are within the North Sea area.

Included within the net book value of oil and gas interests above is \$2.2 million (2013: \$30.4 million) in respect of finance costs and \$454.2 million (2013: \$459.0 million) in respect of abandonment costs capitalised. No finance costs were capitalised during the year (2013: \$nil).

Included within the depreciation charge for the year is \$582.5 million charge (2013: \$215.6 million) in respect of impairment. The impairment was measured by reference to the value in use of the assets. The discount rate applied to cash flows was 8% nominal (2013: 8% nominal).

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

14. Investments

Parent company

	Shares in subsidiary undertakings <u>\$'000</u>
At 1 January 2014	78,828
Additions	217,230
Impairment charge	<u>(220,138)</u>
At 31 December 2014	<u>75,920</u>

Investments are held at directors' valuation based on the company's long term plan.

During the year the company made capital contributions totalling \$165.0 million to certain of its subsidiaries and waived certain intercompany receivables totalling \$52.2 million.

The impairment charge for the year is in respect of impairment of the company's investments in subsidiary companies Talisman Sinopec North Sea Limited, Talisman Sinopec Alpha Limited, Talisman Sinopec Beta Limited and Rigel Petroleum UK Limited.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

14. Investments (continued)

Details of the investments in which the company holds more than 10% of the nominal value of any class of share capital are as follows:

Name of Company (All held by the company unless indicated)	Country of registration (or incorporation and operation)	Holding	% Voting rights and shares held	Nature of business
Talisman Sinopec North Sea Limited	England and Wales	Ordinary shares	100%	Exploration, development and production of oil and gas
Talisman Sinopec Oil Trading Limited	England and Wales	Ordinary shares	100% ‡	Exploration, development and production of oil and gas
Transworld Petroleum (U.K.) Limited	England and Wales	Ordinary shares	100% ‡	Exploration, development and production of oil and gas
Talisman Sinopec Transportation (UT) Limited	England and Wales	Ordinary shares	100% ‡	Transportation of oil and gas
Talisman Sinopec LNS Limited	England and Wales	Ordinary shares	100%	Exploration, development and production of oil and gas
Rigel Petroleum UK Limited	England and Wales	Ordinary shares	100%	Exploration, development and production of oil and gas
Rigel Petroleum (NI) Limited	Northern Ireland	Ordinary shares	100% R	Exploration, development and production of oil and gas
Talisman Sinopec Alpha Limited	England and Wales	Ordinary shares	100%	Exploration, development and production of oil and gas
Talisman Sinopec Beta Limited	England and Wales	Ordinary shares	100%	Exploration, development and production of oil and gas
Talisman Sinopec Trustees (UK) Limited	England and Wales	Ordinary shares	100%	Non-trading
Talisman Sinopec Pension and Life Scheme Limited	England and Wales	Ordinary shares	100%	Non-trading

‡ held by Talisman Sinopec North Sea Limited

R held by Rigel Petroleum UK Limited

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

15. Stocks

	Group		Company	
	2014	2013	2014	2013
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Crude oil	11,347	4,602	3,078	12,832
Purchased materials	135,732	111,543	86,963	69,627
	<u>147,079</u>	<u>116,145</u>	<u>90,041</u>	<u>82,459</u>

16. Debtors

	Group		Company	
	2014	2013	2014	2013
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Amounts falling due within one year				
Trade debtors	260,466	270,744	206,893	211,028
Other taxes	5,846	6,193	3,267	4,069
Other debtors	79,424	3,659	73,580	3,068
Prepayments and accrued income	32,549	28,342	31,898	27,510
Petroleum revenue tax	100,147	106,259	27,681	14,510
Corporation tax	30,425	90,209	30,425	90,209
Amounts due from subsidiary undertakings	-	-	275,887	152,318
Amounts due from related parties	517	76	517	76
	<u>509,374</u>	<u>505,482</u>	<u>650,148</u>	<u>502,788</u>

	Group		Company	
	2014	2013	2014	2013
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Amounts falling due after more than one year				
Deferred corporation tax (Note 11)	2,045,583	185,494	743,475	-

17. Creditors

	Group		Company	
	2014	2013	2014	2013
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Amounts falling due within one year				
Trade creditors	86,214	51,635	56,088	30,718
Other creditors	13,234	16,652	11,892	8,686
Accruals and deferred income	619,511	576,499	445,948	399,319
Abandonment (Note 20)	36,665	14,060	10,207	5,101
Onerous contracts (Note 20)	171,590	-	171,590	-
Amounts due to subsidiary undertakings	-	-	413,298	377,648
Amounts due to related parties	207,787	234,849	102,600	177,184
	<u>1,135,001</u>	<u>893,695</u>	<u>1,211,623</u>	<u>998,656</u>

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

17. Creditors (continued)

	Group		Company	
	2014	2013	2014	2013
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Amounts falling due after more than one year				
Amounts due to related parties (Note 18)	<u>850,840</u>	<u>1,397,982</u>	<u>502,449</u>	<u>1,087,214</u>

18. Loans

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

	Group		Company	
	2014	2013	2014	2013
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Wholly repayable within five years	<u>1,040,153</u>	<u>1,630,096</u>	<u>861,002</u>	<u>1,527,052</u>
Amounts repayable:				
Within one year	189,313	232,114	358,553	439,838
In more than one year, but not more than two years	157,529	193,568	67,789	144,017
In more than two years, but not more than five years	<u>693,311</u>	<u>1,204,414</u>	<u>434,660</u>	<u>943,197</u>
	<u>1,040,153</u>	<u>1,630,096</u>	<u>861,002</u>	<u>1,527,052</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 20 June 2014 the \$1,262.4 million proceeds from the share issue (note 21) were used as partial repayment of the related party loans outstanding at 31 December 2013 plus interest of \$18.0 million, with \$643.8 million repaid to Talisman Finance (UK) Limited and \$618.6 million repaid to TipTop Energy Limited.

Subsequent to the year end, on 16 July 2015 the \$1,060.8 million proceeds from the share issue (note 29) 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 group to related parties to nil.

The company only figures above include promissory notes issued during 2012. On 14 November 2012, promissory notes were issued to subsidiary entities. The promissory notes bear interest at 3.5%. The full amount of the promissory notes along with accrued interest is repayable on demand.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

19. Operating lease commitments

Group

At 31 December the group had annual commitments under operating leases as set out below:

	Other		Land and building	
	2014	2013	2014	2013
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Operating leases which expire:				
Within one year	400,010	66,740	2,294	1,243
In two to five years	167,830	395,298	456	484
In more than five years	<u>5,572</u>	<u>5,779</u>	<u>3,115</u>	<u>3,311</u>
	<u>573,412</u>	<u>467,817</u>	<u>5,866</u>	<u>5,038</u>

Parent company

At 31 December the company had annual commitments under operating leases as set out below:

	Other		Land and building	
	2014	2013	2014	2013
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Operating leases which expire:				
Within one year	397,638	65,473	2,275	1,223
In two to five years	167,830	395,298	322	342
In more than five years	<u>-</u>	<u>-</u>	<u>3,115</u>	<u>3,311</u>
	<u>565,468</u>	<u>460,771</u>	<u>5,712</u>	<u>4,876</u>

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

20. Provisions for liabilities

Group

	Abandonment	Onerous	Deferred	Deferred	Total
	\$'000	contracts	corporation	petroleum	
	\$'000	\$'000	tax	revenue	\$'000
	\$'000	\$'000	\$'000	tax	\$'000
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2014 – expected to be incurred within one year	14,060	-	-	-	14,060
At 1 January 2014 – expected to be incurred in more than one year	2,965,671	-	-	202,630	3,168,301
At 1 January 2014	2,979,731	-	-	202,630	3,182,361
New provision	-	237,860	-	-	237,860
Utilised	(40,416)	-	-	-	(40,416)
Acquisitions	18,806	-	500	-	19,306
Current year charge	-	-	35,539	86,079	121,618
Change in abandonment estimate	1,886,941	-	-	-	1,886,941
Unwinding of discount	72,751	-	-	-	72,751
At 31 December 2014	<u>4,917,813</u>	<u>237,860</u>	<u>36,039</u>	<u>288,709</u>	<u>5,480,421</u>
Of which – expected to be incurred within one year	<u>36,665</u>	<u>171,590</u>	<u>-</u>	<u>-</u>	<u>208,255</u>
Of which – expected to be incurred in more than one year	<u>4,881,148</u>	<u>66,270</u>	<u>36,039</u>	<u>288,709</u>	<u>5,272,166</u>

At 31 December 2014, the provision for the future estimated costs of abandonment at the balance sheet date was \$4,918 million (2013: \$2,979.3 million). The provision for abandonment has been estimated using existing technology at existing prices and discounted using a risk free discount rate of 2.45% (2013: 2.44%.) The costs are expected to be incurred over the next 27 years.

At 31 December 2014, 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.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

20. Provisions for liabilities (continued)

Parent company

	Abandonment	Onerous contracts	Deferred corporation tax	Deferred petroleum revenue tax	Total
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
At 1 January 2014 – expected to be incurred within one year	5,101	-	-	-	5,101
At 1 January 2014 – expected to be incurred in more than one year	<u>1,363,614</u>	-	<u>310,201</u>	<u>22,126</u>	<u>1,695,941</u>
At 1 January 2014	1,368,715	-	310,201	22,126	1,701,042
Utilised	(12,977)	-	-	-	(12,977)
New provisions		237,860	-	-	237,860
Change in abandonment estimate	929,806	-	-	-	929,806
Current year credit	-	-	(1,027,683)	12,884	(1,014,799)
Unwinding of discount	33,382	-	-	-	33,382
Transfer to debtors (Note 16)	-	-	<u>743,475</u>	-	<u>743,475</u>
At 31 December 2014	<u>2,318,926</u>	<u>237,860</u>	<u>25,993</u>	<u>35,010</u>	<u>2,617,789</u>
Of which - expected to be incurred within one year	<u>10,207</u>	<u>171,590</u>	-	-	<u>181,797</u>
Of which – expected to be incurred in more than one year	<u>2,308,719</u>	<u>66,270</u>	<u>25,993</u>	<u>35,010</u>	<u>2,435,992</u>

21. Allotted and issued share capital

Parent company

	2014	2013
	<u>\$'000</u>	<u>\$'000</u>
Allotted, called up and fully paid		
20,432,524,155 ordinary shares (2013: 1,558,752,555 ordinary shares) of £0.05 each	<u>1,710,602</u>	<u>122,571</u>

During the year a total of 18,873,771,600 ordinary shares of £0.05 each were allotted with an aggregate nominal value of £943,688,580, for an aggregate consideration of \$1,887.4 million including share premium of \$299.3 million (note 22).

Of the total consideration shown above, \$1,262.4 million was used to reduce loans due by the company to related parties (note 18) and a total of \$625.0 million was equity funding provided under the Subscription Agreement dated 20 June 2014.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

22. Reconciliation of shareholders' deficit and movement on reserves

Group

	Share capital \$'000	Share Premium \$'000	Other Reserves \$'000	Profit and loss \$'000	Total shareholders' deficit \$'000
At 1 January 2013	122,571	-	13,900	(161,325)	(24,854)
Loss for the financial year	-	-	-	(1,003,851)	(1,003,851)
Actuarial loss on pension scheme	-	-	-	(1,483)	(1,483)
Movement on deferred tax relating to pension scheme	-	-	-	920	920
Share-based payments	-	-	1,202	-	1,202
At 31 December 2013	122,571	-	15,102	(1,165,739)	(1,028,066)
Loss for the financial year	-	-	-	(2,985,970)	(2,985,970)
Shares issued	1,588,031	299,346	-	-	1,887,377
Actuarial loss on pension scheme	-	-	-	(43,450)	(43,450)
Movement on deferred tax relating to pension scheme	-	-	-	7,323	7,323
Share-based payments	-	-	178	-	178
At 31 December 2014	<u>1,710,602</u>	<u>299,346</u>	<u>15,280</u>	<u>(4,187,836)</u>	<u>(2,162,608)</u>

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

22. Reconciliation of shareholders' deficit and movement on reserves (continued)

Parent company

	Share capital \$'000	Share Premium \$'000	Other Reserves \$'000	Profit and loss \$'000	Total shareholders' funds/(deficit) \$'000
At 1 January 2013	122,571	-	13,900	514,250	650,721
Loss for the year	-	-	-	(1,011,149)	(1,011,149)
Actuarial loss on pension scheme	-	-	-	(1,483)	(1,483)
Movement on deferred tax relating to pension scheme	-	-	-	920	920
Share-based payments	-	-	1,202	-	1,202
At 31 December 2013	122,571	-	15,102	(497,462)	(359,789)
Loss for the year	-	-	-	(2,946,296)	(2,946,296)
Shares issued	1,588,031	299,346	-	-	1,887,377
Actuarial loss on pension scheme	-	-	-	(43,450)	(43,450)
Movement on deferred tax relating to pension scheme	-	-	-	7,323	7,323
Share-based payments	-	-	178	-	178
At 31 December 2014	<u>1,710,602</u>	<u>299,346</u>	<u>15,280</u>	<u>(3,479,885)</u>	<u>(1,454,657)</u>

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

23. Notes to group cash flow statement

(a) Reconciliation of operating loss to net cash (outflow)/inflow from operations

	2014	2013
	<u>\$'000</u>	<u>\$'000</u>
Operating loss	(4,693,073)	(1,998,196)
Depreciation and impairment	3,745,641	2,308,075
Tangible fixed assets written off	1,284	10,602
Amortisation of intangible assets	195	195
Exploration write off	9,086	22,774
Increase in stock	(30,934)	(15,993)
Decrease/(increase in debtors	(68,101)	46,362
Increase/(decrease) in creditors	(7,804)	7,033
Share based payments	(2,509)	8,369
Pension current service cost and expected return on plan assets	1,865	5,356
Pension contribution and use of provision	(17,869)	(28,244)
Utilisation of provisions	(40,416)	(15,153)
Petroleum revenue tax	92,191	(301,800)
New provision of onerous contracts	237,860	-
Charge for change in abandonment estimate	513,580	14,026
Write-off of research and development credit	(5,500)	-
Net cash (outflow)/inflow from operating activities	<u>(264,504)</u>	<u>63,406</u>

(b) Returns on investment and servicing of finance

	2014	2013
	<u>\$'000</u>	<u>\$'000</u>
Interest received	395	470
Interest paid	(61,511)	(6,037)
Net cash outflow from returns on investments and servicing of finance	<u>(61,116)</u>	<u>(5,567)</u>

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

23. Notes to group cash flow statement (continued)

(c) Taxation

	2014 \$'000	2013 \$'000
Corporation tax received	<u>77,510</u>	<u>226</u>
Net cash inflow from taxation	<u>77,510</u>	<u>226</u>

(d) Capital expenditure and financial investment

	2014 \$'000	2013 \$'000
Payments to acquire tangible fixed assets	(357,606)	(448,895)
Payments to acquire intangible fixed assets	(702,361)	(479,057)
Receipts from the sale of fixed assets	<u>11</u>	<u>2,500</u>
Net cash outflow from capital expenditure and financial investment	<u>(1,059,956)</u>	<u>(925,452)</u>

(e) Financing

	2014 \$'000	2013 \$'000
Issue of share capital	1,887,377	-
Loan advances from related parties	782,999	875,752
Loan repayments to related parties	<u>(1,365,985)</u>	<u>(92,832)</u>
Net cash inflow from financing	<u>1,304,391</u>	<u>782,920</u>

24. Pension scheme

The group operates two pension schemes for its UK employees: a defined benefit scheme which was closed to new entrants with effect from 1 January 2011 (the "DB Scheme"), and a defined contribution scheme, which is offered to all new employees (the "DC Scheme"). Contributions totalling \$14.3 million were paid into the DC Scheme during the year ended 31 December 2014 (2013: \$13.2 million).

The DB Scheme provides benefits based on final pensionable pay, and remains open for existing members' future benefit accrual.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

24. Pension scheme (continued)

The assets of the DB Scheme are held separately from those of the group and company, and are invested in a mixture of equities, bonds and diversified growth funds. The group contributions made to the DB Scheme in 2014 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 2012. The valuation used for FRS 17 disclosures below is for the DB Scheme and has been based on the most recent actuarial valuation at 31 March 2012 and updated by Mercer Limited to take account of the requirements of FRS17 in order to assess the liabilities of the scheme at 31 December 2014.

The pension contributions for the year for the DB Scheme were \$18.3 million (2013: \$28.3 million). The total contributions in the next year are expected to be \$16.5 million, including \$3.6 million additional lump sum payment 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 has been 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%.

Main assumptions used for FRS 17 disclosure:	<u>2014</u> %	<u>2013</u> %
Rate of salary increases	5.10	5.40
Rate of increase in pensions in payment	3.10	3.40
Discount rate	3.80	4.70
Expected rate of return on scheme assets:		
Equities	n/a	6.35
Bonds	n/a	3.71
Cash	n/a	0.00
Diversified growth	n/a	5.60
Weighted average life expectancy:		
Member age 60 (current life expectancy) - male	29	29
Member age 60 (current life expectancy) - female	30	30
Member age 40 (life expectancy at age 60) - male	31	31
Member age 40 (life expectancy at age 60) - female	33	32
Inflation assumption	3.10	3.40

The expected return on assets assumption will not be used to calculate the expected return on plan assets in the 2015 Profit and Loss Account, instead the discount rate will be applied. Therefore no expected rate of return assumption is shown in the 2014 column in the table above.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

24. Pension scheme (continued)

The assets and liabilities of the scheme at 31 December are:

	2014	2013
	<u>\$'000</u>	<u>\$'000</u>
Scheme assets at fair value		
Equities	113,234	128,469
Bonds	72,586	47,192
Cash	2,904	2,622
Diversified growth	<u>101,621</u>	<u>83,897</u>
Fair value of scheme assets	290,345	262,180
Present value of scheme liabilities	<u>(321,983)</u>	<u>(254,746)</u>
Defined benefit pension scheme (deficit)/surplus	(31,638)	7,434
Related deferred tax liability	<u>-</u>	<u>(4,609)</u>
Net (liability)/asset in the balance sheet	<u><u>(31,638)</u></u>	<u><u>2,825</u></u>

The amounts recognised in the consolidated profit and loss account and in the consolidated statement of total recognised gains and losses for the year are analysed as follows:

	2014	2013
	<u>\$'000</u>	<u>\$'000</u>
Recognised in the Profit and Loss account		
Current service cost	<u>(16,047)</u>	<u>(16,262)</u>
Recognised in arriving at operating loss	<u>(16,047)</u>	<u>(16,262)</u>
Expected return on pension scheme assets (included within administrative expenses)	14,183	10,906
Interest on pension scheme liabilities (included within interest payable and similar charges)	<u>(11,627)</u>	<u>(10,224)</u>
Other finance income	<u>2,556</u>	<u>682</u>
Total recognised in the profit and loss account	<u><u>(13,491)</u></u>	<u><u>(15,580)</u></u>

	2014	2013
	<u>\$'000</u>	<u>\$'000</u>
Taken to the Statement of Total Recognised Gains and Losses		
Actual less expected return on scheme assets	11,828	17,559
Other losses	<u>(55,278)</u>	<u>(19,042)</u>
Actuarial losses recognised in the Statement of Total Recognised Gains and Losses	<u><u>(43,450)</u></u>	<u><u>(1,483)</u></u>

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

24. Pension scheme (continued)

Changes in the present value of the defined benefit obligations are analysed as follows:

	2014	2013
	<u>\$'000</u>	<u>\$'000</u>
At 1 January	254,746	205,727
Current service cost	16,047	16,262
Interest cost	11,627	10,224
Participants' contributions	1,156	1,391
Benefits paid	(1,793)	(1,722)
Foreign exchange	(15,078)	3,822
Actuarial losses	<u>55,278</u>	<u>19,042</u>
At 31 December	<u><u>321,983</u></u>	<u><u>254,746</u></u>

Changes in the fair value of scheme assets are analysed as follows:

	2014	2013
	<u>\$'000</u>	<u>\$'000</u>
At 1 January	262,180	201,980
Expected return on scheme assets	14,183	10,906
Actuarial gains	11,828	17,559
Employer contribution	18,309	28,314
Participants' contributions	1,156	1,391
Benefits paid	(1,793)	(1,722)
Foreign exchange	<u>(15,518)</u>	<u>3,752</u>
At 31 December	<u><u>290,345</u></u>	<u><u>262,180</u></u>

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

24. Pension scheme (continued)

Five year history	2014 <u>\$'000</u>	2013 <u>\$'000</u>	2012 <u>\$'000</u>	2011 <u>\$'000</u>	2010 <u>\$'000</u>
Fair value of scheme assets	290,345	262,180	201,980	156,324	146,575
Present value of defined benefit obligation	<u>(321,983)</u>	<u>(254,746)</u>	<u>(205,727)</u>	<u>(184,562)</u>	<u>(139,960)</u>
(Deficit)/surplus in the scheme	<u>(31,638)</u>	<u>7,434</u>	<u>(3,747)</u>	<u>(28,238)</u>	<u>6,615</u>
Experience gains and losses arising on the scheme liabilities	<u>-</u>	<u>-</u>	<u>11,050</u>	<u>752</u>	<u>1,268</u>
Experience gains and losses arising on the scheme assets	<u>(11,828)</u>	<u>(17,559)</u>	<u>(12,565)</u>	<u>14,006</u>	<u>(11,733)</u>

The cumulative amount of actuarial gains and losses recognised since 1 January 2002 in the statement of total recognised gains and losses is a net loss of \$74.6 million.

25. Share based payments

Under its Long Term Incentive Plan, up to 2013, the company has 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.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

25. Share based payments (continued)

Subsequent to the creation of Talisman Sinopec Energy UK Limited, a new Long Term Incentive Plan vehicle has been designed which has no link to the Talisman Energy Inc. share price. This new cash-based plan was introduced in 2014, with pay-outs being determined by the company's performance against a set of key performance indicators.

Employee long term cash unit plan

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

The fair value of the liability held under the cash unit plan has been calculated as \$4.9million (2013: \$12.2 million). The fair value of the liability has been calculated using the Black-Scholes pricing model using the following assumptions:

	<u>2014</u>	<u>2013</u>
Expected volatility	55%	34%
Risk free interest rate	1.2%	1.6%
Expected term (years)	3.0	4.0
Expected forfeiture rate	7.1%	6.2%
Expected annual dividend yield	2.0%	1.8%

The expected volatility is based on the historical volatility of Talisman Energy Inc. shares over a historical period that matches the expected term of the stock based compensation plans. The risk free rate is based on the Government of Canada bond yields for terms that match the expected term of the stock based compensation plans. The expected term for each option tranche is estimated at the end of each reporting period. The expected dividend rate takes into account historical dividend payments and the company's expectation for future payments.

A credit of \$1.8 million was recognised for share based payments in respect of employee services during the year to 31 December 2014 (2013 credit: \$1.6 million).

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

25. Share based payments (continued)

Employee long term cash unit plan (continued)

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):

	2014	2014	2013	2013
Continuity of cash units	Number of units	Average exercise price (\$)	Number of units	Average exercise price (\$)
Outstanding at 1 January	6,501,307	17.23	8,432,403	16.54
Transfers	(653,945)	17.23	(187,660)	16.67
Granted	-	-	10,150	12.63
Exercised	(40,397)	8.79	(495,170)	7.43
Forfeited	(594,349)	16.97	(1,110,189)	17.59
Expired	(181,375)	18.10	(148,227)	16.02
Outstanding at 31 December	<u>5,031,241</u>	17.26	<u>6,501,307</u>	17.23
Exercisable at 31 December	<u>4,353,963</u>	17.69	<u>4,991,165</u>	17.39

The range of exercise prices of the company's cash units is as follows (in Canadian dollars):

	Outstanding Units			Exercisable Units	
	Number of units	Weighted average exercise price (\$)	Weighted average years to expiry	Number of units	Weighted average exercise price (\$)
31 December 2014					
Range of exercise prices (\$)					
10.00 – 12.99	749,480	12.42	7.18	83,590	3.50
13.00 – 15.99	1,126,720	13.67	2.71	1,115,332	13.08
16.00 – 18.99	1,234,886	17.77	3.92	1,234,886	17.77
19.00 – 21.99	1,475,755	20.05	1.95	1,475,755	20.05
22.00 – 23.92	<u>444,400</u>	22.77	5.95	<u>444,400</u>	22.77
10.00 – 23.92	<u>5,031,241</u>	17.26	3.76	<u>4,353,963</u>	17.69

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

25. 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 represents the right, subject to performance, to receive one common share of Talisman Energy Inc. During 2014, 204,570 PSUs were granted to employees of Talisman Sinopec Energy UK Limited pursuant to this plan, which vest on 31 December 2016 (2013: 10,199 PSUs were granted which vest on 31 December 2015). During the year, the company recorded share-based payment expense of \$0.2 million (2013: \$1.2 million) relating to the long-term PSU plan, with a corresponding increase in equity (note 22).

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 permits 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 are no performance measures attached to the award. Units granted under the RSU plan vest evenly on an annual basis over a three year period. During 2014 pursuant to this plan, the company recorded share-based payment credit of \$2.4 million (2013: 1,342,675 RSUs granted, share-based payment expense of \$6.6 million).

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

26. Related parties transactions

Interest charged 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	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Talisman Finance (UK) Limited	27,875	20,827	530,478	831,349	-	-
TipTop Energy Limited	26,782	20,010	509,675	798,747	-	-
Talisman Colombia Holdco Limited	-	-	13,723	1,982	-	-
Talisman Energy Norge AS	-	-	-	-	517	-
Addax Petroleum NZE Inc.	-	-	-	-	-	76
Addax Petroleum UK Limited	-	-	43	20	-	-
Addax Petroleum Holdings Limited	-	-	4,397	360	-	-
Addax Petroleum Limited	-	-	115	373	-	-
	<u>54,657</u>	<u>40,837</u>	<u>1,058,431</u>	<u>1,632,831</u>	<u>517</u>	<u>76</u>

Total interest charged includes interest capitalised of \$13.6 million (2013: \$7.4 million) (Note 12).

Talisman Colombia Holdco Limited owns 51% of the shares in Talisman Sinopec Energy 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 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 Talisman Sinopec Energy 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.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

27. Capital commitments and contingencies

Group

Capital commitments at 31 December were as follows:

	2014 <u>\$'000</u>	2013 <u>\$'000</u>
Contracted for but not provided for	<u>637,826</u>	<u>1,172,553</u>

At 31 December 2014 the group has provided letters of credit in the amount of \$1,614.3 million (2013: \$2,030.8 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.

Parent company

Capital commitments at 31 December were as follows:

	2014 <u>\$'000</u>	2013 <u>\$'000</u>
Contracted for but not provided for	<u>444,415</u>	<u>900,441</u>

At 31 December 2014 the company has provided letters of credit in the amount of \$695.2 million (2013: \$908.1 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.

28. Controlling party

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

The ultimate parent company of Talisman Colombia Holdco Limited at the balance sheet date was Talisman Energy Inc, which is registered in Canada; the ultimate parent company of Talisman Colombia Holdco Limited is now Repsol S.A., which is registered in Spain. The ultimate parent company of Addax Petroleum UK Limited is China Petrochemical Corporation (Sinopec Group), which is registered in China.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

29. Post balance sheet events

On 18 February 2015 at a special meeting of the shareholders of Talisman Energy Inc. the common and preferred shareholders approved the proposed acquisition of all outstanding Talisman shares by a wholly owned subsidiary of Repsol S.A. On 8 May 2015, the acquisition was completed and Repsol S.A. became the ultimate parent company of Talisman Colombia Holdco Limited. The acquisition by Repsol of all outstanding Talisman shares included all shares issued under the company's employee share ownership scheme.

Group restructuring

Subscription Agreements

On 20 June 2014, the shareholders entered into a Subscription Agreement whereby funding for the period from 1 July 2014 to 31 December 2014 was made by way of equity injection. The Subscription Agreement also provided the shareholders with the option to fund the group by way of equity injections up to 30 June 2015. Where equity funding was not provided, the group could utilise the remaining capacity under the existing shareholder loan facility or agree an alternative loan facility with the shareholders. An amendment was made to this agreement on 23 March 2015 to increase the funding available in the period to 30 June 2015. On 12 June 2015 the shareholders and the company entered into an additional Subscription Agreement to provide funding of \$1.7 billion for the period 1 July 2015 to 31 December 2016 by either equity or debt.

Share issue and repayment of related party loans

On 16 July 2015 the directors of the company resolved to issue 5,410,345,863 ordinary shares of £0.05 each to Talisman Colombia Holdco Limited and 5,198,175,437 ordinary shares of £0.05 each to Addax Petroleum UK Limited, in consideration for a total cash contribution of \$1,060.8 million.

On 16 July 2015 the proceeds from the share issue were used as repayment of the related party loans and interest outstanding at that date (Note 18), with \$541.0 million repaid to Talisman Finance (UK) Limited and \$519.8 million repaid to TipTop Energy Limited.

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.

Talisman Sinopec Energy UK Limited

Notes to the financial statements - 31 December 2014 (continued)

29. Post balance sheet events (continued)

Group restructuring (continued)

Deed of Novation of related party loans and Promissory Notes issued by subsidiaries

Under a Deed of Novation dated 16 July 2015, as part of a restructuring of the group's debt and equity funding, Talisman Sinopec Energy UK Limited agreed to assume the obligation to repay loans and to pay accrued interest due by its subsidiary companies Rigel Petroleum UK Limited, Talisman Sinopec Alpha Limited, Talisman Sinopec North Sea Limited, Talisman Sinopec Oil Trading Limited and Transworld Petroleum Limited to related party lenders Talisman Finance (UK) Limited and TipTop Energy Limited. In consideration for the assumption of these obligations the subsidiary companies issued Promissory Notes to Talisman Sinopec Energy UK Limited. The amounts released under the Deed of Novation and the amounts of the Promissory Notes issued to the company were as follows:

- Rigel Petroleum UK Limited - \$6.9 million
- Talisman Sinopec Alpha Limited - \$91.3 million
- Talisman Sinopec North Sea Limited - \$169.9 million
- Talisman Sinopec Oil Trading Limited - \$129.3 million
- Transworld Petroleum Limited - \$65.1 million

Talbot

At the balance sheet date there was intent by all partners to proceed with the Talbot development. Work plans and budgets had been approved to undertake appraise/select phase studies. However subsequent to the year end, in April 2015 the joint venture partner decided in the light of the deteriorating economic environment not to proceed with the expenditure for the appraise/select phase studies nor with the field development and therefore the carrying value was written off. The impact of writing off the carrying value in these financial statements would be a charge to the profit and loss account of \$25.2 million.