

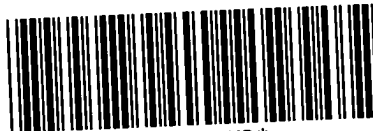
Company Registration No. 04653066

Perenco UK Limited

Annual Report and Consolidated Financial Statements

31 December 2017

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Perenco UK Limited

Annual Report and Consolidated Financial Statements 2017

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Perenco UK Limited

Strategic report

The directors present their strategic report for the Group as a whole for the year ended 31 December 2017. The Directors, in preparing this strategic report, have complied with section 414C of the Companies Act 2006.

Review of business

The Group ("Perenco") comprises Perenco UK Limited, Perenco Gas (UK) Limited and Perenco North Sea Limited (The "Group").

The Group's objective is to invest in UK oil and gas activities, holding interests in joint operations involved in the exploration, development and production of oil and gas.

The strategy is to perform and maintain safe and efficient operations, maximising production from our fields and increasing the revenue stream from third party business which utilise the Group pipelines and terminals infrastructure.

Cost control and simplification of offshore operations remains a core approach. The Group is progressing the decommissioning of those assets which are uneconomic or will become uneconomic due to declining production or require integrity led investment and is working on approaches which will deliver sustained reductions in decommissioning costs.

The Group has built a portfolio of operated producing assets focused on the UK Southern North Sea as well as holding an interest in Wytch Farm, Western Europe's largest onshore oil field. The holding in Wytch Farm increased in the year following the acquisitions of the interests of Maersk 3.71% and Premier 33.81% in August and December 2017 (see note 14).

The Group's loss before tax for the year ended 31 December 2017 amounted to £76,909k (2016: £290,653k). The loss has reduced due to strengthening commodity prices resulting in increased turnover and no impairment charges (2016: charge £93,679k).

The gross profit margin has increased to -7.6% (2016: -35.6%). The net profit margin has increased to -6.8% (2016: -34.9%). This is principally due to rising commodity prices.

Overall net assets have decreased from £46,756k at 31 December 2016 to £23,375k at 31 December 2017. This is due entirely to the loss for the period.

Key performance indicators

The directors use a range of financial and non-financial Key Performance Indicators (KPI's), reported on a periodic basis, to monitor the Group's performance over time. In assessing financial indicators the directors consider it appropriate to evaluate the closing financial position of the Group and its performance over the preceding year as detailed above. The main non-financial indicators considered by the directors are management of Health and Safety and Environmental matters, both of which are dealt with in the next section.

Principal risks and uncertainties

a) Operations

Successful delivery of major projects is material to Perenco's future growth, and substantial delay to, or failure to complete these projects, including decommissioning, constitute significant risks to the Group's prospects, reputation and financial position. Delivering growth from new infrastructure projects, to schedule and on budget, whilst optimising operational performance and output from existing producing base assets, remains the critical success factor for the Group. This risk is mitigated by strong internal controls surrounding project delivery.

b) Financial risk

The most significant financial risks to which the Group is exposed are movements in gas and oil prices. However, the Group considers volatility in gas and oil prices a regular part of its business environment and the Group does not systematically hedge through financial instruments to mitigate these risks.

The Group's exposure to other financial risks are reviewed in note 16.

Perenco UK Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

c) Health and Safety risk

Health and safety is one of Perenco's core priorities and we continue to target risk and impact reduction. The Group has a Health and Safety Management system in place to ensure that it conducts its business in a manner that protects the health and safety of employees, contractors and anyone who could be affected by our activities. Our goals are:

- no harm to people;
- a safe and healthy working environment for all personnel;
- no impact on the health and safety of our neighbours; and
- no accidents.

These goals can only be achieved by the active participation of every employee. The Group is committed to continuous improvements in health and safety performance and sets annual performance targets, supported by action plans. These are monitored closely and the Group takes further action if performance falls below the targets set.

d) Major Hazard Risk

The Group recognises that our operations involve major hazards and are committed to providing the necessary leadership so as to ensure that the resulting risks to people, the environment and property are as low as reasonably practicable. During 2013 a Board Committee was set up to ensure that appropriate leadership is in place at all levels of the organisation. The Committee also monitors major hazard safety performance through the analysis of appropriate key performance indicators and ensures that all necessary action is taken to correct underperformance and to ensure continuous improvement.

Further information on our health, safety and environmental performance can be found on the Group website.

e) Strategic growth

The Group continued to pursue a range of options across the gas value chain and has undertaken significant investment in the last five years with the acquisition of Wytch Farm and the Southern Gas Assets from BP. The Group increased its ownership of Wytch Farm to 87.6% during the year following the purchase of the interests of Maersk Oil North Sea UK Limited and Premier Oil UK Limited. The Directors expect the general level of activity to remain consistent during 2018.

f) Information security, intellectual property and assets

We operate in a complex computing environment and the threat of cyber attack against our industry remains high. We continued to improve our system of internal controls to endeavour to ensure they are robust enough to meet these challenges.

Environmental matters

The Group has an Environmental Management system in place to endeavour to ensure that it conducts its business in a manner that protects the environment. Our goals are:

- no damage to the environment; and
- to minimise our emissions.

These goals can only be achieved by the active participation of every employee. The Group is committed to continuous improvements in environmental performance and sets annual performance targets, supported by action plans. These are monitored closely and the Group takes further action if performance falls below the targets set.

Perenco UK Limited

Strategic report (continued)

Employment policies

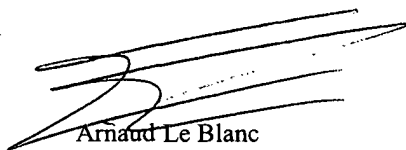
The Group has a wide range of employment policies in place covering such issues as diversity, employee wellbeing and equal opportunities. Also, the Group is committed to an active programme of employee development. Training and development needs are identified in consultation with the individuals concerned, and relevant training opportunities made available.

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings and Group news articles. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

The Group takes its responsibility to the disabled seriously and seeks not to discriminate against current or prospective employees because of any disability.

Details of significant events since the balance sheet date are contained in note 30 to the financial statements.

Approved by the Board and signed on its behalf by:



Arnaud Le Blanc
Director
10 July 2018

Perenco UK Limited
8 Hanover Square
London
W1S 1HQ

Perenco UK Limited

Directors' report

The directors present their annual report on the affairs of the Group together with the consolidated financial statements and auditor's report for the year ended 31 December 2017.

Directors and their interests

The directors who served during the year and to the date of this report were as follows:

Nicholas Fallows

Jonathan Parr

Jan Rusin (resigned 29 March 2017)

Kim Kallmeyer (resigned 18 January 2018)

Brian James

Franck Dy

Laurent Combe (appointed 18 April 2017)

Michael Richardson (appointed 18 August 2017)

Arnaud Le Blanc (appointed 11 September 2017)

Emmanuel Colombel (appointed 27 September 2017)

No director in office at the end of the year had any beneficial interest in the shares of the Company or any fellow subsidiary undertaking of the Company.

Going Concern

The Group's business activities, key financial risks, performance and position are set out in the Strategic Report. The financial position of the Group and the Company, its cash flows, and borrowing facilities are set out in the financial statements and related notes.

The Group is funded through its net proceeds received from oil and gas production. On this basis the Group is able to meet its day-to-day working capital requirements.

On the basis of current financial projections and facilities available until 2019, the directors have a reasonable expectation that the Group and the Company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

Information to auditor

Each of the directors at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the auditor is unaware; and
- (2) the director has taken all steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Employee consultation

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and the Company intranet. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Perenco UK Limited

Directors' report (continued)

Donations

There were no political donations made in the current year. Charitable donations totalling £1.0m were made during the current year.

Disabled employees

The Group's policy in respect of disability have been set out in the strategic report.

Dividends

The directors do not propose the payment of a dividend in 2017.

Post balance sheet events

Details of significant events since the balance sheet date are contained in note 30 to the financial statements.

Approved by the Board and signed on its behalf by:



Arnaud Le Blanc
Director
10 July 2018

Perenco UK Limited
8 Hanover Square
London
W1S 1HQ

Perenco UK Limited

Directors' Responsibilities Statement

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

Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. 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 Group and Company and of the profit or loss of the Group and Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

Perenco UK Limited

Independent auditor's report to the members of Perenco UK Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Perenco UK Limited (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent cash flow statement; and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Perenco UK Limited

Independent auditor's report to the members of Perenco UK Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Perenco UK Limited

Independent auditor's report to the members of Perenco UK Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.



Anthony Matthews FCA (Senior statutory auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, UK

10 July 2018

Perenco UK Limited

Consolidated Income statement Year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Continuing operations			
Revenue	3	490,228	381,021
Cost of sales			
Production and operating costs	4	(272,095)	(243,754)
Depreciation, depletion and amortisation	4, 13	(255,320)	(272,951)
Gross loss		(37,187)	(135,684)
Administrative expenses	5	(4,977)	(8,409)
Other operating (expenses) / income	6	918	(36,643)
Impairment of assets	13	-	(93,679)
Operating loss		(41,246)	(274,415)
Investment revenue	8	1,463	1,996
Finance costs	9	(25,992)	(30,236)
Other financial gains and losses	10	(11,134)	12,002
Loss before taxation		(76,909)	(290,653)
Tax	11	43,765	157,693
Loss for the financial year		(33,144)	(132,960)

All transactions arise from continuing operations.

Perenco UK Limited

Consolidated Statement of comprehensive income Year ended 31 December 2017

	2017	2016
	£'000	£'000
Loss for the financial year	(33,144)	(132,960)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial (loss) / gain relating to the defined benefit pension scheme	16,272	(24,434)
UK deferred tax attributable to actuarial loss / (gain)	(6,509)	9,226
Total comprehensive loss for the financial year	<u>(23,381)</u>	<u>(148,168)</u>

Perenco UK Limited

Consolidated and Company Balance sheets

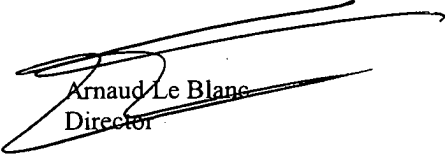
At 31 December 2017

Company registration number: 04653066

	Notes	Group		Company	
		2017 £'000	2016 £'000	2017 £'000	2016 £'000
Non-current assets					
Exploration and evaluation assets	12	11,891	2,987	11,891	2,987
Property, plant and equipment	13	721,783	772,406	710,031	705,495
Investments	15	-	-	6,641	6,641
Deferred tax assets	20	305,939	274,208	217,856	247,560
		1,039,613	1,049,601	946,419	962,683
Current assets					
Inventories	17	37,619	9,525	37,619	9,525
Trade and other receivables	18	586,682	569,573	584,078	571,268
Cash at bank and in hand		6,138	2,362	6,137	2,361
		630,439	581,460	627,834	583,154
Total assets		1,670,052	1,631,061	1,574,253	1,545,837
Current liabilities					
Borrowings	19	(25,153)	(110,937)	(25,153)	(110,937)
Trade and other payables	23	(85,292)	(66,533)	(217,478)	(140,798)
		(110,445)	(177,470)	(242,631)	(251,735)
Non-current liabilities					
Borrowings	19	(100,611)	-	(100,611)	-
Decommissioning provision	21	(1,424,463)	(1,377,882)	(1,215,550)	(1,261,254)
Retirement benefits	22	(11,158)	(28,953)	(11,158)	(28,953)
		(1,536,232)	(1,406,835)	(1,327,319)	(1,290,207)
Total liabilities		(1,646,677)	(1,584,305)	(1,569,950)	(1,541,942)
Net assets		23,375	46,756	4,303	3,895
Equity					
Share capital	24	47,081	47,081	47,081	47,081
Retained earnings		(23,706)	(325)	(42,778)	(43,186)
Total equity		23,375	46,756	4,303	3,895

The loss for the financial year of the Parent Company was £9,355k (2016: £133,954k). As permitted by s408 of the Companies Act 2006, no separate income statement is presented in respect of the Parent Company.

These financial statements were approved by the Board of Directors and authorised for issue on 10 July 2018. They were signed on its behalf by:


Arnaud Le Blanc
Director

Perenco UK Limited

Consolidated and Company Statements of changes in equity Year ended 31 December 2017

Group	Share Capital £'000	Retained earnings £'000	Total equity £'000
At 31 December 2015	47,081	147,843	194,924
Loss for the year	-	(132,960)	(132,960)
Other comprehensive income for the year	-	(15,208)	(15,208)
Total comprehensive income for the year	-	(148,168)	(148,168)
At 31 December 2016	47,081	(325)	46,756
Loss for the year	-	(33,144)	(33,144)
Other comprehensive income for the year	-	9,763	9,763
Total comprehensive income for the year	-	(23,381)	(23,381)
At 31 December 2017	47,081	(23,706)	23,375

Company	Share Capital £'000	Retained earnings £'000	Total equity £'000
At 31 December 2015	47,081	105,976	153,057
Loss for the year	-	(133,954)	(133,954)
Other comprehensive income for the year	-	(15,208)	(15,208)
Total comprehensive income for the year	-	(149,162)	(149,162)
At 31 December 2016	47,081	(43,186)	3,895
Loss for the year	-	(9,355)	(9,355)
Other comprehensive income for the year	-	9,763	9,763
Total comprehensive income for the year	-	408	408
At 31 December 2017	47,081	(42,778)	4,303

Perenco UK Limited

Consolidated Cash flow statement Year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Cash flows from operating activities	25	252,605	127,091
Income taxes paid		(18,000)	(11,693)
Net cash from operating activities		234,605	115,398
Cash flows used in investing activities			
Expenditure on development and production assets		(210,836)	(26,269)
Interest received		1,463	1,996
Net cash used in investing activities		(209,373)	(24,273)
Cash flows from financing activities			
Drawdown on loans with affiliated company		125,099	-
Cash pooling		(28,205)	36,655
Bank loan repaid		(110,272)	(115,430)
Interest paid		(8,078)	(10,962)
Net cash used in financing activities		(21,456)	(89,737)
Net increase / (decrease) in cash and cash equivalents		3,776	1,388
Cash at bank and in hand at the beginning of the year		2,362	974
Cash at bank and in hand at the end of the year		6,138	2,362

Perenco UK Limited

Company Cash flow statement Year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Cash flows from operating activities	25	249,457	121,313
Income taxes paid		(18,000)	(11,284)
Net cash from operating activities		231,457	110,029
Cash flows from investing activities			
Expenditure on development and production assets		(210,394)	(23,912)
Interest received		1,463	1,996
Net cash used in investing activities		(208,931)	(21,916)
Cash flows from financing activities			
Drawdown on loan with affiliated company		125,099	-
Cash pooling		(28,205)	36,654
Bank loan repaid		(110,272)	(115,430)
Interest paid		(5,372)	(7,949)
Net cash used in financing activities		(18,750)	(86,725)
Net increase / (decrease) in cash and cash equivalents		3,776	1,388
Cash at bank and in hand at the beginning of the year		2,361	973
Cash at bank and in hand at the end of the year		6,137	2,361

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

1. Accounting policies

General

Perenco UK Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is: 8 Hanover Square, London W1S 1HQ. The nature of the Company's operations is set out in the Strategic report.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006.

The financial statements are prepared under the historical cost convention and have been prepared under a going concern basis as discussed in the Directors' report on page 5. The accounting policies have been consistently applied in all years presented.

Adoption of new and revised standards

The following new and revised Standards and Interpretations to published standards were adopted by the Company for the financial year beginning 1 January 2016:

IAS 12 (amended)	Recognition of deferred tax assets for unrealised losses
IAS 7 (amended)	Disclosure initiative
2014-2016 Cycle	Annual Improvements to IFRS

The adoption of these Standards and Interpretations has not had any significant impact of the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective and therefore not adopted:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases (effective 1 January 2019)

The Directors do not expect that the adoption of IFRS 9 & 15 listed above, which are both effective from 1 January 2018, to have a material impact on the financial statements of the Company in future periods. The implementation of IFRS 16 is expected to have a material effect of both the measurement and disclosures of items within the financial statements. It is expected that adoption of IFRS 16 will result in an increase in lease liabilities representing the present value of future payments under arrangements currently classified as operating leases, and an increase in property, plant and equipment representing the right to use these assets. Details of the Group's operating lease commitments is disclosed in note 26. Management is currently in the process of performing a evaluation of the impact of IFRS 16 on its current lease contracts.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

Accounting policies (continued)

a) Basis of consolidation

The consolidated financial statements incorporate the results of the Company and the entities controlled by the Company (its subsidiaries as listed in note 15) made up to 31 December each year.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated on consolidation.

The results of all the subsidiaries acquired or sold have been consolidated for the periods from or to the date on which control passed. Acquisitions that meet the definition of a business combination are accounted for under the acquisition method, with identifiable assets and liabilities being ascribed fair values, and the balance of the fair value of the consideration given being allocated as the fair value attributable to the oil and gas properties and related hydrocarbon reserves. In accordance with normal oil exploration and production industry practice, therefore, goodwill does not normally arise on acquisitions. Acquisition-related costs are recognised in profit and loss as incurred. As permitted by IFRS 3 '*Business Combinations*', fair values are determined on a preliminary basis and are subsequently reviewed in accordance with the provisions of the same IFRS.

Joint arrangement accounting policy

The Group is engaged in oil and gas exploration, development and production through unincorporated joint arrangements. The Group accounts for its proportionate share of the assets, liabilities, revenue and expenses with items of a similar nature presented on a line-by-line basis for those joint arrangements which are jointly controlled operations. The Group considers these assets as jointly controlled when they cannot make significant investment or operating decisions without the unanimous approval of the other parties sharing control. Where the Group acts as operator for the joint operation, the liabilities and receivables (including amounts due to or from non-operating partners) of the joint operation are included in the Group balance sheet.

Joint arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as joint ventures.

The Group reports its interests in joint ventures using the equity method of accounting. Under the equity method, the investment in a joint venture is carried in the balance sheet at cost, plus post acquisition changes in the Group's share of net assets of the joint venture.

b) Oil and gas assets

The Group uses the full cost method of accounting for exploration, evaluation, development and production expenditure in relation to oil and gas assets, having regard to the requirements of IFRS 6 '*Exploration for and Evaluation of Mineral Resources*'. These costs are capitalised in separate geographical costs pools ("full cost pools") having regard to the operational structure of the Group.

Oil and gas assets: exploration and evaluation

Exploration and evaluation ("E&E") costs are initially capitalised as 'intangible assets', in accordance with IFRS 6. Such E&E costs may include costs of licence acquisition, technical services and studies, seismic acquisitions and exploration drilling and testing.

Tangible assets used in E&E activities are classified as property, plant and equipment.

Intangible E&E assets are not depreciated and are carried forward until the existence (or otherwise) of proved reserves has been determined. If proved reserves have been discovered, the relevant E&E assets are then reclassified as development and production assets within property, plant and equipment and are depreciated using the method described below. Intangible E&E assets that are determined not to have resulted in the discovery of proved reserves and cannot be associated with an established full cost pool are written off at the date of determination, whereas those that are associated with an established pool are carried forward and amortised over the total reserves of the pool, subject to there being no impairment of the pool as a whole.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

1. Accounting policies (continued)

Oil and gas assets: development and production

Development and production assets are accumulated under the principle of full cost accounting on a field-by-field basis and represent the cost of developing proved reserves discovered and bringing them into production, together with the exploration and evaluation expenditures incurred in finding proved reserves.

The net book values of producing assets are depreciated on a field-by-field basis using the unit of production method by reference to the ratio of production in the period to the related proved reserves of the field.

Impairment of oil and gas assets (impairment review)

An impairment review is carried out if there is a significant reason for the directors to believe that impairment could have occurred. This test is to assess whether the carrying amount of each field or full cost pool (as applicable) exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell, and its value in use as defined by IAS 36 '*Impairment of assets*'. The value in use is determined by discounting the anticipated post-tax net cash flows at a risk adjusted discount rate using proved and probable reserves. Where a fair value less cost to sell method is used, the carrying amount includes any deferred tax asset or liability associated with the capitalised costs in the cost pool. Any deficiency arising under this comparison is recognised in the income statement. An impairment test for an exploration and evaluation asset is conducted on a full cost pool basis. An impairment test of a development or production asset is undertaken for the particular cash generating unit which is generally the field for non-operated assets or the central terminal for operated assets.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the assets no longer exist or have decreased. The reversal is recorded in the income statement.

c) Decommissioning provisions

A provision for the cost of decommissioning of an asset and for site restoration at the end of the asset's producing life is recognised as that asset is installed. The amount provided is the discounted amount of the estimated cost of the future decommissioning event. That amount is capitalised as part of the cost of the oil and gas assets and depleted in accordance with the oil and gas assets' accounting policy above. Periodically the discounted value of the provision is re-assessed. Any adjustment arising from the re-assessment of the estimated cost of decommissioning is capitalised whilst the adjustment arising from the unwinding of the discount is taken to the income statement. Any re-assessment of the estimated cost of decommissioning on an asset with no economical reserves is taken to the income statement in the period.

d) Inventories

Crude oil and condensate inventory are carried at market value in accordance with specific exclusions applicable to mineral products under IAS 2 '*Inventory*'.

Materials, supplies and all other non-mineral inventories are stated at the lower of cost and net realisable value. The Group reviews annually the inventory of materials for obsolescence and a provision on obsolete stock is made accordingly.

e) Oil and gas overlift and underlift

Lifting or offtake arrangements for oil and gas produced in certain of the Group's jointly owned operations are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative production less stock is 'underlift' or 'overlift'. Underlift and overlift are valued at market value. Overlift is included within payables and underlift is included within inventory. Movements during an accounting period are adjusted through cost of sales such that gross profit is recognised on an entitlements basis.

Perenco UK Limited

Notes to the consolidated financial statements **Year ended 31 December 2017**

1. Accounting policies (continued)

f) Revenue recognition

Revenue represents the value of sales exclusive of related sales taxes of oil and gas arising from upstream operations and is recognised at market value when the oil has been lifted or the gas has been delivered and title has passed.

Interest income is recognised when it is probable that the economic benefits will flow to the Group, and the amount of revenue can be measured reliably. Interest income in the Group relates to interest received on bank deposits.

g) Foreign currencies

Transactions in currencies other than Pounds Sterling are recorded at the relevant rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in currencies other than Pounds Sterling at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

h) Investments

Fixed asset investments, including investments in subsidiaries are stated at cost and reviewed for impairment if there are indicators that the carrying value may not be recoverable.

i) Operating leases

Rentals payable for assets under operating leases are charged to the income statement on a straight-line basis over the lease term.

j) Taxation

The tax expense represents the sum of the charges and credits for current and deferred tax.

Current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are non-taxable or deductible. Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint operations, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

1. Accounting policies (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is recognised at acquisition as part of the assessment of fair value of assets and liabilities acquired.

Other taxes, which include value added tax and sales tax, represent the amount receivable or payable to local authorities in the countries where the Group operates and are charged to the income statement.

k) Petroleum revenue tax (PRT)

PRT is treated as an income tax and deferred PRT accounted for on a temporary difference method. Current PRT is charged as a tax expense on chargeable profits included in the income statement and is deductible for UK Corporation tax.

l) Provisions

A provision is recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

m) Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes party to contractual provisions of the instrument. The following financial instruments are held by the Group.

1) Trade payables

Trade payables principally comprise amounts outstanding for trade purchase and ongoing costs. The carrying amounts of trade payables approximates to their fair value.

2) Cash and cash equivalents

Cash and cash equivalents (which are presented as a single class of assets on the face of the consolidated balance sheet) comprise cash at bank and other short-term liquid investments with a maturity of three months or less.

3) Trade receivables

Trade receivables represent amounts owed for the sale of natural gas and oil. The carrying value of these assets is approximate to their fair value.

n) Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined retirement benefit schemes, the cost of providing benefits is determined by actuarial valuations being carried out at the end of each reporting period. Measurement comprising actuarial gains and losses, the effects of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period which they occur.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

2. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, (which are described in note 1), the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

a) Recoverability of production and development assets

Under the full cost method of accounting for production and development costs, such costs are capitalised by reference to appropriate cost pools, and are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to (i) the likely life of the field, (ii) future revenues and operating costs with which the asset in question is associated, (iii) the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value, and (iv) the oil price assumption. Note 13 discloses the carrying amounts of the Group's production and development assets.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

a) Reserves

Development and production assets within property, plant and equipment are depreciated on a unit of production basis at a rate calculated by reference to proved developed producing reserves estimated using the standards required by the US Securities Exchange Commission ("SEC"). Proved reserves estimates are based on a number of underlying assumptions, including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain. Proved reserves estimates are supported by reserves reports for the Group which are reviewed by independent petroleum reservoir engineers.

The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's development and production assets has been impaired.

The carrying amount of development and production assets at 31 December 2017 is shown in note 13.

b) Decommissioning

The provision for decommissioning obligations depends on the cost and timing of decommissioning works, legal requirements and the discount rate to be applied to such costs. The directors have conducted an internal review of these factors, based on information currently available, in the calculation of this provision.

The carrying amount of the decommissioning provisions at 31 December 2017 is shown in note 21.

c) Impairment of assets

Assets are carried at cost in the balance sheet provided they will result in an economic benefit. When external factors indicate the loss of economic benefit, an impairment review is carried out to measure whether impairment is necessary. This compares the estimate of the future cash inflows with the recoverable amount. No impairment reversal has been recognised during the year (2016: charge £93,679k).

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

3. Revenue

	Group	
	2017	2016
	£'000	£'000
Oil sales	116,054	93,287
Gas sales	334,517	267,838
Condensate sales	7,444	5,053
Tariff income	26,107	9,167
Other revenues	6,106	5,676
Total operating revenue	<u>490,228</u>	<u>381,021</u>

4. Cost of sales

	Group	
	2017	2016
	£'000	£'000
Operating costs	251,430	221,848
Depletion, depreciation and amortisation	255,320	272,951
Tariff expense	20,665	21,906
	<u>527,415</u>	<u>516,705</u>

5. Administrative expenses

	Group	
	2017	2016
	£'000	£'000
General administration costs	1,004	1,237
Operating lease rentals – buildings	611	611
Professional fees	3,076	6,349
Auditor's remuneration – audit	209	202
Auditor's remuneration – other services	77	10
	<u>4,977</u>	<u>8,409</u>

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

6. Other operating (expenses)/income

	Group	
	2017	2016
	£'000	£'000
Change in decommissioning estimates	918	(36,643)
	<u>918</u>	<u>(36,643)</u>

The change in decommissioning estimates expense relates to movements in the decommissioning provision on fields which have no proved reserves as at 31 December 2017.

7. Staff costs

	Group	
	2017	2016
	No.	No.
Average monthly number of persons employed (including directors) was:		
Operations	726	783
Finance	18	19
Human Resources	13	12
	<u>726</u>	<u>783</u>
	£'000	£'000
Staff costs during the year		
Wages and salaries	65,983	62,543
Social security costs	6,566	7,313
Pension costs	5,388	5,651
Health insurance	574	786
	<u>78,511</u>	<u>76,293</u>

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

7. Staff costs continued

	2017 £	2016 £
Directors' remuneration		
Emoluments	3,168,638	2,234,657
Amounts receivable under long-term incentive schemes	-	-
Company contributions to money purchase pension schemes	47,352	110,420
	<u>3,215,990</u>	<u>2,345,077</u>
	Number	Number
The number of directors who:		
Are members of a money purchase pension scheme	<u>4</u>	<u>6</u>
	2017 £	2016 £
Remuneration of the highest paid director:		
Emoluments	1,177,570	567,667
Amounts receivable under long-term incentive schemes	-	-
Company contributions to money purchase schemes	<u>2,550</u>	<u>8,910</u>

Perenco UK has paid £1,890,317 to other group companies in respect of services provided by Directors during the year. This has been disclosed as a related party transaction in note 28.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

8. Investment revenue

	2017 £'000	2016 £'000
Interest on intercompany receivables	1,447	1,935
Other interest	16	61
Total investment revenue	<u>1,463</u>	<u>1,996</u>

Investment revenue earned from loans and receivables (including cash and bank balances) in 2017 was £1,447k (2016: £1,935k) and other interest relates to finance fees £15k (2016: £61k).

9. Finance costs

	2017 £'000	2016 £'000
Interest on bank loans	773	5,512
Interest on loans from group companies	2,738	-
Other finance charges	1,860	2,438
Unwinding of discount on decommissioning provisions (note 21)	17,913	19,273
Interest on defined benefit obligation (note 22)	2,708	3,013
	<u>25,992</u>	<u>30,236</u>

10. Other financial gains and losses

	2017 £'000	2016 £'000
Foreign exchange gains	(11,134)	12,002
	<u>(11,134)</u>	<u>12,002</u>

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

11. Taxation

	2017 £'000	2016 £'000
a) Analysis of taxation expense in the period		
Corporation tax:		
Current year charge	9,508	16,859
Adjustments for prior periods	(4,005)	(14,605)
Group relief	-	-
	<u>5,503</u>	<u>2,254</u>
PRT:		
Current year charge	-	969
Adjustments for prior year periods	-	-
	<u>-</u>	<u>969</u>
Deferred taxation:		
Deferred Corporation Tax	(36,914)	(73,890)
Deferred PRT	(12,354)	(98,541)
Adjustments for prior year periods	-	11,515
	<u>(49,268)</u>	<u>(160,916)</u>
Total taxation charge/(credit) for the year	<u><u>(43,765)</u></u>	<u><u>(157,693)</u></u>

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

11. Taxation (continued)

	2017 £'000	2016 £'000
b) Factors affecting tax expense for the period		
(Loss) on ordinary activities before tax	(76,909)	(290,653)
Tax on profit at the ring fence UK corporation tax rate of 40% (2016: 40%)	(30,764)	(116,261)
Effects of:		
PRT	3,568	(56,130)
Income not taxable	-	-
Income/expenses that are taxed or deductible at different rates	(6,173)	(9,943)
Changes in the recognition of deferred tax assets	-	-
Adjustments in respect of prior periods	(3,655)	(2,111)
Adjustments to deferred tax relating to change in tax rates	(6,741)	26,752
Total taxation expense in the year	(43,765)	(157,693)

The UK tax rate shown above of 40% comprises the supplementary charge to corporation tax (SCT) of 10% (2016: 10%) as well as the corporation tax (CT) rate of 30% (2016: 30%) on UK profits within the oil and gas ring-fence. The effective standard rate of corporation tax for 2017 of 19.25% (2016: 20%) is applied to all other profits. The petroleum revenue tax (PRT) rate was permanently zero rated effective from 1 January 2016 (2016: 0%). As a result, no current or deferred PRT liability arises. The deferred PRT asset is a result of expected future PRT refunds generated from decommissioning expenditure carried back to PRT-paying periods.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

12. Exploration and evaluation assets

Group

	Exploration and evaluation costs £'000
Cost	
Balance at 1 January 2017	2,987
Additions	8,904
	<hr/>
Balance at 31 December 2017	11,891
	<hr/>
Net book value	
Balance at 31 December 2016	2,987
	<hr/>
Balance at 31 December 2017	11,891
	<hr/>

As at 31 December 2017, exploration and evaluation costs totalling £11,891k (2016: £2,987k) were not amortised.

Company

	Exploration and evaluation costs £'000
Cost	
Balance at 1 January 2017	2,987
Additions	8,904
	<hr/>
Balance at 31 December 2017	11,891
	<hr/>
Net book value	
Balance at 31 December 2016	2,987
	<hr/>
Balance at 31 December 2017	11,891
	<hr/>

As at 31 December 2017, exploration and evaluation costs totalling £11,891k (2016: £2,987k) were not amortised.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

13. Property, plant and equipment Group

	Development and Production Assets £'000
Cost	
Balance at 1 January 2017	2,471,673
Additions	210,480
Revised estimates	(5,783)
	<hr/>
Balance at 31 December 2017	2,676,370
Depletion and depreciation	
Balance at 1 January 2017	1,699,267
Charge for the year	255,320
	<hr/>
Balance at 31 December 2017	1,954,587
Net book value	
Balance at 31 December 2016	772,406
	<hr/>
Balance at 31 December 2017	721,783
	<hr/>

In accordance with the Group's policy, the cost of decommissioning the Development and Production assets was reviewed during the year. Changes in estimates of the expected timing of costs of the decommissioning obligations are dealt with prospectively by recording an adjustment to the provision (note 21), and a corresponding adjustment to the Development and Production asset cost if recoverable.

At the year end, as a result of the acquisition of additional interests in Wytch Farm (note 14), the Group carried out a review of the recoverable amount of development, production and exploration assets. The review led to the recognition of no impairment losses.

Assumptions involved in impairment measurement include estimates of commercial reserves and production volumes, future oil and gas prices and the level and timing of expenditures, all of which are inherently uncertain. Adverse changes to assumptions in the future could lead to further impairment.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

13. Property, plant and equipment (continued)

Company

	Development and production assets £'000
Cost	
Balance at 1 January 2017	2,391,415
Additions	210,038
Revised estimates	(4,556)
Transfer to group company	(89,526)
	<hr/>
Balance at 31 December 2017	2,507,371
Depletion and depreciation	
Balance at 1 January 2017	1,685,920
Charge for the year	190,779
Transfer to group company	(79,359)
	<hr/>
Balance at 31 December 2017	1,797,340
Net book value	
Balance at 31 December 2016	<hr/> 705,495 <hr/>
Balance at 31 December 2017	<hr/> 710,031 <hr/>

During the year Perenco UK Limited transferred 100% of its interest in the Excalibur, Lancelot and Pickerill fields to Perenco Gas (UK) Limited. The value of development and production assets transferred were £8,816k, £365k and £986k respectively.

No gain or loss arose on the transfer as the consideration was equal to the value of the assets and liabilities transferred.

Additions in the year include the acquisition of additional interests in Wytch Farm (note 14).

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

14. Acquisitions

On 31 August 2017 the Group bought Maersk's 3.71% interest in Wytch Farm for £7.5m, equating to the preliminary estimates of the fair value of assets acquired. Furthermore, on 21 December 2017 the Group bought Premier's 33.81% interest in Wytch Farm for \$177.1m (£131.5m).

	Group £'000	Company £'000
Provisional fair value of net assets acquired:		
Development and production assets (note 13)	193,687	193,687
Inventories	11,915	11,915
Deferred tax (note 20)	(11,028)	(11,028)
Decommission provision (note 21)	(55,497)	(55,497)
Net cash outflow arising on acquisition	139,077	139,077

15. Investments

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Subsidiary undertakings	-	-	6,641	6,641
	-	-	6,641	6,641

The Company incorporates the following subsidiary undertakings and joint ventures in its consolidated accounts:

	Country of operation	Principal activities	Holding	%
<i>Subsidiary undertakings:</i>				
Perenco Gas (UK) Limited	England and Wales	Upstream Gas Company	Ordinary Shares	100
Perenco North Sea Limited	England and Wales	Upstream Gas Company	Ordinary Shares	100
<i>Jointly controlled operations:</i>				
The company has numerous joint operations, the most significant being:				
Wytch Farm	England and Wales	Oil production	Interest in field	87.62
Leman	England and Wales	Gas production	Interest in field	78.26

Perenco UK Limited

Notes to the consolidated financial statements **Year ended 31 December 2017**

16. Financial instruments

The Group's financial risk management objectives and policies are detailed below and the accounting treatment for financial instruments entered into as a result of these policies is detailed in note 1. A discussion of the risks together with a summary of the Group's approach to managing those risks is as follows.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings.

The gearing ratio (net debt to equity) of the Group is 5.12:1 at 31 December 2017 (2016: 2.34:1). The bank loan was fully repaid on 30 March 2017.

On 18 December 2018 the Group entered into a loan agreement with Perenco Group for \$170,000k as disclosed in note 19.

Oil and gas price risk

The Group generally considers the volatility in oil and gas prices to be part of its business environment and only mitigates a part of its oil and gas price risk by entering into contracts and derivative options on the forward markets, when the Group identifies opportunities to hedge at attractive prices.

Foreign exchange

The Group considers that movements in foreign exchange are a regular part of its business environment. No financial instruments are used to manage the risk of foreign exchange volatility.

The Group holds cash and cash equivalents in currencies other than the GBP. However, a 10% movement in foreign exchange rates is not deemed to have a significant impact on the Group's results or equity.

Part of the receivable from Group companies is held in USD. A 10% movement in the foreign exchange rate would result in a gain/loss of £1.3m (2016: £20.2m) for the Group's results and equity.

Interest rate risk

The Group has substantial cash and cash equivalent balances, on which it earns deposit interest income, and interest bearing long-term borrowings as disclosed in note 19, which are the Group's significant interest bearing financial assets and liabilities. No financial instruments are used to manage the risk of interest rate volatility.

Based on the cash balances at 31 December 2017, an increase or decrease in interest rates of 0.5% would result in a gain/loss of £0.6 million (2016: £0.5 million) for the Group's results and equity. There would not be a material impact for the company.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

16. Financial instruments (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group controls credit risk by requiring systematically a letter of credit as part of the sale agreement, except for customers with a good credit history (major international oil groups and national oil companies). An analysis of concentration of risk arising from financial instruments is included in note 18.

The credit risk on liquid funds and derivative instruments is considered to be limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk without taking account of any collateral obtained.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built a liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserves borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial debts and liabilities.

Maturity analysis for financial assets and liabilities showing the remaining contractual maturities has been disclosed in this note.

Fair values of financial assets and liabilities

At 31 December 2017 and 2016 the carrying amounts of cash, cash equivalent and short-term deposits, trade and other receivables (note 18), trade and other payables, accrued expenses (note 23), and short-term borrowings approximated their fair values due to the short-term maturities of these assets and liabilities.

Long-term borrowings approximated to their fair values as they bear interest at a variable rate at a margin over LIBOR.

Assumptions made in calculating fair value

The estimates of fair values for the commodity contracts reflect prices quoted in the active market and using valuation techniques reflecting market views. These are then discounted for the time value of money and adjusted for counterparty credit risk.

(a) Categories of financial instruments

The Group's financial instruments, grouped according to the categories defined in IAS 39 'Financial instruments: Recognition and Measurement', were as follows:

	2017 £'000	2016 £'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	569,168	539,772
Financial liabilities		
Financial liabilities measured at amortised cost	(211,056)	(169,882)
	<u>358,112</u>	<u>369,890</u>

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

16. Financial instruments (continued)

(b) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of derivative instruments are calculated using quoted prices.

The fair value of each category of financial asset and liability is not materially different from the carrying value presented for either 2017 or 2016.

The following table details the Groups remaining contracted maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows and financial liabilities based on the earliest date on which the Group can be required to pay, or expects to pay if earlier.

	Less than 1 month £'000	1 – 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	Total £'000
31 December 2017					
Non-interest bearing	85,292	-	-	-	85,292
Fixed interest rate instruments	-	-	25,153	100,611	125,764
Total non-derivative financial liabilities	85,292	-	25,153	100,611	211,056
31 December 2016					
Non-interest bearing	58,945	-	-	-	58,945
Fixed interest rate instruments	-	-	110,937	-	110,937
Total non-derivative financial liabilities	58,945	-	110,937	-	169,882

No interest payments have been disclosed in respect of the fixed interest rate instruments in the above table. The 2016 instrument relates to a revolving credit facility (see note 18) which was fully repaid in March 2018. Interest was levied on the facility at LIBOR plus a margin dependent on amount drawn. On 18 December 2018 the Group entered into a loan agreement with Perenco Group for \$170,000k. Interest is levied on this facility at LIBOR plus 2.75%.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

17. Inventories

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Crude oil and condensate	36,816	8,298	36,816	8,298
Raw materials and consumables	803	1,227	803	1,227
Total inventories	<u>37,619</u>	<u>9,525</u>	<u>37,619</u>	<u>9,525</u>

The movement in crude oil inventory is included within production and operation costs. In 2017, the Group recognised a net increase of £28,518k (2016: £2,698k) on oil stock movements including adjustments for under/overlift.

18. Trade and other receivables

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade receivables	52,763	53,524	45,685	50,780
Amounts receivable from group companies	484,823	461,580	484,750	469,422
Other receivables	25,444	22,306	30,429	21,076
Other taxes and social security	1,453	3,278	1,453	3,278
Prepayments and accrued income	14,857	28,885	12,664	26,712
Corporation tax	7,342		9,097	
	<u>586,682</u>	<u>569,573</u>	<u>584,078</u>	<u>571,268</u>

4.1% of the Group's trade receivables are past due (2016: 3.1%).

An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

A specific provision of £126k (2016: nil) has been made against trade receivables past due. Remaining debtors are governments or established oil companies for which low risk of non-payment was identified.

Ageing of past due but not impaired receivables

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
30-60 days	121	386	121	386
60-90 days	216	268	216	268
90-120 days	1,834	1,010	1,834	1,010
Total	<u>2,171</u>	<u>1,664</u>	<u>2,171</u>	<u>1,664</u>

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

19. Long-term borrowings

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Bank loans	-	110,937	-	110,937
Loans from affiliated companies	125,764	-	125,764	-
	<u>125,764</u>	<u>110,937</u>	<u>125,764</u>	<u>110,937</u>
Of which:				
Due within one year	25,153	110,937	25,153	110,937
Due after more than one year	100,611	-	100,611	-
	<u>125,764</u>	<u>110,937</u>	<u>125,764</u>	<u>110,937</u>

On 5 May 2010, the Group entered into a senior secured reducing revolving credit facility. This facility was renewed and extended on 17 September 2014. Whilst £110,937k remained outstanding at 31 December 2016, the loan was fully repaid on 30 March 2017. The interest rate was based on LIBOR plus a margin dependent on the amount drawn.

On 18 December 2017, the Group entered into a loan agreement with Perenco Group to fund the acquisition of the Premier interest in Wytch Farm. \$170,000k was drawn down, repayable in equal instalments over 5 years. Interest is based on LIBOR plus 2.75%. At 31 December 2017 £125,764k remained outstanding.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

20. Deferred tax

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
At 1 January	274,208	104,066	247,560	80,339
Credit to the income statement (note 11)	49,268	160,916	18,955	167,459
(Charge)/credit to other comprehensive income	(6,509)	9,226	(6,509)	9,226
Deferred tax on acquisition (note 14)	(11,028)	-	(11,028)	-
Transfer to group company	-	-	(31,122)	(9,464)
At 31 December	<u>305,939</u>	<u>274,208</u>	<u>217,856</u>	<u>247,560</u>

A deferred tax asset has been recognised in respect of £307,164k (2016: £274,208k) as it is considered probable that there will be future taxable profits available and these tax reliefs will be received.

Deferred tax analysis

The deferred taxation balances are analysed as follows according to the nature of the temporary differences.

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Deferred PRT	35,046	22,692	24,060	22,692
Accelerated capital allowances	(292,829)	(308,724)	(288,549)	(308,724)
Decommissioning expenditure	569,785	551,153	486,220	551,153
Tax losses	3,298	6,436	1,092	6,436
Other temporary timing differences	(13,824)	2,651	(9,430)	2,651
Pension	4,463	-	4,463	-
Net deferred tax assets/(liabilities) provided	<u>305,939</u>	<u>274,208</u>	<u>217,856</u>	<u>247,560</u>

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

21. Decommissioning provision

The decommissioning costs provided for are expected to be incurred between 2018 and 2036.

The provision is the discounted value of the directors' current best estimates using existing technology. Decommissioning cost estimates have been inflated to the date of decommissioning at 2% (2016: 2%) and discounted back to the year end at 1.2% (2016: 1.3%). Any adjustment arising from the re-assessment of the estimated cost of decommissioning is capitalised (see note 13) whilst the adjustment arising from the unwinding of the discount is taken to the profit and loss account as a finance cost (note 9). On assets where no economical reserves remain, the adjustment arising from the re-assessment of the estimated cost of decommissioning is taken to the income statement (note 6).

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Balance at the beginning of the year	1,377,882	1,070,680	1,261,254	999,074
Change in estimate	(6,701)	307,489	(5,382)	297,334
Utilisation	(20,128)	(19,560)	(13,046)	(19,311)
Acquisition (note 14)	55,497	-	55,497	-
Unwinding of discount (note 9)	17,913	19,273	16,291	17,701
Transfer to group company	-	-	(99,064)	(33,544)
	<u>1,424,463</u>	<u>1,377,882</u>	<u>1,215,550</u>	<u>1,261,254</u>
Of which:				
Due within one year	66,834	44,407	35,380	40,385
Due after more than one year	<u>1,357,629</u>	<u>1,333,475</u>	<u>1,180,170</u>	<u>1,220,869</u>
	<u>1,424,463</u>	<u>1,377,882</u>	<u>1,215,550</u>	<u>1,261,254</u>

22. Retirement benefits

During 2004, the Group established the Perenco UK Pension Plan, a defined benefit scheme. The defined benefit scheme is administered by a separate fund that is legally separated from the Group. The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund. Pension liability calculations have been carried out as at 31 December 2017 in accordance with the IAS 19 "Employee Benefits" by a qualified independent actuary. Under the scheme, the employees are entitled to post-retirement benefits based on a percentage of their final salary on retirement. The plan is an HMRC registered pension scheme and is subject to standard UK pensions and tax law. The scheme is now closed to accrual for all members.

The Scheme Funding assessment as at 31 December 2013 disclosed a funding shortfall of £5m on the assumptions described in the Statement of Funding Principles dated June 2015. The recovery plan dated June 2015 sets out that in order to eliminate this shortfall the Trustee and the Employer are required to pay additional annual contributions of £1,100,000 over the 5 year period from 1 June 2015 to 31 December 2019.

Where the contributions are more than sufficient to remove the shortfall by the end of the recovery period, options include reducing contributions due, keeping the recovery period the same, or shortening the recovery period.

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Notes to the consolidated financial statements Year ended 31 December 2017

22. Retirement benefits (continued)

The risks inherent within a defined benefit pension scheme can have significant impact on the Employer sponsoring the scheme. Amongst these risks are:

Longevity risk

The liabilities are very sensitive to unexpected changes in future mortality. If longevity increases at a faster pace than assumed then the liabilities will increase at future calculations

Investment/interest rate risk

The Plan's invested assets are partly invested in equities, while IAS 19 stipulates a discount rate related to corporate bond yields. Therefore the liabilities and assets may react differently to changes in market conditions.

Inflation risk

Elements of the pensions in payment under the Plan increase at an inflation-linked rate, albeit that there are caps applying to the indexation. In addition, some pensions are increased in the period up until payment commences in line with increases in inflation, again, up to a certain cap.

The major assumptions used by the actuary were (in nominal terms):

	Group	
	At year end 31 December 2017	At year end 31 December 2016
Discount rate	2.50%	2.70%
Retail Prices Index (RPI) Inflation	3.55%	3.65%
Consumer Prices Index (CPI) Inflation	2.55%	2.65%
Future increases in pre 2009 deferred pensions	3.55%	3.65%
Future increases in post 2009 deferred pensions	2.50%	2.50%
Rate of increase in salaries	n/a	n/a
Life expectancy of male aged 65 at balance sheet date	22.0	22.1
Life expectancy of female aged 65 at balance sheet date	23.9	24.1

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Notes to the consolidated financial statements Year ended 31 December 2017

22. Retirement benefits (continued)

The fair values of assets in the scheme at 31 December 2017 were:

	Group	
	2017 £'000	2016 £'000
Bonds	-	31,683
Equities	11,809	17,728
Diversified Growth Funds	28,283	32,096
Cash	1,105	311
Liquidity fund	7,477	-
Liability Driven Investments	20,691	-
	<u>69,365</u>	<u>81,818</u>

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit scheme is as follows:

	Group	
	2017 £'000	2016 £'000
Fair value of scheme assets	69,365	81,818
Present value of defined benefit obligations	(80,523)	(110,771)
Deficit in the scheme	<u>(11,158)</u>	<u>(28,953)</u>

Amounts recognised in income in respect of the defined benefit scheme are as follows:

	Group	
	2017 £'000	2016 £'000
Current service cost	-	-
Net interest on the net defined benefit liability	752	186
	<u>752</u>	<u>186</u>

The interest expense has been included within finance costs (see note 9) for both 2017 and 2016.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

22. Retirement benefits (continued)

Amounts recognised in the Consolidated Statement of comprehensive income (SOCl) are as follows:

	Group	
	2017	2016
	£'000	£'000
Remeasurement – financial assumptions	1,683	30,788
Remeasurement – demographic assumptions	(673)	-
Remeasurement – experience adjustments	(12,856)	(416)
Return on plan assets	(4,426)	(5,938)
	<u>(16,272)</u>	<u>24,434</u>

Movement in the defined benefit obligations in the current year were as follows:

	Group	
	2017	2016
	£'000	£'000
At 1 January	110,771	81,189
Current service cost	-	-
Interest cost	2,708	3,013
Remeasurement – financial assumptions	1,683	30,788
Remeasurement – demographic assumptions	(673)	-
Remeasurement – experience adjustments	(12,856)	(416)
Contributions by employees	-	-
Benefits paid	(21,110)	(3,803)
	<u>80,523</u>	<u>110,771</u>
At 31 December		

Standard employer contributions amounted to £nil in 2017 (2016: £45k). In addition, extraordinary payments totalling £2,275k (2016: £1,100k) were made by the Group into the scheme during 2017.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

22. Retirement benefits (continued)

Movement in the fair value of scheme assets in the current year was as follows:

	Group	
	2017	2016
	£'000	£'000
At 1 January	81,818	75,711
Interest income	1,956	2,827
Return on plan assets less interest income	4,426	5,938
Contributions by employer	2,275	1,145
Contributions by employees	-	-
Benefits paid	(21,110)	(3,803)
At 31 December	<u>69,365</u>	<u>81,818</u>

The Group also operates a defined contribution scheme for which the pension cost charge for the year amounted to £5,388k (2016: £5,465k).

The table below shows the impact on the defined benefit obligation if the assumptions were changed as shown (assuming all other assumptions remain constants):

	2017	2016
	£'000	£'000
0.5% increase in discount rate	(7,905)	(13,669)
0.5% decrease in discount rate	11,895	16,293
0.5% increase in inflation and related assumptions	9,604	10,990
0.5% decrease in inflation and related assumptions	(6,200)	(11,759)
1 year increase in life expectancy	4,108	4,354
1 year decrease in life expectancy	(1,763)	(4,430)

The sensitivities of the defined benefit obligation to the key assumptions have been calculated using the same method as that used to calculate the Plan's defined benefit obligation at 31 December 2017.

The total employer contribution to the Perenco UK Pension Plan in 2017 is estimated to be £1,100,000. The duration of the defined benefit obligation is 21 years. The defined benefit obligation can be attributed to membership categories as follows:

	2017	2016
	%	%
Active members	-	-
Deferred pensioners	64	86
Pensioners	36	14

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

23. Trade and other payables

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade payables	10,145	5,275	10,145	5,275
Accruals and deferred income	59,184	46,530	59,175	46,527
Amounts payable to group companies	10,197	856	144,802	75,228
Taxation	-	7,495	-	7,495
Other payables	5,766	6,377	3,356	6,273
	<u>85,292</u>	<u>66,533</u>	<u>217,478</u>	<u>140,798</u>

24. Equity

Called-up share capital

	No. of shares	£'000
Ordinary shares		
<i>Authorised shares of £1 each</i>		
At 31 December 2016 and 31 December 2017	<u>50,000,000</u>	<u>50,000</u>
<i>Allotted, called-up and fully paid</i>		
At 31 December 2016 and 31 December 2017	<u>47,080,980</u>	<u>47,081</u>

Dividends

No dividends were declared or paid during the period (2016: £nil).

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Notes to the consolidated financial statements Year ended 31 December 2017

25. Notes to the Cash flow statement

Group

Reconciliation of operating profit to cash generated by operations

	2017 £'000	2016 £'000
Cash flows from operating activities:		
Operating loss	(41,247)	(274,415)
Adjustments for:		
Depreciation, depletion and amortisation	255,320	272,951
Other operating expenses	54,580	36,643
Impairment	-	93,679
Other non-cash items	11,707	6,377
Operating cash flow prior to working capital changes	280,360	135,235
(Increase) in inventories	(28,094)	(916)
Decrease / (increase) in receivables	(3,651)	82,650
(Decrease) / increase in creditors	26,394	(69,173)
Decrease in provisions	(22,404)	(20,705)
Net cash from operating activities	252,605	127,091

Company

Reconciliation of operating profit to cash generated by operations

	2017 £'000	2016 £'000
Cash flows from operating activities:		
Operating loss	(4,805)	(274,467)
Adjustments for:		
Depreciation, depletion and amortisation	190,779	240,450
Other operating expenses	54,672	32,993
Impairment	-	113,074
Other non-monetary items	11,707	6,377
Operating cash flow prior to working capital changes	252,353	118,427
(Increase) in inventories	(28,094)	(916)
Decrease / (increase) in receivables	2,404	83,354
(Decrease) / increase in creditors	38,115	(59,097)
Decrease in provisions	(15,321)	(20,455)
Net cash from operating activities	249,457	121,313

Cash and cash equivalents (which are presented as a single class of assets on the face of the Group and Company only balance sheet) comprise cash at bank and other short-term liquid investments with a maturity of three months or less.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

26. Capital commitments and contingent liabilities

The Group is committed to its share of future exploration, development and operating costs beyond 2017 under the terms of its North Sea licence agreements.

The Group and company has letters of credit in place in respect of decommissioning liabilities as at 31 December 2017, effective 1 January 2018, for a total value of £528,666k (2016: £444,012k).

Reflecting the company's operations and corporate activity the Company has ongoing enquiries from HMRC, and believes it has adequately provided for the outcome of all tax matters, but future results may include favourable or unfavourable adjustments to these estimated tax liabilities in the period the final assessments are made. Accordingly, the final outcome of tax examinations may result in a materially different outcome than assumed in the tax liabilities.

27. Operating lease

At the balance sheet date the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £'000	2016 £'000
Due within one year	645	970
Between two and five years inclusive	2,588	3,970
Over five years	2,157	3,552
	<u>5,390</u>	<u>8,492</u>

Operating lease payments represent rentals payable by the Group and Company for its office and warehouse premises.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

28. Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note as they are not material.

The following table provides the total amounts of transactions which have been entered into with related parties for the relevant financial year:

	Group		Debtor /	Debtor /
	Charge	Charge	(Creditor)	(Creditor)
	for 2017	for 2016	2017	2016
	£'000	£'000	£'000	£'000
<i>Charged by affiliated companies:</i>				
Perenco Holdings	(8,559)	(4,911)	(3,894)	(890)
Perenco Petroleum	(3,658)	(1,483)	-	-
Perenco France	(10,097)	(6,305)	(2,145)	(1,529)
Perenco Oil Trading	(716)	(705)	(100)	-
Perenco SA	(3,287)	(5,345)	(13)	(13)
Perenco Overseas Holdings	(1,950)	(772)	-	-
Perenco Oil & Gas (International)	-	(42)	-	-
Perenco Oil & Gas Gabon	(28)	-	(17)	-
Petrofor Limited	(538)	-	-	-
Petrofor UK Limited	(1,132)	-	(250)	-
Perenco Vietnam AS	-	(18)	-	-
	<u>(29,965)</u>	<u>(19,581)</u>	<u>(6,419)</u>	<u>(2,432)</u>
<i>Charged to affiliated companies:</i>				
Perenco Petroleum	-	-	474,583	461,132
Perenco Holdings	70	47	-	-
Perenco Oil & Gas Gabon	5	14	3	14
Perenco Rio del Rey	-	1	-	-
Perenco Vietnam	7	-	-	-
Petrofor UK Limited	1	-	1	-
Perenco France	34	-	-	-
Perenco Tunisia Oil & Gas Ltd	21	-	21	-
	<u>138</u>	<u>62</u>	<u>474,608</u>	<u>461,146</u>

Sales and purchases from related parties are made at normal market prices. Outstanding balances at year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables. For the year end the Group has not raised any provision for doubtful debts relating to amounts owed by related parties (2016: £nil). This assessment is undertaken each year through examining the financial position of the related party and the market in which the related party operates.

Details of transactions with directors and its senior and key management personnel are disclosed in note 7.

Perenco UK Limited

Notes to the consolidated financial statements Year ended 31 December 2017

29. Controlling party

Perenco Petroleum Limited, a company incorporated in The Bahamas, is the immediate Parent Company of Perenco UK Limited but does not prepare Group financial statements.

Perenco S.A., a company incorporated in The Bahamas, is the smallest group of undertakings, of which Perenco UK Limited is a member, for which Group financial statements are prepared.

Perenco International Limited, a company incorporated in The Bahamas, is the ultimate controlling party and the largest group of undertakings for which Group financial statements are prepared and is controlled by the Perrodo family and trusts for their benefit.

The financial statements of none of these companies are available to the public.

30. Post balance sheet events

On 28 March 2018, Perenco UK Limited purchased the interests of Ithaca Energy Inc in Wytch for \$53m. The loan with Perenco Group was extended to \$215m to fund this acquisition.