

Company Registration No. 2761032

E.ON E&P UK Limited

Report and Financial Statements

31 December 2013

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E.ON E&P UK Limited

Report and financial statements 2013

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E.ON E&P UK Limited

Officers and professional advisers

Directors

Mr F Lerch
Mr J Hess
Ms A Sim
Ms J Booth
Mr S Devenport
Mr D Bate

Registered Office

7th Floor
129 Wilton Road
London
SW1V 1JZ

Bankers

Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3YR

Solicitors

Bond Pearce LLP
8th Floor, New London House
6 London Street
London
EC3R 7LP

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

E.ON E&P UK Limited

Strategic report for the year ended 31 December 2013

The directors present their strategic report on E ON E&P UK Limited (the "Company") for the year ended 31 December 2013

Principal activity and business review

The principal activity of the Company is oil and gas exploration, development and production

The Company has the following working interests

	Working Interest
Field	(%)
Elgin/Franklin	5 20
SEAL pipeline	2 90
SILK pipeline	5 00
GAEL pipeline (Northern and Southern spurlines)	1 79
West Franklin	5 20
Glenelg	18 57
Scoter	12 00
Merganser	7 92
Huntington *	25 00
P 114 and P 224 (Deep Banff)	20 00
P 1626 (Corfe)	25 00
P 766	68 31
Caister	40 00
Hunter *	79 00
Rita *	74 00
Caister Murdoch Pipeline System	20 00
Minke (P 611)	42 67
Orca (P 454)	42 67
P 611 (Rest of block)	46 25
P 454 (Rest of block)	35 00
P 1330 (Tolmount)*	50 00
P 079 (TR1)	15 00
P 1823 (Austen)	25 00
P 1839 (Aileen)	50 00
P 1853 (Grouse)	50 00
P 1939	20 00
P 1997	30 00
P 2003*	50 00
P 2004	30 00
P 2010*	50 00
P 2011	50 00
P 2012*	100 00
P 2020*	100 00
P 2023*	100 00
P 2045	33 33
P 2067	15 00
P 2068	5 20
P 2073*	100 00
P 2080	30 00
P 2090*	50 00
P 2103*	50 00
P 2105*	50 00
P 2136*	100 00

*E ON E&P UK Limited is the operator

E.ON E&P UK Limited

Strategic report for the year ended 31 December 2013 (continued)

Key performance indicators ("KPIs")

	2013	2012	Change
Production (mboe)	2,378	1,067	123%
Realised oil price per boe (£)	63.09	43.43	45%
Realised gas price per m3 (£)	0.26	0.25	4%
Operating costs per boe (£)	35.74	65.51	(45%)

Production has increased from 1.1 mboe (millions of barrels of oil equivalent) in 2012 to 2.4 mboe in 2013 primarily due to Huntington commencing production, following development, on 12 April 2013 and production recommencing on the Elgin/Franklin field on 9 March 2013 following a gas leak on the G4 well in March 2012. Higher volumes and higher prices are the main contributors to turnover increasing from £94,398,000 in 2012 to £166,379,000 in 2013.

Higher production has also had a significant impact on operating costs per boe (barrel of oil equivalent) due to higher production volumes compared to fixed field operating costs. As a result gross profit percentage has increased from 16% in 2012 to 20% in 2013 despite the impairment charge recognised of £10,157,000 (2012 £3,114,000).

At 31 December the Company's net current assets decreased by £33,421,000 to £66,923,000 primarily due to amounts and loans and interest owed by/to other E.ON SE group companies as well as a decrease in the corporation tax receivable.

Total shareholder's funds decreased by £64,516,000 due to the loss for the year (2012 £36,428,000).

The directors expect the Company to continue trading at a similar level in the foreseeable future.

Results and dividends

The Company made a loss on ordinary activities before taxation in 2013 of £66,441,000 (2012 £76,628,000). The directors do not recommend the payment of a dividend (2012 £nil).

During the year costs capitalised of £10,157,000 in relation to Orca, Caister, Hunter, Minke and Huntington were impaired as the recoverable amount was estimated to be less than the carrying amount. The resulting exceptional charge has been recognised in the income statement. In 2012 an impairment charge of £3,114,000 was recognised against the carrying value of tangible assets.

During the year an exceptional charge of £67,625,000 (2012 £64,195,000) was written off the value of the investment in E.ON E&P UK EU Limited, a subsidiary of the Company, following a change in the underlying value of the investment.

Principal risks and uncertainties

Price risk

The Company's operations expose it to commodity price risk. In June 2010, November 2010 and November 2011, the Company entered into a series of financial commodity price swaps with E.ON Ruhrgas AG for the period August 2010 to December 2014.

Commodity price risk is considered at the E.ON SE group level in accordance with binding group-wide guidelines. The Company does not use derivative financial instruments for speculative purposes.

E.ON E&P UK Limited

Strategic report for the year ended 31 December 2013 (continued)

Principal risks and uncertainties (continued)

Credit risk

The Company's principal financial assets are bank balances, cash and trade and other receivables. The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. 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. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies or E.ON SE group companies.


Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses a mixture of long-term and short-term debt finance provided by E.ON SE group companies.

Operational risk

The Company's operations expose it to risks and uncertainties associated with the exploration, development and production of natural gas and crude oil from the North West European Continental Shelf and include technological complexity, drilling success and natural gas and crude oil prices variability.

Approved by the Board of Directors
and signed on behalf of the Board



F Lerch
Managing Director
10 March 2014

E.ON E&P UK Limited

Directors' report for the year ended 31 December 2013

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2013

Principal activity and business review, Key performance indicators, Results and dividends and Principal risks and uncertainties

Details of these matters have been included in the Strategic Report on pages 2 to 4

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were

Mr F Lerch

Mr J Haupt (Resigned 15 March 2013)

Mr J Hess

Mr G Hollmann (Resigned 1 September 2013)

Ms A Sim

Ms J Booth

Mr S Devenport (Appointed 18 July 2013)

Mr D Bate (Appointed 1 October 2013)

Donations for political and charitable purposes

During the year the Company made charitable donations of £520 (2012 £7,166), principally to local charities serving the communities in which the Company operates. No political donations were made during the year (2012 nil)

Credit payment policy

The Company aims to pay all of its creditors promptly. It is the policy of the Company to agree the terms of payment at the start of business with each supplier, ensure that suppliers are aware of the terms of payment and to pay in accordance with contractual and other legal obligations.

Disclosure of information to auditors

Each of the persons who are directors at the date of approval of this report confirm that

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Third-party indemnity provisions

The Company has purchased insurance to cover the Company's directors and officers against liabilities in relation to the Company.

E.ON E&P UK Limited

Directors' report for the year ended 31 December 2013 (continued)

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Subsequent events

The Directors have been provided with a letter of financial support from the parent company, E ON Exploration and Production GmbH

Approved by the Board of Directors
and signed on behalf of the Board

A handwritten signature in black ink, appearing to read 'F. Lerch', is written over a horizontal line.

F Lerch
Managing Director
10 March 2014

E.ON E&P UK Limited

Statement of directors' responsibilities

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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditors' report to the members of E.ON E&P UK Limited

Report on the financial statements

Our opinion

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

This opinion is to be read in the context of what we say below

What we have audited

The financial statements for the year ended 31 December 2013, which are prepared by E.ON E&P UK Limited, comprise

- the balance sheet as at 31 December 2013,
- the profit and loss account for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on matter prescribed by the Companies Act 2006

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

Independent auditors' report to the members of E.ON E&P UK Limited

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion

- we have not received all the information and explanations we require for our audit, or
- 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

We have no exceptions to report arising from this responsibility

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made

We have no exceptions to report arising from this responsibility

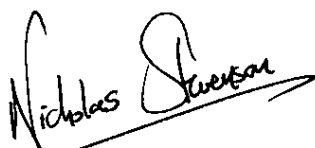
Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 7, 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 ISAs (UK & Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing



Nicholas Stevenson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 March 2014

E.ON E&P UK Limited

Profit and loss account for the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Turnover	2	166,379	94,398
Exceptional cost of sales. impairment of tangible assets	3, 11	(10,157)	-
Other cost of sales	3	(123,442)	(79,586)
		(133,599)	(79,586)
Gross profit		32,780	14,812
Exploration costs		(13,657)	(16,642)
Administrative expenses		(16,949)	(12,883)
Other operating income	7	2,869	2,647
Operating profit/(loss)	7	5,043	(12,066)
Interest receivable and similar income	5	1,759	2,187
Exceptional item amounts written off investments	4, 12	(67,625)	(64,195)
Interest payable and similar charges	6	(5,618)	(2,554)
Loss on ordinary activities before taxation		(66,441)	(76,628)
Tax on loss on ordinary activities	9	1,925	40,200
Loss for the financial year	19	(64,516)	(36,428)

There are no material differences between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents

There are no recognised gains and losses for the current or prior year other than the loss presented above
Accordingly a statement of total recognised gains and losses has not been presented

All of the activities of the Company are classed as continuing

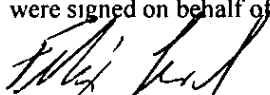
The notes on pages 12 to 27 form part of these financial statements

E.ON E&P UK Limited

Balance sheet as at 31 December 2013

	Note	2013 £000	2012 £000
Fixed assets			
Intangible assets	10	63,004	34,083
Tangible assets	11	347,579	302,579
Investments	12	87,482	155,107
		<u>498,065</u>	<u>491,769</u>
Current assets			
Stocks	13	3,667	197
Debtors – amounts falling due within one year	14	62,865	61,730
Debtors – amounts falling due after more than one year	14	115,440	119,297
Cash at bank and in hand		-	8,090
		<u>181,972</u>	<u>189,314</u>
Creditors: amounts falling due within one year	15	<u>(115,049)</u>	<u>(88,970)</u>
Net current assets		<u>66,923</u>	<u>100,344</u>
Total assets less current liabilities		564,988	592,113
Creditors: amounts falling due after more than one year	16	(46,204)	(39,204)
Deferred tax	17	(85,422)	(87,800)
Other provisions	17	(133,152)	(100,383)
Provisions for liabilities		<u>(218,574)</u>	<u>(188,183)</u>
Net assets		<u>300,210</u>	<u>364,726</u>
Capital and reserves			
Called-up share capital	18	211,000	211,000
Profit and loss account	19	89,210	153,726
Total shareholder's funds	19	<u>300,210</u>	<u>364,726</u>

These financial statements on pages 10 to 27 were approved by the Board of Directors on 10 March 2014 and were signed on behalf of the Board of Directors by



F Lerch
Managing Director

10 March 2014

E ON E&P UK Limited

Registration No 2761032

The notes on pages 12 to 27 form part of these financial statements

E.ON E&P UK Limited

Notes to the financial statements for the year ended 31 December 2013

1. Accounting policies

These financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006, applicable United Kingdom accounting standards and the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" (SORP)

These financial statements have been prepared on a going concern basis having regard to receipt of a letter of financial support from the parent company, E.ON Exploration & Production GmbH. The letter confirms that the parent will ensure that the Company will be in a position to meet its liabilities as they fall due for a period of not less than one year from 10 March 2014.

The principal accounting policies adopted are described below and have been applied consistently in the current and preceding periods.

a) Accounting for joint arrangements

The Company's exploration, development and production activities are conducted through joint arrangements that are not entities, with other companies. The financial statements reflect the Company's share of the income and expenditure, assets and liabilities and cash flows in the joint arrangements, measured pro-rata according to the Company's interest.

b) Turnover

Turnover reflects sales of oil and gas from production activities, and includes the sale of gas purchased for resale, exclusive of value added tax. Turnover is recorded when title passes to the customer. Turnover from the production of hydrocarbons in which the Company has an interest with other producers is recognised on the basis of the Company's working interest (entitlement method).

c) Other operating income

Other operating income reflects the recovery of administrative overheads and management charges from other E.ON SE group companies and the recovery of direct costs from other E.ON SE group companies.

d) Capitalisation of oil and gas expenditure

Exploration and appraisal costs are accounted for on the successful efforts basis. All costs relating to licence and data acquisition, geological and geophysical activity and exploration and appraisal drilling are initially capitalised as intangible oil and gas assets pending determination of the commercial potential of the relevant oil and gas properties.

If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are charged to the profit and loss account in the period in which that determination is made. If prospects are deemed to be commercially viable, such costs are transferred to tangible oil and gas assets.

Exploration costs which are not incurred under a specific licence are written off in the period in which they are incurred. Annual licence fees are capitalised as they are incurred.

e) Impairment

The carrying values of assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the value of assets is charged to the profit and loss account. Any impairment is determined by comparing the carrying value of the asset with its recoverable amount. The recoverable amount is the higher of the net realisable value or value in use. Value in use is calculated using the present value of future cash flows discounted at an appropriate rate.

Where there has been a change in economic or commercial conditions that indicates a possible impairment in a field, the recoverability of the net book value relating to that field, less any provision for decommissioning costs, is assessed by comparison with the

**Notes to the financial statements for the year ended 31 December 2013
(continued)**

1. Accounting policies (continued)

e) Impairment (continued)

estimated discounted future net cash flows based on expectations of future gas and oil prices and future costs. Any impairment identified is charged to the profit and loss account as additional depreciation.

Where conditions giving rise to an impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the profit and loss account.

f) Depreciation, depletion and amortisation

Tangible oil and gas producing assets are depleted by field on a unit-of-production basis, based on commercial reserves being proved and probable reserves, as defined in the SORP. Other fixed assets are depreciated on a straight-line basis over their estimated useful lives.

Office furniture, office equipment, computing equipment and related software are recorded at cost, and depreciated on a straight-line basis over two to three years.

Tenants improvements to the office premises are recorded at cost and are depreciated over the duration of the lease.

g) Investments

Investments are stated at cost less provision for any impairment.

h) Decommissioning

Provisions for decommissioning costs are recorded at the present value of the expenditures expected to be required to settle the Company's obligation, to the extent any damage has been caused to date and taking risks and uncertainties into account in reaching the best estimate of the provision. Provisions are reviewed at each balance sheet date to reflect the current best estimate of the cost at present value. A decommissioning asset is also established, since the future cost of decommissioning is regarded as part of the total investment to gain access to future economic benefits. The decommissioning asset is then depleted by field on a unit-of-production basis.

i) Taxation

UK corporation 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 recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

E.ON E&P UK Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

1. Accounting policies (continued)

j) Foreign currency

Transactions denominated in foreign currencies are recorded in pounds sterling at the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as a foreign exchange gain or loss in the profit and loss account.

k) Cash flow statement

In accordance with the terms of FRS 1 (Revised 1996) the Company has not prepared a cash flow statement as the Company is a wholly owned subsidiary of E.ON SE whose consolidated financial statements include those of the Company and are publicly available.

l) Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

m) Segment reporting

The Company's activities consist of one class of business – exploration, development and production of natural gas and crude oil from the North West European Continental Shelf.

n) Group financial statements

The Company is exempt from the requirement to prepare consolidated financial statements under the provisions of Section 400 of the Companies Act 2006. These financial statements present information about the Company as an individual undertaking and not about its group.

o) Stocks

Stocks consist of the Company's share of inventory (mainly spares) held in the joint arrangements that are not entities and is held at the lower of cost and net realisable value.

p) Related party disclosures

The Company is taking advantage of the exemption within FRS 8 "Related Party Disclosures" not to disclose transactions with other companies in the E.ON SE group, as the Company's results are included in the consolidated financial statements of E.ON SE, which are publicly available.

q) Pensions

Pension contributions to individual employees' defined contribution schemes administered independently of the Company are expensed as they become payable. The Company does not operate a defined benefit pension scheme.

The Company contributes to the E.ON E&P UK Limited GPP which is a defined contribution group pension plan for employees of the Company. Contributions are charged to the profit and loss account when they are payable.

r) Cash pooling

During the year the Company entered into an arrangement whereby any surplus in the Company's current accounts is transferred to E.ON UK Holding Company Limited at the end of each day. Additionally amounts are also drawn down by the Company under this arrangement for short term funding purposes. The balances on these accounts are included under "amounts owed by/to E.ON SE group companies".

E.ON E&P UK Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

1. Accounting policies (continued)

s) Commodity instruments

The Company uses various commodity based instruments to manage some of the risks arising from fluctuations in commodity prices. Such contracts include physical and cash settled forwards, futures, swaps and options.

Gains and losses relating to commodity derivatives are taken to the profit and loss account on the maturity or termination of the instrument.

t) Over/underlift

Lifting arrangements for oil produced in some of the operations of the Company are such that each party in the joint venture may not receive its precise share of the overall production during each period. The resulting imbalance between entitlement and production is "underlift" or "overlift". Underlift and overlift are valued at market value at the balance sheet date and included within debtors and creditors respectively.

2. Turnover

	2013 £000	2012 £000 Restated*
Gas sales – intercompany	50,490	26,858
Gas sales – third party	45,777	45,418
Crude oil (including liquefied gas) sales	63,220	16,753
Tariff income	6,892	5,369
	<u>166,379</u>	<u>94,398</u>

* Certain comparatives have been restated to conform with the current year presentation. See note 24.

3. Cost of sales

	2013 £000	2012 £000
Gas purchases	43,599	39,236
Field operating costs	44,048	29,380
Crude oil (underlift)/overlift	(2,661)	1,280
Depletion of tangible oil & gas and decommissioning assets (see note 11)	38,456	6,576
Impairment of tangible oil and gas and decommissioning assets	-	3,114
Exceptional cost of sales – impairment of tangible oil and gas and decommissioning assets (see note 11)	10,157	-
	<u>133,599</u>	<u>79,586</u>

The impairment of tangible oil and gas assets was determined based on the recoverable amounts of these assets using the net realisable value method over the expected life of the fields, comparing post tax discounted cash flows to book values. A post tax discount rate of 7.4% per annum was used for discounting purposes.

E.ON E&P UK Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

4. Exceptional item: amounts written off investments

During the year an amount of £67,625,000 (2012 £64,195,000) was written off the company's investment in E.ON E&P UK EU Limited. The amount written off was determined based on the recoverable amount of the investment. Where applicable, recoverable amounts were computed with reference to cash flow projections relating to (1) oil and gas assets, over the expected lives of the respective assets using a post-tax discount rate of 7.4%, and (2) derivative contracts, over a 2014 to 2018 period based on the underlying terms of the instruments.

The effect of the exceptional item reported after operating profit on the amounts charged to the profit and loss account for taxation was nil.

5. Interest receivable and similar income

	2013	2012
	£000	£000
Interest receivable from E.ON SE group companies	1,317	1,985
Interest receivable from third parties	36	12
Other interest receivable	406	190
	<u>1,759</u>	<u>2,187</u>

6. Interest payable and similar charges

	2013	2012
	£000	£000
Unwinding of discount on decommissioning provision (see note 17)	5,088	2,134
Other interest payable	530	420
	<u>5,618</u>	<u>2,554</u>

E.ON E&P UK Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

7. Operating profit/(loss)

Operating profit/(loss) is stated after charging / (crediting)

	2013 £000	2012 £000
Depreciation of tangible fixed assets (see note 11)	41,904	8,300
Operating leases		
- property rental expense	7,222	2,172
- property rental income	(93)	(93)
Other operating income	(2,869)	(2,647)
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	277	258
Fees payable to the Company's auditors for the audit of the annual financial statements of the Company's subsidiaries	174	163
Total audit fees	451	421
Other services – Finance training	10	-
Total non-audit fees	10	-
Total auditors' remuneration	461	421

Other operating income represents amounts recharged to other E.ON SE group companies

8. Staff costs

(a) Directors' emoluments

	2013 £000	2012 £000
Aggregate emoluments for qualifying service*	1,948	1,618
Social security costs	129	133
Highest paid director		
Aggregate emoluments for qualifying service**	562	488

*Aggregate emoluments include pension costs of £147,000 (2012 £94,000)

**Aggregate emoluments include pension costs of £31,000 (2012 £39,000)

(b) Cost of staff (including directors)

	2013 £000	2012 £000
Wages and salaries	14,732	10,196
Social security costs	1,743	1,300
Other pension costs	1,399	1,260
	17,874	12,756

E.ON E&P UK Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

8. Staff costs (continued)

The average number of persons employed by the Company during the year (including 5 directors (2012 4)) was

	2013	2012
Operations	42	25
Information management	6	4
Health, safety and environment	6	4
Human resources	6	8
Finance	30	28
Exploration and business development	24	20
	<u>114</u>	<u>89</u>

The Company contributes to a group pension plan for employees of the Company. During the current year the Company contributed £1,399,000 (2012: £1,260,000) to the plan. At 31 December 2013 there were no outstanding or prepaid contributions relating to the plan (2012: £nil). At 31 December 2013 there were 2 directors who were part of the group pension plan (2012: 1).

9. Tax on loss on ordinary activities

The tax (credit) is based on the results for the year and comprises

	2013 £000	2012 £000
UK corporation tax at 30% (2012: 30%) and supplementary charge at 32% (2012: 32%)		
Current tax on loss for the year	535	1,880
Exceptional item – adjustments in respect of previous years	-	(17,933)
Adjustments in respect of previous years	(82)	-
Total current tax	<u>453</u>	<u>(16,053)</u>
Deferred taxation		
Origination and reversal of timing differences	(2,369)	(13,262)
Impact of changes in tax rates	-	3,046
Adjustments in respect of previous years	(9)	-
Exceptional item – adjustments in respect of previous years	-	(13,931)
Total deferred tax	<u>(2,378)</u>	<u>(24,147)</u>
Total taxation (credit) on loss on ordinary activities	<u>(1,925)</u>	<u>(40,200)</u>

The credit for deferred taxation relates partially to timing differences on oil and gas assets (see note 17).

The adjustment in 2012 in respect of previous years for current tax of £17,933,000 arises primarily from the surrender of loss relief to the Company from another E.ON SE group company for nil consideration.

The adjustment in 2012 in respect of previous years for deferred tax of £13,931,000 arises primarily due to an adjustment to amounts eligible for capital allowances from previous years.

E.ON E&P UK Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

9. Tax on loss on ordinary activities (continued)

The main UK corporation tax rate at the end of the year was 23% (2012 24%) following a reduction of 1% which was effective from 1 April 2013. On 2 July 2013, legislation to reduce this rate to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015 was substantively enacted.

The differences between the total current tax shown earlier and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows

	2013 £000	2012 £000
Loss on ordinary activities before taxation	(66,441)	(76,628)
Tax credit on loss before tax at standard rate of 62% (2012 62%)	41,193	47,509
Effect on tax charge of		
Difference arising on non-North Sea profits taxed at 23 25% (2012 24 5%)	(58)	2,292
Expenditure not deductible for tax purposes	(1,759)	(1,665)
Amounts written off investments not deductible for tax purposes	(41,928)	(39,800)
Losses arising during the year carried forward	(21,765)	(45,481)
Depreciation, depletion and amortisation in excess of capital allowances	26,748	36,442
Provision for decommissioning	(3,155)	(1,323)
Interest imputed on intra group loans	189	146
Over provision in respect of previous years	82	17,933
Current tax (charge)/credit for the year	(453)	16,053

10. Intangible assets

	Exploration and appraisal costs £000
Cost	
At 1 January 2013	63,654
Additions	29,371
Licences relinquished	(450)
At 31 December 2013	92,575
Accumulated depreciation	
At 1 January 2013	29,571
At 31 December 2013	29,571
Net book amount	
At 31 December 2013	63,004
At 31 December 2012	34,083

Additions to exploration and appraisal costs mainly relate to work carried out on the P 079 (TR1), P 1330 (Tolmount), P 1823 (Austen), P 1626 (Corfe), P 1853 (Grouse) and P 1839 (Aileen) prospects.

During the year the licences relinquished were P 1851 (Bablar), P 1852 (Ardbeg) and P 1794.

E.ON E&P UK Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

11. Tangible assets

	Oil and gas assets £000	Decommis- sioning assets £000	Furniture, IT and office equipment £000	Total £000
Cost				
At 1 January 2013	451,523	87,293	6,810	545,626
Additions and revisions	54,613	35,598	6,993	97,204
Disposal of assets	-	-	(261)	(261)
At 31 December 2013	506,136	122,891	13,542	642,569
Accumulated depreciation				
At 1 January 2013	227,939	12,303	2,805	243,047
Charge for the year	29,243	9,213	3,448	41,904
Disposal of assets	-	-	(118)	(118)
Impairment of assets (see note 3)	5,300	4,857	-	10,157
At 31 December 2013	262,482	26,373	6,135	294,990
Net book amount				
At 31 December 2013	243,654	96,518	7,407	347,579
At 31 December 2012	223,584	74,990	4,005	302,579

Additions to producing oil and gas assets mainly relate to costs incurred on the Elgin/Franklin, Huntington, Rita and Orca projects

Decommissioning assets have been recognised in accordance with the accounting policy described in note 1. Decommissioning asset revisions represent the changes in the expected cost of decommissioning associated with Elgin/Franklin, Glenelg, Merganser, Huntington, Hunter, Rita, Minke and Orca.

During the year costs capitalised of £10,157,000 in relation to Orca, Caister, Hunter, Minke and Huntington were impaired as the recoverable amount was estimated to be less than the carrying amount. In 2012 an impairment charge of £3,114,000 was recognised against the carrying value of tangible assets.

E.ON E&P UK Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

12. Investments

	E.ON E&P UK EU Limited	E.ON E&P UK Energy Trading Limited	Total
	£000	£000	£000
At 1 January 2013	67,625	87,482	155,107
Impairment of investments (see note 4)	(67,625)	-	(67,625)
At 31 December 2013	-	87,482	87,482

The companies listed below were all subsidiary undertakings as at 31 December 2013 and 31 December 2012

The directors believe that the carrying value of the investments is supported by the value of their underlying net assets

	Country of incorporation and operation	Principal activity	Company holding and share of net assets
E ON E&P UK Energy Trading Limited	England	Natural gas trading	100%
E ON E&P UK EU Limited	England	Natural gas exploration, development and production	100%

Shares in all subsidiaries are held directly by the Company

13. Stocks

	2013 £000	2012 £000
Raw materials and consumables	3,667	197

E.ON E&P UK Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

14. Debtors

	2013 £000	2012 £000 Restated*
Amounts falling due within one year		
Trade debtors	18,612	13,413
Amounts owed by E ON SE group companies	29,319	13,438
Loans and interest owed by E ON SE group companies	-	464
Other debtors	8,363	4,341
Prepayments and accrued income	6,571	13,642
Corporation tax receivable	-	16,432
	<u>62,865</u>	<u>61,730</u>
Amounts falling due after more than one year		
Loans and interest owed by E ON SE group companies	<u>115,440</u>	<u>119,297</u>

* Certain comparatives have been restated to conform with the current year presentation See note 24

Amounts owed by E ON SE group companies are unsecured, interest free and repayable on demand

The Company was owed a loan £464,000 from E ON E&P UK EU Limited at 31 December 2012 This loan was unsecured, repayable on demand and bore no interest This loan was settled during the year

The Company provides a credit facility to E ON E&P UK EU Limited up to a limit of £200,000,000 (2012 £200,000,000) At 31 December 2013 £115,440,000, excluding interest (2012 £119,297,000, excluding interest) had been drawn down The balance is unsecured, has a repayment date of 31 December 2015 and bears interest at LIBOR plus 0.2% per annum

15. Creditors: amounts falling due within one year

	2013 £000	2012 £000 Restated*
Amounts falling due within one year		
Trade creditors	24	5,661
Amounts owed to E ON SE group companies	75,034	17,973
Loans and interest owed to E ON SE group companies	-	23,139
Other creditors	5,434	15,768
Accruals and deferred income	30,020	19,231
Crude oil overlift	4,537	7,198
	<u>115,049</u>	<u>88,970</u>

* Certain comparatives have been restated to conform with the current year presentation See note 24

Amounts owed to E ON SE group companies are unsecured, interest free and repayable on demand

On 31 December 2012 a loan of £17,310,000 and interest of £5,829,000 was owed to E ON E&P UK EU Limited On 16 July 2013, these amounts were repaid in full by the Company The loan was unsecured, repayable on demand and subject to interest at 6 month LIBOR plus 1% per annum

E.ON E&P UK Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

16. Creditors: amounts falling due after more than one year

	2013 £000	2012 £000
Amounts falling due after more than one year		
Loans and interest owed to E ON SE group companies	46,204	39,204

An unsecured credit facility which bears no interest is provided by E ON E&P UK Energy Trading Limited, to the Company and E ON E&P UK EU Limited up to the value of £110,000,000 (2012 £110,000,000) During the year the repayment date of this facility was extended from 8 February 2013 to 8 February 2016 At 31 December 2013, the Company owed E ON E&P UK Energy Trading Limited £46,204,000 (2012 £39,204,000) against this facility

17. Provisions for liabilities and charges

	Decommissioning costs £000	Deferred taxation £000	Total £000
At 1 January 2013	100,383	87,800	188,183
Credit to the profit and loss account (see note 9)	-	(2,378)	(2,378)
Increase in respect of the year	35,598	-	35,598
Utilisation of decommissioning provision	(7,917)	-	(7,917)
Unwinding of discount charged to profit and loss account (see note 6)	5,088	-	5,088
At 31 December 2013	133,152	85,422	218,574

Deferred taxation

The movement on the deferred taxation balance is as follows

	2013 £000	2012 £000
Balance at 1 January	87,800	111,947
Origination and reversal of timing differences (see note 9)	(2,369)	(13,262)
Impact of changes in tax rates (see note 9)	-	3,046
Adjustments in respect of previous years (see note 9)	(9)	-
Exceptional item adjustments in respect of previous years (see note 9)	-	(13,931)
Balance at 31 December	85,422	87,800

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods when timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date

E.ON E&P UK Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

17. Provisions for liabilities and charges (continued)

The full potential liability for deferred taxation is as follows

	2013 £000	2012 £000
Capital allowances in excess of depreciation	172,480	141,679
Trade losses	(74,561)	(47,871)
Timing differences in respect of decommissioning	(18,317)	(12,697)
Held-over capital gains	5,820	6,689
Total	85,422	87,800

The full potential (asset)/liability has been calculated at 62% (2012 62%), being the effective tax rate that is expected to apply when these timing differences reverse, other than, (i) the held-over gains where the rates that are expected to apply when those gains become chargeable in 2014 and 2018 are 21.5% and 20% respectively (2012 23%), and (ii) the decommissioning provision where relief is expected to be restricted to an effective rate of 50% (2012 50%)

Recognition of a deferred tax asset is dependent upon future taxable profits arising. The directors are satisfied that expected future taxable profits support recognition of the deferred tax asset associated with trade losses and decommissioning costs.

Provision for decommissioning costs

The movement in the decommissioning costs balance is as follows

	2013 £000	2012 £000
At 1 January	100,383	43,880
Increase in respect of the year	35,598	54,369
Utilisation of decommissioning provision	(7,917)	-
Unwinding of discount charged to profit and loss account (see note 6)	5,088	2,134
At 31 December	133,152	100,383

The provision for decommissioning costs has been recognised at the present value of the Company's year-end obligation for expected decommissioning costs. The provision has been estimated based on the operators' expectations of the decommissioning costs and of the period when those costs are to be incurred.

The increase in decommissioning provision of £35,598,000 (2012 £54,369,000) mainly relates to an increase in the estimated future cost of decommissioning for Elgin/Franklin, Glenelg, Merganser, Huntington, Hunter, Rita, Minke and Orca.

E.ON E&P UK Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

18. Called-up share capital

	2013 £000	2012 £000
Authorised:		
21,100 (2012 21,100) ordinary shares of £10,000 each	211,000	211,000
Called-up, allotted, issued and fully paid:		
21,100 (2012 21,100) ordinary shares of £10,000 each	211,000	211,000

19. Reconciliation of movements in reserves and shareholder's funds

	Called-up share capital £000	Profit and loss account £000	Total £000
At 1 January 2012	211,000	190,154	401,154
Loss for the financial year	-	(36,428)	(36,428)
At 1 January 2013	211,000	153,726	364,726
Loss for the financial year	-	(64,516)	(64,516)
At 31 December 2013	211,000	89,210	300,210

20. Financial commitments

As at 31 December 2013, the Company had budgeted commitments for future capital expenditure totalling approximately £19,800,000 (2012 £28,200,000) in relation to long lead items for exploration wells and ongoing projects

Annual commitments under non-cancellable operating leases are as follows

	2013 £000	2012 £000 Restated*
Expiry date		
Within one year	83	-
Within two to five years	13,669	362
After five years	364	12,271
	14,116	12,633

The Company holds contracts for the fourth and sixth to eighth floors of 129 Wilton Road in London which will continue until August 2018. During the year the Company signed a new lease for the fifth floor of 129 Wilton Road in London which became effective from 4 January 2013 and will continue until June 2019.

E.ON E&P UK Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

20. Financial commitments (continued)

The Company also holds a contract for the first floor of South Union Plaza in Aberdeen which will continue until 2016

The Company has a contract on the ground floor of Four Millbank in London for which it acts as both lessee and lessor and which will continue until June 2014. Rentals receivable in the period in respect of operating leases amount to £93,000 (2012: £93,000)

The Company is a lessee under the Huntington project for a Floating, Production, Storage and Offloading (FPSO) vessel. The lease term commenced in 2013 and will continue for 5 years until 2018.

21. Ultimate parent company

The ultimate parent company and controlling party as at 31 December 2013 was E.ON SE, a company incorporated in Germany.

The immediate parent company and controlling party as at 31 December 2013 was E.ON Exploration and Production GmbH, a company incorporated in Germany.

The smallest and largest group in which the results of the Company are consolidated is that headed by E.ON SE, whose principal place of business is in Germany. The consolidated financial statements of E.ON SE are available to the public and may be obtained from E.ON-Platz 1, D-40479 Düsseldorf, Germany.

22. Contingent liabilities

The Company had no contingent liabilities as at 31 December 2013 (2012: £nil).

23. Subsequent events

The Directors were provided with a letter of financial support from the parent company, E.ON Exploration & Production GmbH.

24. Restated 2012 comparative balances

Certain comparative balances within the notes to the financial statements have been restated to conform with the current year presentation. The changes are as detailed below.

	2012 Original £000	Adjustment £000	2012 Restated £000
Turnover			
Gas sales – third party	50,127	(4,709)	45,418
Crude oil (including liquefied gas) sales*	12,044	4,709	16,753

*Crude oil sales per the original financial statements for the year ended 31 December 2012

E.ON E&P UK Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

24. Restated 2012 comparative balances (continued)

	2012 Original £000	Adjustment £000	2012 Restated £000
Debtors			
Other debtors*	17,983	(13,642)	4,341
Prepayments and accrued income	-	13,642	13,642

*Other debtors and prepayments per the original financial statements for the year ended 31 December 2012

	2012 Original £000	Adjustment £000	2012 Restated £000
Creditors: amounts falling due within one year			
Other creditors*	34,999	(19,231)	15,768
Accruals and deferred income	-	19,231	19,231

*Other creditors and accruals per the original financial statements for the year ended 31 December 2012

	2012 Original £000	Adjustment £000	2012 Restated £000
Financial commitments*			
After 5 years	42,626	(30,355)	12,271

*Prior year comparatives have been restated to ensure consistency with the current year presentation

E.ON E&P UK Limited

Statement of reserves (unaudited)

Net Commercial Oil and Gas Reserve Quantities for the year ended 31 December 2013

	Oil MMbbl	Gas Mm3	Total MMboe
Net commercial reserves, beginning of year			
- commercial developed reserves	7.3	2,205	21.0
- commercial undeveloped reserves	10.3	1,120	17.7
	<u>17.6</u>	<u>3,325</u>	<u>38.7</u>
Changes during the year			
- revisions of previous estimates	(0.4)	253	1.4
- production	(1.1)	(198)	(2.4)
	<u>(1.5)</u>	<u>55</u>	<u>(1.0)</u>
Net commercial reserves, end of year			
- commercial developed reserves	10.8	2,045	23.8
- commercial undeveloped reserves	5.3	1,335	13.9
	<u>16.1</u>	<u>3,380</u>	<u>37.7</u>

Notes

MMbbl millions of barrels

Mm3 millions of cubic metres

MMboe millions of barrels of oil equivalent

Commercial reserves are proved and probable reserves as defined in the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities"

