

Registered No. 3386464

ENGIE E&P UK Limited
Annual Report and Financial Statements
31 December 2016



General information

Registered No. 3386464

Directors

Maria Moraeus Hanssen Chairman

Laurent Dallet

Ruud Zoon

Benoit Mignard

Helene Verbockhaven

Ian Conacher (appointed 2 May 2017)

Company Secretary

Katharine Ash

Registered Office

40 Holborn Viaduct
London EC1N 2PB

Bankers

Barclays Bank PLC
1 Churchill Place
London
E14 5HP

Solicitors

Baker Botts LLP
41 Lothbury
London EC2R 7HF

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Strategic report

Business review

The primary focus of the Company's activities is the completion of the development of the Cygnus field, one of the largest gas field discoveries in the Southern North Sea in the past 30 years. A key strategic operated development, from which first gas was produced from the Alpha platform in December 2016, the Company has a 38.75% interest in the field and is developing it in conjunction with its partners, Centrica plc and Bayerngas UK Ltd. Production from the Bravo platform is expected to follow in mid-2017.

The Company's key performance indicators during the year were as follows:

	<i>Units</i>	<u>2016</u>	<u>2015</u>	<u>Change</u>
Hydrocarbon sales volumes	mmboe	1.8	1.9	-5%
Revenue	£m	54.8	67.6	-19%
Gross loss	£m	(3.2)	(23.4)	-86%
Loss for the year after tax	£m	(81.5)	(616.7)	-87%
Investment in property, plant & equipment and intangible assets	£m	170.0	308.4	-45%

The Company's production is presently from its portfolio of Southern North Sea gas fields.

Total hydrocarbon volumes decreased slightly to 1.8 million barrels of oil equivalent (mmboe) in 2016 due to natural field decline, contributing to the lower revenue and the gross loss for the year, marginally offset by the start-up of production from the Cygnus field in December.

At the end of the period, the Company held interests in nine producing fields.

The significantly higher loss recorded in 2015 reflects the level of impairment of the carrying value of the asset portfolio and deferred tax assets in that year.

The development of the Cygnus field is reflected in the continued high investment in property, plant and equipment.

One exploration well was drilled during the year, on the Loannon prospect in the West of Shetlands region of the UK Continental Shelf, which did not discover economic hydrocarbon accumulations and which has consequently been written off in the year.

In 2016, the Company's parent undertook a strategic review of its activities, resulting in a streamlining of the Company's asset portfolio, to focus activity primarily on its core asset, the Cygnus field. Accordingly, the Company is in the process of matching its resource requirements to its ongoing activities, in terms of both staffing and offices, as a consequence of which its London office will be closed. A restructuring provision has been made in respect of the associated redundancies and office closure.

Strategic report (continued)

Principal risks and uncertainties

The principal risks and uncertainties facing the Company are broadly grouped as – commodity price risk, drilling and production risk, compliance risk and financial risk.

- Commodity price risk

Future cash flows from gas sales are exposed to market price fluctuations and thus commodity price risk. Market prices for gas and oil continually fluctuate in relation to factors such as demand, supply, climate and global political events, which are not controllable. Note 16 on page 36 provides an outline of the Company's commodity price risk management policies and procedures.

- Drilling and production risk

Exploration and production is subject to natural hazards and other uncertainties, including those relating to the physical characteristics of a gas or oil field. Drilling, completing and operating wells requires high levels of investment and the costs are often uncertain, as operations may be curtailed, delayed or cancelled due to a variety of factors such as geological variations, equipment failures, accidents and adverse weather conditions.

- Compliance risk

Offshore and onshore activities are subject to applicable laws and regulations. Any incidents of non-compliance, particularly in relation to environmental and safety requirements, could be damaging to the Company's reputation. In addition, revisions to laws and regulations may impose additional costs and have a material effect on the profit of the Company.

- Financial risk

The Company faces several financial risks including liquidity risk, price risk, credit risk and foreign currency risk. The Company implements policies and procedures to manage these risks. Note 16 on page 36 provides an outline of the Company's financial risk management policies and procedures.

On behalf of the Board



Ian Conacher
Director 19 June 2017

Directors' report

The directors present their report and financial statements for the year ended 31 December 2016.

Results and dividends

The total comprehensive loss for the year amounted to £145,726,000 (2015: £591,601,000). No dividend was declared for 2016 (2015: nil).

Future activity

The Company is primarily focussed on completion of the development of the Cygnus field, from which first gas was produced in 2016, whilst also continuing to optimise the potential of its producing assets and to pursue business opportunities.

Going Concern

The Company has sufficient resources to carry on in operation for the foreseeable future and in preparing the annual financial statements the Company will continue to adopt the going concern basis of accounting.

Fixed assets review

During the year, intangible assets totalling £11,202,000 (2015: £74,047,000) were written off, principally relating to the Company's participation in the drilling of an exploration well on the Loannon prospect west of Shetlands which did not locate commercial hydrocarbons. In addition, the Company impaired the value of its interest in Marconi by £18,315,000 (2015: nil) in line with the subsequent disposal proceeds.

Extra balance sheet elements

At the end of 2016, the Company's share of the developed reserves (proven and probable) was 44.8 million barrels of oil equivalent (mmboe). A further 89.6 mmboe of reserves are classified as resources that may migrate into proven and probable reserves once certain milestones are reached.

Post balance sheet event

On 11 May 2017, the Company's ultimate parent company, ENGIE S.A., announced that it had entered into an exclusive agreement with Neptune Energy to sell the whole of its 70% interest in ENGIE E&P International S.A., the Company's immediate parent company. The transaction is expected to complete in the first quarter of 2018.

Disclosure of information to auditors

As 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 their 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.

Directors' report (continued)

Re-appointment of auditors

Ernst & Young LLP will be reappointed as the Company's auditor in accordance with the elective resolution passed by the Company under part 16, chapter 2, section 487 of Companies Act 2006.

On behalf of the Board



Ian Conacher
Director 19 June 2017

Statement of directors' responsibilities in relation to the financial statements

The directors are responsible for preparing the Strategic Report, 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 International Financial Reporting Standards (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 company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

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

Independent auditors' report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENGIE E&P UK LIMITED

We have audited the financial statements of ENGIE E&P UK Limited for the year ended 31 December 2016 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flow, the Statements of Changes in Equity and the related notes 1 to 17. 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.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- ▶ give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- ▶ have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditors' report

Opinion on other matter 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.
- ▶ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

Oxana Dorrington (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

London

22 June 2017

Statement of comprehensive income

For the year ended 31 December 2016

		<u>2016</u>	<u>2015</u>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
Continuing operations			
Revenue			
Sale of gas and liquids		44,200	60,652
Tariff income		10,594	6,899
		<u>54,794</u>	<u>67,551</u>
Cost of sales		(58,020)	(90,919)
Gross loss		<u>(3,226)</u>	<u>(23,368)</u>
Impairment write-down	7,8	(25,868)	(344,572)
Exploration costs written off	8	(11,202)	(74,047)
Restructuring costs	12	(17,000)	-
Gain / (loss) on sale of fixed assets		59	(49)
		<u>(57,237)</u>	<u>(442,036)</u>
Loss from continuing operations before tax and finance costs			
Finance costs	4	(12,259)	(10,180)
Finance income	4	1,080	421
		<u>(68,416)</u>	<u>(451,795)</u>
Loss before tax		<u>(68,416)</u>	<u>(451,795)</u>
Income tax charge	5	(13,126)	(164,908)
Loss for the year from continuing operations		<u>(81,542)</u>	<u>(616,703)</u>
Other comprehensive (loss) / income	16	(64,184)	25,102
Total comprehensive loss		<u>(145,726)</u>	<u>(591,601)</u>

Statement of financial position

at 31 December 2016

Registered No. 3386464

		<u>2016</u>	<u>2015</u>
	Notes	£000	£000
ASSETS			
Non-current assets			
Property, plant and equipment	7	523,103	368,627
Intangible assets	8	494	21,489
Deferred income tax assets	5	106,736	120,436
Derivative financial assets		-	14,596
		<u>630,333</u>	<u>525,148</u>
Current assets			
Trade and other receivables	9	47,455	44,602
Inventories		239	-
Derivative financial assets		2,451	10,990
Prepayments		-	9,180
Income tax receivable		1,120	86
		<u>51,265</u>	<u>64,858</u>
TOTAL ASSETS		<u><u>681,598</u></u>	<u><u>590,006</u></u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Issued capital	10	1,087,745	337,745
Accumulated losses		(835,963)	(690,237)
Total equity		<u>251,782</u>	<u>(352,492)</u>
Non-current liabilities			
Provisions	12	155,902	138,448
Loans from related parties	14, 16	135,777	744,914
		<u>291,679</u>	<u>883,362</u>
Current liabilities			
Trade and other payables	13	74,661	54,898
Income tax payable		-	48
Current provisions	12	23,269	3,498
Derivative financial liabilities		40,207	692
		<u>138,137</u>	<u>59,136</u>
TOTAL LIABILITIES		<u>429,816</u>	<u>942,498</u>
TOTAL EQUITY AND LIABILITIES		<u><u>681,598</u></u>	<u><u>590,006</u></u>

Approved by the Board on 19 June 2017 and signed on its behalf by:



Ian Conacher
Director

Statement of cash flow

for the year ended 31 December 2016

		<u>2016</u>	<u>2015</u>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
Cash flows from operating activities			
Loss before taxation		(68,416)	(451,795)
<i>Adjustments for:</i>			
Depreciation and depletion of assets	7, 8	14,806	16,652
Impairment and exploration write offs		29,517	418,619
(Gain) / loss on sale of fixed assets		(59)	49
Unrealised loss on derivative financial instruments		(1,534)	(135)
Finance income	4	(210)	(420)
Finance costs	4	12,259	10,018
		<u>(13,637)</u>	<u>(7,012)</u>
Working capital adjustment			
Decrease in trade and other receivables		6,327	79,014
(Increase) / decrease in inventories		(239)	6,978
Increase in trade and other payables		55,918	33,615
Cash generated from operations		<u>48,369</u>	<u>112,595</u>
Interest paid		(20,958)	(19,489)
Income tax paid		(648)	(2,361)
		<u>26,763</u>	<u>90,745</u>
Net cash flows from operating activities			
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		635	83
Purchase of property, plant and equipment		(160,712)	(263,786)
Purchase of intangible assets	8	(9,267)	(44,583)
		<u>(169,344)</u>	<u>(308,286)</u>
Net cash flows used in investing activities			
Cash flows from financing activities			
Remittance of funds (to) / from related party		(609,045)	219,527
Interest received		118	223
Shares issued		750,000	-
		<u>141,073</u>	<u>219,750</u>
Net cash flows from financing activities			
Net (decrease) / increase in cash and cash equivalents		(1,508)	2,209
Net foreign exchange loss / (gain)		1,508	(2,209)
Cash and cash equivalents at 1 January		-	-
		<u>-</u>	<u>-</u>
Cash and cash equivalents at 31 December			

Statement of changes in equity

for the year end 31 December 2016

	<i>Issued capital</i>	<i>Accumulated losses</i>	<i>Cash flow hedge reserve</i>	<i>Total equity</i>
	£000	£000	£000	£000
At 1 January 2015	337,745	(98,719)	83	239,109
(Loss) for the year from continuing operations		(616,703)	-	(616,703)
Other comprehensive income	-	-	25,102	25,102
At 31 December 2015	337,745	(715,422)	25,185	(352,492)
(Loss) for the year from continuing operations		(81,542)	-	(81,542)
Other comprehensive loss	-	-	(64,184)	(64,184)
Shares issued	750,000	-	-	750,000
At 31 December 2016	1,087,745	(796,964)	(38,999)	251,782

Notes to the financial statements

at 31 December 2016

1. Corporate information

The financial statements of ENGIE E&P UK Limited for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 19 June 2017. ENGIE E&P UK Limited is a limited company incorporated in the United Kingdom whose shares are 100% owned by ENGIE E&P International S.A., a company incorporated in France. The largest group into which the results of this Company are incorporated is that headed by ENGIE S.A., which is incorporated in Paris, France.

The principal activity of the Company is oil and gas exploration and production. All activities are conducted in the United Kingdom and its territorial waters.

2. Summary of significant accounting policies

Basis of preparation

The Company has prepared its financial statements under International Financial Reporting Standards as adopted by the European Union (IFRS).

The financial statements have been prepared on a historical cost basis and are presented in British Pound Sterling (Pounds). All values rounded to the nearest thousand Pounds (£000) except when otherwise indicated.

Going Concern

The Directors have a sound belief that the Company has sufficient resources to carry on in operation for the foreseeable future and in preparing the annual financial statements the Company will continue to adopt the going concern basis of accounting.

Statement of compliance

The financial statements of ENGIE E&P UK Limited have been prepared in accordance with IFRS as adopted by the European Union.

Standards, amendments and interpretations that have been issued by the IASB but not yet adopted by the Company

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Company's financial statements are disclosed below. These are the changes that the Company reasonably expects will have an impact on its disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards and interpretations, if applicable, when they become effective. Of the other standards and interpretation that are issued, but not yet effective, as these are not expected to impact the Company, they have not been listed.

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but the provision of comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company plans to adopt the new standard on the required effective date.

Notes to the financial statements

at 31 December 2016

2. Summary of significant accounting policies (continued)

Standards, amendments and interpretations that have been issued by the IASB but not yet adopted by the Company (continued)

(a) Classification and measurement

Overall, the Company expects the adoption of IFRS 9 may have an effect on the classification and measurement of the Company's financial assets, but no significant impact on the classification and measurement of the Company's financial liabilities or equity. The Company will consider whether any of the Company's sales contracts contain an embedded derivative, but do not meet the normal sales and purchases exemption. Under IAS 39, where provisionally priced sales contracts contain an embedded derivative that is considered to be closely related to the host contract, this is not separated from the host contract until delivery into the contract for accounting purposes under IAS 39. Accordingly, the embedded derivative, which does not qualify for hedge accounting, is recognised at fair value, with subsequent changes in fair value recognised in the statement of profit or loss and other comprehensive income each period until final settlement. The initial estimate of fair value and subsequent changes in fair value up until final settlement, are estimated by reference to forward market prices.

Other non-provisionally priced trade receivables are considered to be held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company expects that these will continue to be measured at amortised cost under IFRS 9. However, the Company will analyse the contractual cash flow characteristics of these instruments in more detail before concluding whether all these instruments meet the criteria for amortised cost measurement under IFRS 9.

For other financial assets currently measured at fair value, e.g., derivative financial assets, the Company expects to continue measuring these at fair value.

There will be no impact on financial liabilities.

(b) Impairment

IFRS 9 requires the Company to now use an expected credit loss model for its trade receivables measured at amortised cost, either on a 12-month or lifetime basis. The Company expects to apply the simplified approach and record lifetime expected losses on all trade receivables measured at amortised cost. Given the short-term nature of these receivables, the Company does not expect these changes will have a significant impact.

(c) Hedge accounting

The changes in IFRS 9 relating to hedge accounting will have no major impact.

Notes to the financial statements

at 31 December 2016

2. Summary of significant accounting policies (continued)

Standards, amendments and interpretations that have been issued by the IASB but not yet adopted by the Company (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Company plans to adopt the new standard on the required effective date using the full retrospective method.

Notes to the financial statements

at 31 December 2016

2. Summary of significant accounting policies (continued)

Standards, amendments and interpretations that have been issued by the IASB but not yet adopted by the Company (continued)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions*

Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

IFRS 16 Leases continued

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Company plans to assess the potential effect of IFRS 16 on its financial statements.

Notes to the financial statements

at 31 December 2016

2. Summary of significant accounting policies (continued)

Standards, amendments and interpretations that have been issued by the IASB but not yet adopted by the Company (continued)

IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

– amendments to IFRS 10 and IAS 28

The amendments address the conflict between IFRS 10 *Consolidated Financial Statements* and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full.

Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments is required to apply them prospectively.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's *Disclosure Initiative* and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Company.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it), or on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transaction for each payment or receipt of advance consideration.

The amendments are effective from 1 January 2018 and may be applied on a fully retrospective basis; prospectively to all assets, expenses and income in its scope that are initially recognised on or after the beginning of the reporting period in which the entity first applies the interpretation; or, the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Company intends to adopt the amendments on the effective date, and does not expect the impact of adoption of the interpretation to be material.

Foreign currency translation

The functional and presentational currency of ENGIE E&P UK Limited is Pounds (£). Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

Joint ventures

All of the Company's oil and gas exploration and production activities are conducted through joint venture arrangements, all of which are unincorporated. The results and net assets of these joint ventures are included in the Company's accounts using the proportional method of consolidation.

All of the Company's joint ventures were contracted in the United Kingdom and the United Kingdom Continental Shelf in the North Sea and West of the Shetland Islands.

Notes to the financial statements (continued)

at 31 December 2016

2. Summary of significant accounting policies (continued)

Oil and gas exploration and development expenditure

Oil and gas exploration and appraisal activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalised as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. Oil and gas exploration and development expenditure is accounted for using the successful efforts method of accounting. If no potentially commercial hydrocarbons are discovered, the exploration asset is written off through the statement of profit or loss and other comprehensive income as a dry hole.

All such capitalised costs are subject to technical, commercial and management review, as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off through the statement of profit or loss and other comprehensive income.

Property, plant and equipment

Oil and gas assets

Oil and gas assets are stated at cost, less accumulated depletion and any impairment in value. Depletion is calculated by field on a unit of production basis, using the proportion of actual production for the period to the total estimated remaining commercial reserves (proved and probable) for the field on an entitlement basis.

Oil and gas assets are producing assets, initially recognised at cost, comprising exploration and development expenditure. Exploration expenditure is transferred from intangible assets (see intangible assets note below). Development expenditure comprises all costs, including financing incurred in bringing a field to commercial production. Once a field achieves commercial production, exploration and development expenditure is recognised as a producing oil and gas asset and the charging of depletion commences.

Expenditure on major maintenance, refits or repairs is capitalised where it enhances the performance of an asset above its originally assessed standard of performance; replaces an asset or part of an asset which was separately depreciated and is then written off; or restores the economic benefits of an asset which has been fully depreciated. All other maintenance expenditure is charged to income as incurred.

The Company undertakes a review for impairment of tangible assets if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount, that is the higher of net realisable value and value in use, the fixed asset is written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows using discount rates of between 7.4% and 8.1% (2015: 7.4% and 8.1%).

Leasehold improvements and office equipment

Leasehold improvements and office equipment are stated at cost, less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, typically 3 to 10 years.

Notes to the financial statements (continued)

at 31 December 2016

2. Summary of significant accounting policies (continued)

Intangible assets

Intangible assets are exploration and appraisal expenditures and development of software expenditure. Exploration expenditure comprises all costs associated with the acquisition of new acreage, the drilling of exploratory wells and other costs incurred in evaluating the commercial viability of geological entities. Appraisal expenditure comprises costs incurred in the survey, exploration and appraisal of licence areas not yet under development or in production.

The Company uses the successful efforts method of accounting for exploration and development, such that exploration and appraisal expenditure is classified as an intangible fixed asset until a decision is reached concerning the commercial viability of the field to which it relates. Expenditure is then either written off or transferred to tangible fixed assets. General seismic and other expenditure not connected with a specific exploration licence is written off to the profit and loss account immediately.

Development of software expenditure comprises of costs associated with the purchase, design, installation and testing.

Recoverable amount of non-current assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In calculating Value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset / cash generating unit.

Inventories

Inventories are valued at the lower of cost or net realisable value.

Trade and other receivables

Trade receivables, which generally have 10-20 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Underlift and Overlift

Underlifts and overlifts of oil and gas in jointly owned operations are accounted for by adjusting cost of sales and working capital balances. Underlifts and overlifts are valued at cost or current market price as considered appropriate. A proportion of the underlifts or overlifts reflect volumes that will be recovered from other joint venture parties in that field in proportion to future production.

Notes to the financial statements (continued)

at 31 December 2016

2. Summary of significant accounting policies (continued)

Provisions

Provision is made for the cost of decommissioning of production facilities in accordance with local conditions and requirements on the basis of costs estimated as at the balance sheet date. The provisions represent the discounted value of the Company's share of their estimated liability for costs which will be incurred in removing production wells, platforms and facilities at the end of the producing life of each field. The discount rates applied are between 1.4% and 4.4%, dependent upon the timing of the decommissioning.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Revenue

Revenue is recognised when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Revenue comprises the value of sales of oil and gas produced from the Company's directly owned producing interests, net of sales taxes, together with other related income. Revenue is recognised on an entitlement basis.

All revenue derives from the United Kingdom.

Income tax

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

Deferred income tax liabilities are recognised for all taxable temporary differences.

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Notes to the financial statements (continued)

at 31 December 2016

2. Summary of significant accounting policies (continued)

Sales Tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on the purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Petroleum Revenue Tax

Provision is made for current Petroleum Revenue Tax (PRT) on revenue from petroleum sales less all allowable deductions for the period.

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

Segmental Reporting

For management purposes the Company is considered one business unit based on both geographic location, United Kingdom, and activity, Oil and Gas Exploration and production. Management monitors operating results of the business based on this. Consequently, no segmental reporting disclosures have been included in the financial statements.

Finance costs

Finance costs are recognised on an accruals basis and are disclosed separately on the face of the income statement.

Finance Income

Finance income is recognised on an accruals basis and is disclosed separately on the face of the income statement.

Inventories

Inventories consist of materials and equipment, which are stated at the lower of cost and net realisable value.

3. Significant accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Notes to the financial statements (continued)

at 31 December 2016

3. Significant accounting estimates and judgements (continued)

Reserves base

The oil and gas development and production properties are depreciated on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with Society of Petroleum Engineers rules.

Commercial reserves are determined using estimates of hydrocarbon in place, recovery factors and future hydrocarbon prices, the latter having an impact on ultimately commercially recoverable production volumes.

These estimates are made by internal experts in collaboration with Group guidelines and are reviewed by external reviewers on a rolling basis. The carrying amount of oil and gas development and production assets at 31 December 2016 is shown in note 7.

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

Impairment indicators

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the hydrocarbon price assumption may change, which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of tangible assets. Hydrocarbon price assumptions and discount rates are in line with Group guidelines and are related to prevailing market indicators. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets.

Decommissioning costs

Decommissioning costs will be incurred by the Company at the end of the operating life of some of the Company's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The decommissioning costs are estimated by the operator taking into account various studies and the above mentioned factors. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Recovery of deferred tax assets

Judgement is required to determine whether deferred tax assets are recognised in the balance sheet. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in the UK. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted.

In addition, future changes in tax laws in the UK could limit the ability of the Company to obtain tax deductions in future periods

Notes to the financial statements (continued)

at 31 December 2016

Fair value measurement

The Company measures financial instruments, such as derivatives, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Changes in estimates and assumptions about these inputs could affect the reported fair value.

Provisions and Contingent Liabilities

Provisions are recognised where a present obligation (legal or constructive) arises as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

Contingent liabilities may arise from the ordinary course of business in relation to claims against the Company, including legal, contractor, land access and other claims. By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

4. Income and expenses

Finance (costs) / income

	<i>Note</i>	<i>2016</i>	<i>2015</i>
		<i>£000</i>	<i>£000</i>
Finance costs			
Third party interest payable		(1)	-
Interest payable to related parties	14	(20,957)	(19,489)
Of which capitalised	14	10,978	11,091
Unwinding of discount on decommissioning provision	12	(2,279)	(1,621)
Other financial expense		-	(161)
Total finance costs		<u>(12,259)</u>	<u>(10,180)</u>
Finance income			
Third party interest receivable		118	223
Interest receivable from related parties	14	92	198
Other finance income		870	-
Total finance income		<u>1,080</u>	<u>421</u>
Net finance costs		<u>(11,179)</u>	<u>(9,759)</u>

Interest was capitalised during the year in respect of the funding of the Cygnus field development, at an average interest rate of 2.1% (2015: 3.0%).

Notes to the financial statements (continued)

at 31 December 2016

4. Income and expenses (continued)

Operating profit is stated after charging (crediting):

Depreciation, depletion and foreign exchange differences included in income statement

	<i>Note</i>	<i>2016</i>	<i>2015</i>
		<i>£000</i>	<i>£000</i>
Included in cost of sales:			
Depreciation and depletion of oil and gas assets	7	4,338	12,617
Depreciation of leasehold land and buildings	7	891	1,368
Depreciation of office equipment	7	1,861	2,186
Amortisation of intangible assets: software	8	168	481
Minimum lease payments recognised as an operating lease		3,356	4,926
Net foreign exchange loss / (gain)		1,506	(2,209)

Employee benefits expense

	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>
Wages and salaries	20,364	24,617
Social security costs	4,012	7,855
Pension costs	<u>2,128</u>	<u>2,623</u>
	<u>26,504</u>	<u>35,095</u>

The Company's personnel pension plan is a defined contribution scheme.

An average of 154 (2015: 185) staff were employed during the year in conducting and administering the Company's activities. They were employed in the following areas:

	<i>2016</i>	<i>2015</i>
Operations	32	39
Exploration	46	57
Management and support	<u>76</u>	<u>89</u>
	<u>154</u>	<u>185</u>

Directors' emoluments

	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>
Emoluments	<u>436</u>	<u>512</u>

The highest paid director received £436k in emoluments for the year ending 31 December 2016 (2015: £501k).

Notes to the financial statements (continued)

at 31 December 2016

4. Income and expenses (continued)

Auditors' remuneration

	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>
Auditors' remuneration in respect of audit	60	66
Auditors' remuneration in respect of other services	-	8
	<u>60</u>	<u>74</u>

5. Income tax

Major components of income tax expense for the years ended 31 December 2016 and 2015 are:

	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>
Income statement		
<i>Current income tax</i>		
Current income tax (credit) / charge	(787)	77
Adjustments in respect of current income tax of previous years	(294)	36
Current Petroleum Revenue Tax (PRT) charge	-	1,296
Adjustments in respect of current PRT of previous years	501	368
<i>Deferred income tax</i>		
Relating to origination and reversal of income tax temporary differences	13,867	166,114
Relating to origination and reversal of PRT temporary differences	(110)	(2,983)
Income tax expense reported in income statement	<u>13,177</u>	<u>164,908</u>

Notes to the financial statements (continued)

at 31 December 2016

5. Income tax (continued)

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the years ended 31 December 2016 and 2015 is as follows:

	2016 £000	2015 £000
Accounting loss before income tax	<u>(68,416)</u>	<u>(451,795)</u>
At UK statutory income tax rate of 40% (2015: 50%)	(27,450)	(226,108)
At UK statutory income tax rate of 20% (2015: 20%)	42	84
Adjustments in respect of current income tax of previous years	(294)	36
Expenditure not allowable for income tax purposes	678	6,676
Adjustment in respect of current PRT expense	(157)	659
Ring Fence Expenditure Supplement	(58,117)	(57,129)
Investment allowances	(1,547)	(4,320)
Income not taxable	(254)	(42)
Adjustments in respect of deferred income tax of previous years	58	(369)
Differences in statutory tax rates	23,382	47,582
Current PRT charge	501	1,664
Deferred PRT credit	(110)	(2,983)
Derecognition of deferred tax asset	88,381	399,158
Release of Chargeable Gain overprovision	(8,272)	-
Recoverable tax on decommissioning Imposition Expenditure	(3,709)	-
Other	45	-
At effective income tax rate of -19% (2015: -37%)	<u>13,177</u>	<u>164,908</u>

Based on economic and technical projections prevailing at 31 December 2016, the Company considers it unlikely that the full benefit of its accumulated tax losses will be realised through the evolution of its current asset portfolio and has adjusted the deferred tax asset balance accordingly.

Notes to the financial statements (continued)

at 31 December 2016

5. Income tax (continued)

Deferred income tax

	<i>Balance Sheet</i>	
	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>
<i>Deferred corporation tax assets / (liabilities)</i>		
Accelerated depreciation for tax purposes	(199,269)	(249,096)
Deferred chargeable gains	(2,065)	(10,337)
Corporation tax on deferred PRT	(2,567)	(3,209)
Decommissioning provision	32,497	40,596
Recoverable tax on decommissioning Imposition Expenditure	3,709	-
Investment allowances	2,619	5,237
Carried forward tax losses	262,171	327,714
Other	131	131
<i>Deferred PRT assets</i>		
Deferred PRT assets	9,510	9,400
Net deferred income tax asset	<u>106,736</u>	<u>120,436</u>

Effective 1 January 2016, the rate of Supplementary Charge was reduced from 20% to 10% and the rate of Petroleum Revenue tax was reduced from 50% to 0%; the impact of these changes is included above.

The Company's deferred tax assets at 31 December 2016 are recognised to the extent that taxable profits are expected to arise in the future against which existing tax losses and allowances can be utilised. In accordance with IAS 12 'Income Taxes' the Company assessed the recoverability of its deferred tax assets at 31 December 2016 with respect to ring fence tax losses and allowances.

Additionally, based on the projections, the Company did not recognise a deferred tax asset in respect of ring fence corporation tax losses of £1,019,633k and supplementary charge losses of £997,816k (31 December 2015: ring fence corporation tax losses of £796,977k and supplementary charge losses of £780,644k) on the basis that the availability of sufficient tax profits arising in the future against which the temporary difference could reverse is not considered probable.

6. Dividends paid and proposed

No dividends were declared or paid in respect of 2016 (2015: £nil).

Notes to the financial statements (continued)

at 31 December 2016

7. Property, plant and equipment

31 December 2016

	<i>Leasehold land and buildings £000</i>	<i>Office equipment £000</i>	<i>Oil and gas assets £000</i>	<i>Total £000</i>
At 1 January 2016, net of accumulated depreciation	7,919	14,520	346,188	368,627
Additions	-	129	168,985	169,114
Impairment	-	-	(7,553)	(7,553)
Depreciation charge for the year	(891)	(1,856)	(4,338)	(7,085)
At 31 December 2016, net of accumulated depreciation	7,028	12,793	503,282	523,103
At 1 January 2016				
Cost	13,633	25,495	1,329,932	1,369,060
Accumulated depreciation and impairment	(5,714)	(10,975)	(983,744)	(1,000,433)
Net carrying amount	7,919	14,520	346,188	368,627
At 31 December 2016				
Cost	13,633	25,624	1,498,917	1,538,174
Accumulated depreciation and impairment	(6,605)	(12,831)	(995,635)	(1,015,071)
Net carrying amount	7,028	12,793	503,282	523,103

31 December 2015

	<i>Leasehold land and buildings £000</i>	<i>Office equipment £000</i>	<i>Oil and gas assets £000</i>	<i>Total £000</i>
At 1 January 2015, net of accumulated depreciation	9,156	14,084	467,946	491,186
Additions	257	2,628	235,431	238,316
Disposals	(126)	(6)	-	(132)
Impairment	-	-	(344,572)	(344,572)
Depreciation charge for the year	(1,368)	(2,186)	(12,617)	(16,171)
At 31 December 2015, net of accumulated depreciation	7,919	14,520	346,188	368,627
At 1 January 2015				
Cost	13,502	22,873	1,094,501	1,130,876
Accumulated depreciation and impairment	(4,346)	(8,789)	(626,554)	(639,689)
Net carrying amount	9,156	14,084	467,946	491,186
At 31 December 2015				
Cost	13,633	25,495	1,329,932	1,369,060
Accumulated depreciation and impairment	(5,714)	(10,975)	(983,744)	(1,000,433)
Net carrying amount	7,919	14,520	346,188	368,627

Notes to the financial statements (continued)

at 31 December 2016

8. Property, plant and equipment (continued)

Oil and gas assets included no projects under development (2015: £341.0m) and cumulative capitalised interest of £29.5m (2015: £18.5m), at an average interest rate of 2.1%.

Notes to the financial statements (continued)

at 31 December 2016

8. Intangible assets

31 December 2016	<i>Exploration</i>	<i>Software</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2016	21,321	168	21,489
Additions	9,267	-	9,267
Disposals	(577)	-	(577)
Exploration costs written off	(11,202)	-	(11,202)
Depreciation charge for the year	-	(168)	(168)
Impairment	(18,315)	-	(18,315)
At 31 December 2016	<u>494</u>	<u>-</u>	<u>494</u>
At 1 January 2016	<u>21,321</u>	<u>168</u>	<u>21,489</u>
Net carrying amount	<u>21,321</u>	<u>168</u>	<u>21,489</u>
At 31 December 2016	<u>494</u>	<u>-</u>	<u>494</u>
Net carrying amount	<u>494</u>	<u>-</u>	<u>494</u>
31 December 2015	<i>Exploration</i>	<i>Software</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2015	50,785	649	51,434
Additions	44,583	-	44,583
Exploration costs written off	(74,047)	-	(74,047)
Depreciation charge for the year	-	(481)	(481)
At 31 December 2014	<u>21,321</u>	<u>168</u>	<u>21,489</u>
At 1 January 2015	<u>50,785</u>	<u>649</u>	<u>51,434</u>
Net carrying amount	<u>50,785</u>	<u>649</u>	<u>51,434</u>
At 31 December 2015	<u>21,321</u>	<u>168</u>	<u>21,489</u>
Net carrying amount	<u>21,321</u>	<u>168</u>	<u>21,489</u>

Exploration expenditure comprises all costs associated with the appraisal and acquisition of new acreage, the drilling of exploratory wells and other costs incurred in evaluating the commercial viability of geological entities.

Development of software expenditure comprises of costs associated with the purchase, design, installation and testing.

During the year, intangible assets totalling £11,202,000 (2015: £74,047,000) were written off, principally relating to the Company's participation in the drilling of an exploration well on the Loannon prospect west of Shetlands which did not locate commercial hydrocarbons. In addition, the Company impaired the value of its interest in Marconi by £18,315,000 (2015: nil) in line with the subsequent disposal proceeds.

Notes to the financial statements (continued)

at 31 December 2016

9. Trade and other receivables

	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>
Trade receivables	20,999	31,056
Accrued income	6,555	3,474
Accrued related party income	2,190	3,344
Other related parties receivables	1,590	2,182
Underlift	321	390
Other receivables	14,949	3,244
VAT receivable	<u>851</u>	<u>912</u>
	<u>47,455</u>	<u>44,602</u>

Trade receivables are non-interest bearing and are generally on 10-20 day terms.

For terms and conditions relating to related party receivables, refer to note 14.

Sales tax (VAT) receivable is non-interest bearing and is refunded by the taxation authorities on a monthly basis.

Notes to the financial statements (continued)

at 31 December 2016

10. Issued capital and reserves

<i>Authorised</i>	<i>2016</i>	<i>2015</i>
	<i>No.</i>	<i>No.</i>
Ordinary shares of £1 each	200,000,000	200,000,000
Redeemable ordinary shares of £1 each	<u>1,100,000,000</u>	<u>1,000,000,000</u>
	<u>1,300,000,000</u>	<u>1,200,000,000</u>
 <i>Ordinary shares issued and fully paid</i>		
	<i>No.</i>	<i>No.</i>
At 1 January 2015, 2016 and 31 December 2016	<u>100</u>	<u>100</u>
 <i>Redeemable ordinary shares issued and fully paid</i>	<i>2016</i>	<i>2015</i>
	<i>No.</i>	<i>No.</i>
At 1 January	337,744,772	337,744,772
Issued during the year	<u>750,000,000</u>	<u> </u>
At 31 December	<u>1,087,744,772</u>	<u>337,744,772</u>

The Company is wholly-owned and is funded through share capital and loans from its immediate parent in order to enable it to meet its financial obligations and activities. In May 2016, the Company's authorised share capital was increased by 100,000,000 redeemable ordinary shares of £1 each and the Company issued 750,000,000 redeemable ordinary shares of £1 each at par value. This injection of funds has been used to pay down a significant portion of the inter-company debt with the balance being made available to support ongoing investment activities.

11. Share based payments

The Company does not operate its own share option scheme. A share option scheme is operated by the ultimate parent company, ENGIE S.A., and senior management of the company is invited to participate in this scheme from time to time. No share options were awarded to any ENGIE E&P UK Limited staff during 2016.

Performance Shares

Some senior managers, some internationally mobile employees and those that participate in the ENGIE S.A. "Leader for Tomorrow" scheme are awarded a number of shares subject to certain corporate performance conditions being met on 15 March 2020. In 2016, 14 employees were awarded Performance Shares, ranging between 150 and 1,020 shares.

Notes to the financial statements (continued)

at 31 December 2016

12. Provisions

	<i>Decommissioning</i> £000	<i>Restructuring</i> £000	<i>Other</i> £000	<i>Total</i> £000
At 1 January 2016	141,946	-	-	141,946
Arising during the year	19,795	17,000	2,000	38,795
Unwinding of discount for	2,279	-	-	2,279
Utilisation	(1,526)	(2,323)	-	(3,849)
At 31 December 2016	<u>162,494</u>	<u>14,677</u>	<u>2,000</u>	<u>179,171</u>
Current 2016	6,592	14,677	2,000	23,269
Non-current 2016	<u>155,902</u>	-	-	<u>155,902</u>
	<u>162,494</u>	<u>14,677</u>	<u>2,000</u>	<u>179,171</u>
Current 2015	3,498	-	-	3,498
Non-current 2015	<u>138,448</u>	-	-	<u>138,448</u>
	<u>141,946</u>	-	-	<u>141,946</u>

Provision is made for the cost of decommissioning of production facilities at the end of the producing life of each field. Such provisions are on the basis of the Company's estimated liability for costs at the balance sheet date, discounted at rates of between 1.4% and 4.4%.

Organisational restructuring: In 2016, the Company's parent undertook a strategic review of its activities, resulting in a streamlining of the Company's asset portfolio, to focus activity primarily on its core asset, the Cygnus field. Accordingly, the Company is in the process of matching its resource requirements to its ongoing activities, in terms of both staffing and offices, as a consequence of which its London office will be closed. A restructuring provision has been made in respect of the associated redundancies and office closure.

Other: The Company has provided for its legal fees associated with a dispute with one of its contractors. A supplier has submitted a claim against the Company in respect of liquidated damages. The estimated payout is £13.5m should the claim be successful. However, the Company has been advised by its legal counsel that it is only possible, but not probable, that the claim will succeed and the Company is confident of a successful outcome to the dispute. Therefore, it is not practicable to state the timing of the payment, if any. Accordingly, no provision for any liability has been made in these financial statements.

13. Trade and other payables

	<i>2016</i> £000	<i>2015</i> £000
Trade payables	675	2,819
Accrued expenditure	53,452	39,253
Accrued related party expenditure	4,416	4,888
Other related parties payables	29,322	3,110
Overlift	261	141
Other payables	<u>3,212</u>	<u>4,687</u>
	<u>91,338</u>	<u>54,898</u>

Trade payables are non-interest bearing and are normally payable on 30-day terms.

Notes to the financial statements (continued)

at 31 December 2016

For terms and conditions relating to related parties, refer to note 14.

Other payables are non-interest bearing and have an average term of one month.

14. Related party disclosures

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

<i>Related party</i>		<i>Sales to related parties</i>	<i>Purchases from related parties</i>	<i>Interest income from related parties</i>	<i>Interest paid to related parties</i>	<i>Amounts owed by related parties</i>	<i>Amounts owed to related parties</i>
		<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
The ultimate parent							
ENGIE S.A.	2016	-	183	92	-	548	1,413
	2015	-	118	198	-	1,108	4,014
Other related							
ENGIE Global	2016	31,767	-	-	-	2,056	2,646
Markets	2015	54,898	-	-	-	3,216	-
ENGIE CC SCRL	2016	-	-	-	20,957	-	135,777
	2015	-	-	-	19,489	-	744,914
Storengy	2016	-	-	-	-	-	82
	2015	-	-	-	-	-	93
ENGIE E&P	2016	-	925	-	-	-	113
Deutschland GmbH	2015	-	581	-	-	10	414
ENGIE E&P	2016	267	547	-	-	462	155
Nederland B. V.	2015	424	1,583	-	-	515	255
ENGIE E&P Norge	2016	-	22	-	-	-	-
AS	2015	-	182	-	-	-	-
GDF SUEZ	2016	-	5	-	-	-	1
University	2015	-	11	-	-	-	-
GDF SUEZ LNG	2016	-	158	-	-	134	-
(UK) Ltd	2015	-	142	-	-	127	-
GDF NAD	2016	-	-	-	-	537	-
Prospection BV	2015	-	-	-	-	417	-
ENGIE E&P	2016	-	8,043	-	-	-	29,322
International SA	2015	-	9,387	-	-	-	3,110
	2016	-	234	-	-	44	6
ENGIE E&P Egypt	2015	-	197	-	-	96	112
B. V.	2015	-	-	-	-	-	-
GDF SUEZ LNG	2016	-	-	-	-	-	-
Cameroon	2015	-	-	-	-	37	-
Total related parties	2016	32,034	10,117	92	20,957	3,781	169,515
Total related parties	2015	55,322	12,201	198	19,489	5,526	752,912

Notes to the financial statements (continued)

at 31 December 2016

14. Related party disclosures (continued)

A reconciliation of the above related party receivables and payables to the applicable financial statement balances for the years ended 31 December 2016 and 2015 is as follows:

	Notes	2016		2015	
		Receivable £000	Payable £000	Receivable £000	Payable £000
Trade receivables	9	1,590	-	2,182	-
Accrued related party income	9	2,190	-	3,344	-
Loan from related party	16	-	135,777	-	744,914
Trade payables	13	-	29,322	-	3,110
Accrued related party expenditure	13	-	4,416	-	4,888
		<u>3,780</u>	<u>169,515</u>	<u>5,526</u>	<u>752,912</u>

The ultimate parent

ENGIE S.A.

The Company is 100% owned by ENGIE E&P International S.A., a company incorporated in France. The ultimate parent is ENGIE S.A., which holds a 70% interest in ENGIE E&P International S.A.

Other related parties

The ultimate parent of the Company, ENGIE S.A., is the ultimate parent of all the other related parties.

Loans from related party

The loan from ENGIE CC SCRL, which has been used to fund the company's investment activities, matures on 22 March 2021.

In May 2016, a significant portion of the inter-company debt was repaid, funded through a share issue.

Terms and conditions of transactions with related parties

Sales to 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 ended 31 December 2016, the Group has not raised any provision for doubtful debts relating to any amounts owed by related parties (2015: £nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Notes to the financial statements (continued)

at 31 December 2016

15. Commitments and contingencies

Operating lease commitments

The Company has entered into commercial leases on certain office premises where it is not in the best interest of the Company to purchase these assets. The leases have an average life of 10 years with renewal terms included in the contracts. Renewals are at the option of the Company. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

Operating lease commitments

	2016	2015
	£000	£000
Within one year	4,740	3,855
After one year but not more than five years	14,469	17,384
More than five years	<u>12,191</u>	<u>13,855</u>
	<u>31,400</u>	<u>35,094</u>

Capital commitments

At 31 December 2016, the Company had gross commitments of £92.9m (2015: £296.4m) which, net of contractual partner recoveries, equates to £36.0m (2015: £114.8m) relating to the completion of oil and gas asset developments.

16. Financial risk management objectives and policies

The Company's principal financial instruments comprise cash and short term deposits, and loans to related parties, which result from cash generated from operations. Similarly, the various other financial instruments such as trade debtors and trade creditors also arise directly from operations.

The Company has no financial instrument liabilities at floating interest rates, so has negligible exposure to market interest rate risk.

The Company reports in sterling with the majority of its gas sales and trading being conducted in Pounds (£). It is, however, contracted for expenditure in US Dollars and Euros in respect of the development of the Cygnus field. The Company manages the associated foreign currency risk through a series of cash flow hedges.

The main risks arising from the Company's financial instruments are commodity price risk, liquidity risk, credit risk, capital risk and foreign currency risk. The management reviews and agrees policies for managing these risks, as summarised below.

Commodity price risk

The Company is exposed to market risk for changes in the price of gas.

Financial instruments at the year end are subject to no commodity price risk, as the sales they represent are already contracted at agreed prices. However, future cashflows from gas sales are exposed to market price fluctuations and thus commodity price risk.

The Company aims to mitigate the risk to cashflows which would result from a drop in market gas prices, whilst maintaining scope to benefit from increases in market price. The risk is managed by adopting a portfolio approach, whereby quantities of gas are sold on long-term fixed contracts, short-term gas sales agreements and also at 'day ahead' spot market related prices.

Notes to the financial statements (continued)

at 31 December 2016

16. Financial risk management objectives and policies (continued)

In order to adequately manage gas production and price risk, volumes are partially hedged via the purchase of swaps, which target commitment levels of projected production.

This represents moderate risk mitigation and provides market related prices whilst limiting exposure to short-term price instability.

The balance of the Company's gas production is sold at 'day ahead' prices, which carry a higher level of risk in relation to price fluctuations but allow the Company to take advantage of high market prices.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations in due time. This risk is not significant given the Company's absence of external finance and it has in place ENGIE group loan facilities to enable it to fully meet its future commitments.

Credit risk

The Company faces credit risk from the possibility that customers will not be able to settle their obligations. The Company manages this risk by primarily dealing with related ENGIE group companies and large multinational Oil & Gas majors with strong credit ratings. The Company also only holds cash with banks holding strong credit ratings.

Capital risk

The Company strives for an advantageous capital structure and frequently analyses this structure to ensure that it is in line with the needs of the Company's ongoing business development.

Sensitivity analysis

No sensitivity analysis has been carried out as all financial assets and liabilities are held within the ENGIE group.

Interest rate risk

As the loan relationship with ENGIE CC SCRL is internal within the ENGIE group, management do not consider that any residual interest rate risk is material.

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all the Company's financial instruments:

	<i>Carrying amount</i>		<i>Fair value</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Financial assets</i>				
Loans and receivables				
Trade receivables	34,634	44,212	34,634	44,212
Loans to related parties	-	-	-	-
<i>Financial liabilities</i>				
Trade and other payables	(74,400)	(54,757)	(74,400)	(54,757)
Loans from related parties	(135,777)	(744,914)	(135,777)	(744,914)
	<u>(210,177)</u>	<u>(799,671)</u>	<u>(210,177)</u>	<u>(799,671)</u>

Notes to the financial statements (continued)

at 31 December 2016

16. Financial risk management objectives and policies (continued)

Fair values (continued)

The net book value is considered to equate to the fair value for financial assets and financial liabilities due to the short maturity of the amounts receivable and payable. The fair value of the trade receivables is included at the amount at which the instrument could be exchanged in an orderly transaction between market participants, other than in a forced or liquidation sale.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments which are measured at fair value by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Ageing of financial assets

All trade receivables are current.

Maturity of financial liabilities

The table below sets out below the maturity profile of the Company's financial liabilities.

Year ended 31 December 2016

Financial liabilities

	<i>Within 1 year</i>	<i>More than 1 year</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade and other payables	(74,400)	-	(74,400)
Loans from related parties	<u>-</u>	<u>(135,777)</u>	<u>(135,777)</u>

Year ended 31 December 2015

Financial liabilities

	<i>Within 1 year</i>	<i>More than 1 year</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade and other payables	(54,757)	-	(54,757)
Loans from related parties	<u>-</u>	<u>(744,914)</u>	<u>(744,914)</u>

Notes to the financial statements (continued)

at 31 December 2016

16. Financial risk management objectives and policies (continued)

Derivative financial instruments

The Company has entered into the following derivative foreign currency swap contracts that have been designated as cash flow hedges, in respect of known future expenditure commitments. The nominal values analysed by maturity below have an active market and are therefore considered Level 1 when applying a methodology to fair value the instruments. Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Currency	Term	Nominal amount		Fair value / carrying value	
		\$'000	€'000	2016 £'000	2015 £'000
Sterling / US Dollar	January 2016 – December 2016	0		0	12,200
Sterling / US Dollar	January 2017 – December 2017	12,548		8,959	8,097
Sterling / Euro	January 2016 – December 2016		0	0	16,782

At 31 December 2016, the values of these contracts were marked to market, creating an unrealised gain of £1,204,571 (2015: £1,351,062), written directly to reserves. The ineffective portion and the fair value change were expensed to the Income Statement.

The nominal value of the Company's forward gas sales contracts at 31 December 2016 was £140,146,529 (2015: £76,665,000). As these contracts may be validated by reference to similar market data, they are designated as Level 2, which are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, being inputs that are derived principally from or corroborated by observable market data by correlation or other means ('market-corroborated inputs').

	Notional quantity		Fair value measure	
	2016	2015	2016	2015
Derivative financial instruments – assets/(liabilities)	GWh	GWh	£'000	£'000
Long-term natural forward gas sales contracts	10,832	9,225	(40,206)	23,834

17. Post balance sheet event

On 11 May 2017, the Company's ultimate parent company, ENGIE S.A., announced that it had entered into an exclusive agreement with Neptune Energy to sell the whole of its 70% interest in ENGIE E&P International S.A., the Company's immediate parent company. The transaction is expected to complete in the first quarter of 2018.