

**Registered number: 792712**

## **CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED**

**Annual report and financial statements  
for the year ended 31 December 2012**

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# **CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS 2012**

### **Board of directors:**

D E Chenier  
A D Hastings  
N D Allen  
M D Wright

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### **Directors' report**

The directors present their annual report on the affairs of the company, together with the financial statements and auditor's report, for the year ended 31 December 2012

### **Principal activities**

The company is a wholly owned subsidiary of ConocoPhillips Holdings Limited. The company's ultimate parent company is ConocoPhillips, an international, integrated energy company listed on the New York Stock Exchange.

On 4 April 2012, ConocoPhillips' board of directors gave its final approval for the repositioning of ConocoPhillips that resulted in two leading, independent energy companies, ConocoPhillips and Phillips 66. The company separation received the necessary approvals from the regulators. Following the announcement there were a number of preparatory steps undertaken to facilitate the separation of the company before 1 May 2012 ("Day One"). As at 1 May 2012, the principal activities of ConocoPhillips Petroleum Company U K Limited were aligned to ConocoPhillips.

The principal activities of the company comprise the exploration for, and the development and production of crude oil and natural gas resources in the United Kingdom and on the United Kingdom continental shelf, and the processing and marketing of hydrocarbon products.

The directors are not aware, at the date of this report, of any likely major changes in the company's principal activities in the next year.

### **Business review**

The company has traded profitably during the year and it is the intention that the principal activities of the company will continue for the foreseeable future.

The profit for the year was £66.2 million (2011: £96.3 million). The company paid an ordinary dividend of £140.0 million (2011: £30.0 million) and a preference dividend of £1.8 million (2011: £1.8 million). The resulting deficit was transferred to distributable reserves.

The company's balance sheet, on page 9, of the financial statements, shows the company has net assets of £244.9 million (2011: £318.6 million). The movements on the company's reserves comprise the profit for the year and the payment of ordinary dividends.

The company has many performance indicators in place measuring Health, Safety and Environment to ensure that it continues to build on a legacy of strong commitment and performance. Safety of personnel, coupled with a responsible pro-active approach to managing the environment is core to the company's business. The ultimate financial impact arising from environmental policies, laws and regulations is difficult to determine as current and new standards continue to evolve.

## **CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED**

### **Directors' report (continued)**

#### **Business review (continued)**

Under s417 of the Companies Act 2006, the directors are required to disclose the company's financial and non financial Key Performance Indicators. ConocoPhillips manages its operations at a segmental and geographical level. For this reason the company's directors believe that the disclosure of Key Performance Indicators for this company is not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the ConocoPhillips group, which includes this company, is discussed within the annual report of the ultimate parent undertaking, ConocoPhillips.

There were no significant events arising after the balance sheet date.

#### **Principal risks and uncertainties**

The principal risks and uncertainties facing the company are those that impact profitability. The company operates in the worldwide crude oil and natural gas markets, and as such, is exposed to fluctuations in crude oil and gas prices. Generally, the ConocoPhillips' group policy is to remain exposed to market prices of commodities, however, executive management may elect to use derivative instruments to hedge the price risk of natural gas and crude oil production.

Another significant factor that can affect profitability is asset impairment. The company's investment in fixed assets can become impaired when reserve estimates are revised downward or when commodity prices decline significantly for long periods of time. Following an impairment review management do not believe there is any impairment in the asset value.

The risks and uncertainties facing the ConocoPhillips group, which includes this company, are discussed within the annual report of the ultimate parent undertaking, ConocoPhillips.

#### **Financial risk management objectives and policies**

##### *Commodity price risk*

The company operates in the worldwide crude oil and natural gas markets, and is exposed to fluctuations in the prices for these commodities. Generally, the ConocoPhillips group policy is to remain exposed to market prices of commodities, however, executive management may elect to use derivative instruments to hedge the price risk of crude oil and gas production.

The group's commercial organisation uses futures, forwards, swaps and options in various markets to accomplish the following objectives:

- Balance physical systems. In addition to cash settlement prior to contract expiration, exchange traded futures contracts may also be settled by physical delivery of the commodity, providing another source of supply to meet marketing demand,
- Manage the risk to the company's cash flows from price exposures on specific crude oil and natural gas transactions,
- Enable the use of market knowledge gained from these activities to do a limited amount of trading not directly related to the company's physical business. For the years ended 31 December 2012 and 2011, the gains and losses from this activity were not material to the company's cash flows or income from continuing operations.

Until 5 April 2012, the company engaged the services of an affiliate company, ConocoPhillips Limited, to enter into risk management transactions on its behalf. The affiliate company's commercial organisation used futures and swaps in various markets to manage the risk to cash flows from price exposures on specific crude oil transactions. Following the repositioning of ConocoPhillips, the company no longer engages in the services of ConocoPhillips Limited to enter risk management transactions. From 1 May 2012, the group policy is to remain exposed to market prices.

## **CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED**

### **Directors' report (continued)**

#### **Financial risk management objectives and policies (continued)**

##### *Interest Rate Risk*

The company may be exposed to interest rate risk resulting from the company's loan and banking arrangements. The interest charged on the company's loans is linked to LIBOR and therefore is exposed to movements in UK rates. The company does not comprehensively hedge its exposure to interest rate changes although the company may selectively hedge exposure to interest rate risk.

##### *Foreign Currency Risk*

The company may be exposed to foreign currency exchange rate risk resulting from entering into certain transactions denominated in currencies other than GBP Sterling. The company does not comprehensively hedge its exposure to currency rate changes, although the company may selectively hedge exposures to foreign currency rate risk.

#### **Going concern**

There are no material uncertainties relating to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern.

The company's business activities, together with the factors likely to affect its future development, its financial position and its exposure to price and interest rate risk are described within this Directors' Report.

The company's assets are expected to generate positive cash flows for the foreseeable future. The company has significant financial resources and together with financial forecasts and production budgets the directors believe that the company is well placed to manage its business and financial risks for the foreseeable future. The company participates in the group's centralised cash pooling arrangements and so shares banking arrangements with other ConocoPhillips affiliates. The liquidity of the cash pool is underwritten by ConocoPhillips Company.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

#### **Dividends**

The company paid dividends to ordinary shareholders during the year of £140.0 million (2011: £30.0 million).

The dividends on the 5.75% redeemable preference shares, amounting to £1.8 million (2011: £1.8 million), were paid throughout the year.

The directors did not recommend a final dividend for the year ended 31 December 2012.

On 30 August 2013, the company paid dividends to ordinary shareholders of £62.0 million.

# CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

## Directors' report (continued)

### Directors

The directors, who served throughout the year except as noted, were as follows

P C Warwick (resigned 30 April 2012)  
R H Anderson (resigned 13 May 2013)  
D E Chenier  
A D Hastings  
C W Conway (resigned 30 April 2012)  
N D Allen (appointed 01 May 2012)  
M D Wright (appointed 13 May 2013)

### Auditors

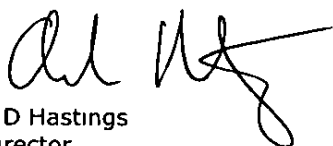
Each of the persons who is a director at the date of approval of this report confirms that

- 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 steps that they ought to have taken as a director in order to make themselves 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

Pursuant to s386 of the Companies Act 1985 and continuing under the 2006 Companies Act, an elective resolution was passed dispensing with the requirement to appoint auditors annually. This election was in force immediately before 1 October 2007, therefore Ernst & Young LLP are deemed to continue as auditors

Approved by the Board and signed on its behalf by



A D Hastings  
Director

23 September 2013

Registered office  
Portman House  
2 Portman Street  
London  
W1H 6DU

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## **CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED**

### **Statement of directors' responsibilities**

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

Company law requires the directors to prepare the financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the 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 judgments 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 taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED**

We have audited the financial statements of ConocoPhillips Petroleum Company U K Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Accounting Policies and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 auditors**

As explained more fully in the Directors' Responsibilities Statement, set out on page 5, 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 and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on the 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 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

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

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED (continued)**

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

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

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

*Ernst & Young LLP*

Moirra Ann Lawrence  
Senior Statutory Auditor  
For and on behalf of Ernst & Young LLP  
Statutory Auditor  
Aberdeen

23 September 2013



## CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

### Profit and loss account

For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Turnover	1	2,541,907	1,570,626
Cost of sales		<u>(2,271,721)</u>	<u>(1,237,603)</u>
<b>Operating profit</b>	2	270,186	333,023
Amounts written off - due to group undertakings	4	184	-
Income from shares in associated undertaking		<u>5,445</u>	<u>4,950</u>
<b>Profit on ordinary activities before interest and taxation</b>		275,815	337,973
Interest receivable and similar income	6	979	1,166
Interest payable and similar charges	7	<u>(11,404)</u>	<u>(12,711)</u>
<b>Profit on ordinary activities before taxation</b>		265,390	326,428
Tax on profit on ordinary activities	8	<u>(199,160)</u>	<u>(230,094)</u>
<b>Profit for the financial year</b>	19	<u>66,230</u>	<u>96,334</u>

All recognised gains and losses are included in the profit and loss account and all activities related to continuing operations

**CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED**

Registered number: 792712

**Balance sheet**

At 31 December 2012

	Note	2012 £'000	2011 £'000
<b>Fixed Assets</b>			
Intangible assets	11	2,652	15
Tangible assets	12	1,007,581	651,458
Investments	13	<u>32,034</u>	<u>32,034</u>
		1,042,267	683,507
<b>Current Assets</b>			
Stocks	14	22,313	17,351
Debtors	15	546,622	482,674
Cash at bank and in hand		<u>101,243</u>	<u>206,090</u>
		670,178	706,115
<b>Creditors – amounts falling due within one year</b>	16	(547,769)	(410,529)
<b>Provisions for liabilities</b>	17	<u>(21,601)</u>	<u>(4,004)</u>
Net current assets		<u>100,808</u>	<u>291,582</u>
<b>Total assets less current liabilities</b>		1,143,075	975,089
<b>Creditors – amounts falling due after one year</b>	16	(145,792)	(145,792)
<b>Provisions for liabilities</b>	17	<u>(752,406)</u>	<u>(510,650)</u>
<b>Net assets</b>		<u>244,877</u>	<u>318,647</u>
<b>Capital and reserves</b>			
Called up share capital	18	57	57
Share premium	19	28,517	28,517
Capital contribution	19	585	585
Profit and loss account	19	<u>215,718</u>	<u>289,488</u>
<b>Shareholder's funds</b>	20	<u>244,877</u>	<u>318,647</u>

The financial statements were approved by the Board of Directors and authorised for issue on 23 September 2013 and signed on its behalf by



A D Hastings  
Director

23 September 2013

## **CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED**

### **Statement of accounting policies**

For the year ended 31 December 2012

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

#### **Basis of preparation**

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and the Statement of Recommended Practice "Accounting for oil and gas exploration, development, production and decommissioning activities" ("the SORP"), except for certain provisions of the SORP as detailed below.

The financial statements have been prepared in accordance with the provisions of the SORP currently in effect, except in respect of the valuation of crude oil overlifts/underlifts, the depreciation policy for production and development costs and the disclosure of reserves. The SORP recommends that crude oil overlifts/underlifts should be valued at market value, whereas the company values its stock of crude oil overlifts/underlifts at the lower of production cost, calculated on an average basis, and net realisable value. This is consistent with corporate policy and the company believes it is appropriate to recognise profit at the point of sale. The SORP recommends that the cost element of the unit of production amortisation calculation for well costs should be the costs incurred to date together with the estimated future development costs of obtaining access to all the reserves included in the unit of production calculation. The company believes that using estimated future development costs to compute amortisation rates can introduce a subjective element into the financial accounting and reporting process and therefore, consistent with corporate policy, only costs incurred to date are amortised on the basis of proved developed reserves (future capital expenditure and proved undeveloped reserves are excluded from the calculation). The company has not made reserves disclosures on the basis that these are commercially sensitive. Reserve disclosures are made in the financial statements of the company's ultimate parent company, ConocoPhillips, for the ConocoPhillips group worldwide.

In accordance with FRS1 (5) (revised) "Cash flow statements" the company has taken advantage of the 90% owned subsidiary exemption and not presented a cash flow statement. The company's cash flows are included in the cash flow statement prepared by its ultimate parent company, ConocoPhillips.

#### **Basis of consolidation**

The company is exempt from preparing consolidated financial statements by virtue of section 400 of the Companies Act 2006.

#### **Intangible assets**

Costs incurred to acquire a property (whether proved or unproved) are capitalised as intangible when incurred. Unproved properties are assessed periodically and a loss is recognised if the values of these properties are impaired. Costs of drilling and exploratory wells are capitalised as intangible pending determination of whether the well has found proved reserves. If the well has found proved reserves, the costs are transferred to tangible assets and included in oil and gas facilities. If the well is found to have no proved reserves, the costs associated with the well are written off through the profit and loss account.

#### **Tangible fixed assets**

All capitalised costs including license and concession costs associated with developed properties are considered to be tangible costs for the purpose of these financial statements. Such costs are amortised on a unit-of-production basis which is calculated to write off the book value of each field in line with the depletion of total proved reserves, or proved developed reserves for well costs. Where tangible fixed assets comprise two or more major components with substantially different useful economic lives, each component is accounted for separately for depreciation purposes and depreciated over its individual useful economic life.

Other tangible assets, excluding freehold land, are depreciated at rates between 10% to 33 1/3%, which are calculated to write off their cost by equal annual instalments over their estimated useful lives.

## **CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED**

### **Statement of accounting policies (continued)**

For the year ended 31 December 2012

#### **Impairment of fixed assets**

Fixed assets used in operations are assessed for impairment whenever changes in facts and circumstances indicate a possible significant deterioration in the future cash flows expected to be generated. Where the sum of the discounted pre-tax cash flows is less than the carrying value of the asset, the carrying value is written down to estimated fair value. Assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other assets.

The fair value of impaired assets is determined based on the present values of expected future cash flows using discount rates. The discount rates used equate to the rate of return that the market would generally expect from equally risky investments.

The expected future cash flows used for impairment reviews are based on estimated future production volumes, prices and costs, considering all available evidence at the date of review.

#### **Investments**

Fixed asset investments are stated at cost less provisions for diminution in value.

Investments are assessed for impairment whenever changes in the facts and circumstances indicate a loss in value has occurred.

#### **Stocks**

Under or overlift of production compared to the company's entitlement is stated at the lower of production cost, calculated on an average basis, and net realisable value and the amounts are reflected in current assets or current liabilities respectively. Other stocks, including warehouse stock, are valued at average cost.

#### **Taxation**

Current taxation, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and law 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 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 to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless, by the balance sheet date, there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average 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 is measured on an undiscounted basis.

## CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

### Statement of accounting policies (continued)

For the year ended 31 December 2012

#### Petroleum revenue tax

The charge for petroleum revenue tax (PRT) forms part of the taxation charge in the profit and loss account. It is calculated on a period-by-period basis with reference to the operating income of chargeable fields, PRT allowances utilised and timing differences arising in the period.

#### Decommissioning

Provision for the future cost of decommissioning oil and natural gas production related facilities is recognised in full in the period in which the legal obligation is incurred. When the liability is initially recorded, this cost is capitalised by increasing the carrying value of the related tangible fixed assets.

The amount recognised is the present value of the estimated future expenditure determined in accordance with statutory conditions and requirements. The provision increases as the discount factors applied in calculating the present value of estimated future expenditure unwind. The unwinding of the discount is included within interest payable in the profit and loss account. The capitalised cost is depreciated as part of the overall capital costs of the related assets.

#### Revenue recognition

Revenues associated with the production of crude oil and natural gas properties are recognised based on the actual volumes sold during any period. Volumes sold are recognised when title passes to the customer, which is when the risk of ownership passes to the purchaser and physical delivery occurs, either immediately or within a fixed delivery schedule that is reasonable and customary in the industry.

#### Oil/gas field expenditure

Expenditure on acquiring unproved properties and exploring for and developing oil/gas reserves is, in general, capitalised and amortised over the life of the field on a unit-of-production basis. Only those costs that are directly attributable to bringing the relevant assets into working condition for their intended use are capitalised. Subsequent expenditure is capitalised where such expenditure -

- (i) Enhances the economic benefits of the asset in excess of its previously assessed standard of performance or
- (ii) Replaces or restores a component of the asset that has been treated separately for depreciation purposes and depreciated over its individual useful economic life or
- (iii) Relates to a major inspection or overhaul that restores the economic benefits of the asset that have been consumed by the entity and have already been reflected in depreciation.

Immediate write-offs are made in the following circumstances

- (i) Geological and geophysical expenses as incurred
- (ii) Expenditure on unproved properties to the extent that the value is considered to have been impaired by the absence of successful drilling results
- (iii) Costs of those exploratory wells which have been determined as being dry holes
- (iv) Subsequent expenditure undertaken to ensure that the asset maintains its previously assessed standard of performance, for example routine repairs and maintenance expenditure

Receipts and payments in respect of unitisations and redeterminations are credited or charged to the respective fixed asset accounts when the new partner shares have been formally agreed.

#### Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

## **CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED**

### **Statement of accounting policies (continued)**

For the year ended 31 December 2012

#### **Operating leases**

Rentals paid under operating leases are charged to the profit and loss account in the period in which they arise

#### **Derivative instruments**

Until 5 April 2012, the company, through arrangements with an affiliate company, ConocoPhillips Limited, used derivative instruments to hedge the effects of fluctuations in the price of crude oil. Any gains or losses arising from commodity derivative contracts are recognised in the profit and loss account in line with the underlying sales transaction. Following the repositioning of ConocoPhillips, the company no longer engages in the services of ConocoPhillips Limited to enter risk management transactions. From 1 May 2012, the group policy is to remain exposed to market prices.

#### **Share based payments**

The company has applied the requirements of FRS20 "Share based payments". FRS20 requires that the entity receiving the benefit of service should recognise an expense relating to share based payments irrespective of the entity holds the employees contract of service. All contracts of service are held within other group undertakings.

All UK employees are eligible to participate in the Share Incentive Plan. The shares purchased by the employees are eligible for matching. In accordance with FRS20, the company records an expense of obtaining the matching shares to satisfy the terms of the Partnership Share Agreement for employees who provide services to the company.

Certain eligible UK employees are awarded Restricted Stock Units as part of the Restricted Stock Programme granted by ConocoPhillips. The awards are held in escrow until the restrictions lapse. The company records the expense of obtaining the shares to satisfy its obligations to the employees who provide services to this company. A liability equal to the cost of obtaining the shares to satisfy the company's obligations to its employees is recognised for each cash-settled share based payment.

#### **Related party transactions**

In accordance with FRS 8(3) "Related party disclosures" the company has taken advantage of the exemption not to disclose related party transactions with other wholly-owned members of the group.

# CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

## Notes to the financial statements

For the year ended 31 December 2012

### 1. Turnover

Turnover represents the sales amounts derived from the company's production of oil and gas during the year, crude trading and tariff income on a receivable basis, stated net of value added tax. No significant difference arises between the company's share of production and its sales entitlement based on equity ownership of its interests.

Turnover and operating profit are principally attributable to the production and trading of hydrocarbons in Europe. An analysis of turnover is given below. No further segmental analysis of operating profit is provided as the directors believe that this could be seriously prejudicial to the best interests of the company.

	2012 £'000	2011 £'000
Exploration and production activities	383,771	455,654
Crude trading	2,151,071	1,111,637
Other income	7,065	3,335
	<u>2,541,907</u>	<u>1,570,626</u>

### 2. Operating profit

Operating profit is stated after charging

	2012 £'000	2011 £'000
Depreciation and amortisation		
- owned assets	51,717	60,023
- impairment charge	-	11,023

Following an impairment review of the company's assets, an impairment charge of £nil has been recognised (2011: £11.0 million). The future cashflows were discounted at a pre-tax discount rate based on a post-tax discount rate of 10%.

### 3. Information regarding directors' and employees

#### (a) Directors' emoluments

	2012 £'000	2011 £'000
Aggregate emoluments for qualifying services	<u>173</u>	<u>743</u>

At 31 December 2012, 4 directors were accruing benefits under a defined benefit pension scheme (2011: 5).

During the year, 2 directors exercised share options with respect to the shares of the ultimate parent company (2011: 2).

# CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

## Notes to the financial statements (continued)

For the year ended 31 December 2012

### 3. Information regarding directors' and employees (continued)

#### Emoluments of the highest paid director

	2012 £'000	2011 £'000
Aggregate emoluments	173	743
Accrued pension at the end of the year	<u>6</u>	<u>21</u>

#### a. Employees

The company had no employees in the current or preceding year. All contracts of employment are held with another group company.

### 4. Amounts written off – due to group undertakings

	2012 £'000	2011 £'000
Write off Amounts due to group undertakings	<u>184</u>	<u>-</u>

On 26 March 2012, the company was released from its obligation to repay its outstanding loan balance of £0.2 million due to fellow subsidiary, ConocoPhillips Oil Trading Limited.

### 5. Auditors' remuneration

	2012 £'000	2011 £'000
Fees payable to the company's auditors for the audit of the company's annual accounts	<u>90</u>	<u>90</u>

Fees paid to the company's auditor, Ernst & Young LLP, for services other than the statutory audit of the company are not disclosed within this company's accounts because the consolidated accounts of the company are required to disclose non-audit fees on a consolidated basis.

The auditors' remuneration is borne by another group company.

### 6. Interest receivable and similar income

	2012 £'000	2011 £'000
Bank interest	162	489
Interest received from group companies	330	258
Other interest	<u>487</u>	<u>419</u>
	<u>979</u>	<u>1,166</u>



# CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

## Notes to the financial statements (continued)

For the year ended 31 December 2012

### 7. Interest payable and similar charges

	2012 £'000	2011 £'000
Bank loans and overdrafts	6	57
Interest paid to group companies	2,218	2,183
Unwinding of discount (Note 17)	7,315	8,636
Other interest	71	14
Dividends paid on preference shares	1,794	1,821
	<u>11,404</u>	<u>12,711</u>

### 8. Tax on profit on ordinary activities

	2012 £'000	2011 £'000
Current tax		
UK corporation tax at 24.5% and 62% (2011: 26.5% and 59.3%)	(45,943)	1,019
Adjustments in respect of prior periods	3,355	(13,358)
UK petroleum revenue tax at 50% (2011: 50%)	34,434	69,063
Total current tax	<u>(8,154)</u>	<u>56,724</u>
Deferred tax		
Origination and reversal of timing differences	209,145	175,301
Petroleum revenue tax at 50% (2011: 50%)	(1,831)	(1,931)
Total deferred tax	<u>207,314</u>	<u>173,370</u>
Taxation on profit on ordinary activities	<u>199,160</u>	<u>230,094</u>

The following table provides a reconciliation of the UK statutory corporation tax rate to the effective current tax rate of the company on its profit before taxation

#### Factors affecting current tax (credit)/charge

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation	265,390	326,428
Current tax (credit)/charge	(8,154)	56,724
Effective rate of current tax	<u>(3.1%)</u>	<u>17.4%</u>

# CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

## Notes to the financial statements (continued)

For the year ended 31 December 2012

### 8. Tax on profit on ordinary activities (continued)

	% profit before tax	
UK corporation tax rate	24.5%	26.5%
Increase/(decrease) resulting from		
UK ring fence corporation tax and supplementary charge	37.2%	32.4%
Timing differences	(71.0%)	(46.4%)
Adjustments in respect of prior periods	2.2%	(5.8%)
Permanent differences	0.1%	0.4%
Group relief	(1.1%)	1.7%
Petroleum revenue tax (net of corporation tax)	5.0%	8.6%
Effective current tax rate	(3.1%)	17.4%

Legislation was enacted on 17 July, 2012, which restricted the rate of supplementary corporation tax relief available in respect of decommissioning costs to 20%. The legislation is retroactively effective from 21 March, 2012.

The one time restatement of the company's deferred taxation liability as at 21 March, 2012 resulted in an additional deferred taxation charge to the profit and loss account of £20.2 million.

Legislation was substantively enacted on 17 July 2012 to reduce the non-ring fence corporation tax rate from 26% to 24% effective 1 April 2012, and to 23% effective 1 April 2013. On 20 March 2013, further progressive tax rate reductions to 20% by 1 April 2015 were intimated.

The company expects that its total effective tax rate on profits will continue to exceed the UK statutory non ring fence corporation tax rate of 24% (23% effective 1 April 2013) as a consequence of ring fence corporation tax and the supplementary charge applying to its ring fence profits.

### 9. Dividends on equity shares

Amounts recognised as distributions to equity holders in the year

	2012 £'000	2011 £'000
Interim dividend for the year ended 31 December 2012 of £2,434.78 (2011: £521.74) per ordinary share	140,000	30,000
	140,000	30,000

There are no proposed final dividends for the year ended 31 December 2012 (2011: Nil).

The company's redeemable preference shares are included in the balance sheet as a liability and accordingly the dividends payable on them are included in interest payable and similar charges.

On 30 August 2013, the company paid ordinary dividends to shareholders of £62.0 million.

# CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

## Notes to the financial statements (continued)

For the year ended 31 December 2012

### 10. Share based payments

#### Cash-settled share based payments

##### Share Incentive Plan

All UK employees are eligible to participate in the ConocoPhillips Share Incentive Plan. Employees can contribute a portion of their pre-tax monthly salary. The employee's contributions are then used to purchase shares in the company's ultimate parent company, ConocoPhillips, at market value. Contributions up to 2.5% of base salary (2011: 2.5%) are eligible for company matching on a "2 for 1" basis. The matching shares must be left in the plan for at least five years to qualify for tax relief.

To satisfy the group's obligation under the Share Incentive Plan, the company recognised an expense of

	2012 £'000	2011 £'000
Matching shares	858	601
	No.	No.
Number of issued ordinary shares	13,884	11,831
	£	£
Average price of ordinary shares issued	40.58	45.00

##### Restricted Stock Units

Certain eligible UK employees are awarded Restricted Stock Units (RSUs). Each award is held in escrow until the restrictions on the awards lapse. When the restrictions lapse, the number of shares of unrestricted stock, equal to the number of RSUs, will be registered in the name of the employee and the RSUs will be terminated.

To satisfy the group's obligations under the RSU award programme, the company recognised an expense of

	2012 £'000	2011 £'000
Restricted Stock Units	410	379
	No.	No.
Number of lapsed RSU awards and ordinary shares issued	5,565	6,591
Exercise price of ordinary shares (£)	41.94	45.17
Exercise price of ordinary shares (\$)	65.83	72.22

# CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

## Notes to the financial statements (continued)

For the year ended 31 December 2012

### 11. Intangible fixed assets

	<b>Total £'000</b>
<b>Cost</b>	
At 1 January 2012	15
Additions	<u>2,637</u>
At 31 December 2012	<u>2,652</u>

On 17 October 2012, the company acquired an interest in Licence No P 1589 Block 30/7b from its fellow subsidiary, ConocoPhillips (U K ) Limited

### 12. Tangible fixed assets

	<b>Production &amp; development costs £'000</b>	<b>Other operating assets £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 January 2012	1,451,495	5,322	1,456,817
Additions	<u>407,840</u>	<u>-</u>	<u>407,840</u>
At 31 December 2012	<u>1,859,335</u>	<u>5,322</u>	<u>1,864,657</u>
<b>Depreciation</b>			
At 1 January 2012	800,468	4,891	805,359
Charge in year	<u>51,715</u>	<u>2</u>	<u>51,717</u>
At 31 December 2012	<u>852,183</u>	<u>4,893</u>	<u>857,076</u>
<b>Net book value</b>			
At 31 December 2012	<u>1,007,152</u>	<u>429</u>	<u>1,007,581</u>
At 31 December 2011	<u>651,027</u>	<u>431</u>	<u>651,458</u>

Included in Production & development costs is £670.4 million (2011 £341.7 million) of Assets Under Construction

## CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

### Notes to the financial statements (continued)

For the year ended 31 December 2012

#### 13. Fixed asset investments

	Subsidiary undertakings £'000	Associated undertakings £'000	Total £'000
<b>Cost</b>			
As at 1 January 2012 and 31 December 2012	<u>29,737</u>	<u>2,297</u>	<u>32,034</u>

#### Particulars of principal subsidiary undertakings:

	Principal activities
ConocoPhillips Petroleum Chemicals UK Limited	Dormant
ConocoPhillips Oil (GB) Limited	Non-trading
ConocoPhillips Pension Plan Trustees Limited	Dormant

The company holds 100% of the share capital and voting rights in each of the companies above

#### Particulars of associated undertakings:

	Proportion of shares and voting rights	Principal activities
Norsea Pipeline Limited	29.26%	NGL plant operation & crude oil stabilisation through its subsidiary
ConocoPhillips (U K ) Limited	0.0004%	Exploration, development, production & sale of crude oil, natural gas & natural gas liquids

Norsea Pipeline Limited and ConocoPhillips (U K ) Limited are registered in England and Wales and the interests are held directly by this company

The company also holds 9.832% of the preference share capital of ConocoPhillips (U K ) Limited

The company is exempt from preparing consolidated financial statements by virtue of section 400 of the Companies Act 2006, as the company is a wholly owned subsidiary of ConocoPhillips Holdings Limited, for which consolidated financial statements are prepared

# CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

## Notes to the financial statements (continued)

For the year ended 31 December 2012

### 14. Stocks

	2012 £'000	2011 £'000
Raw materials and consumables	<u>22,313</u>	<u>17,351</u>

### 15. Debtors

	2012 £'000	2011 £'000
Trade debtors	501,121	340,446
Amounts owed by group companies	20,448	118,631
Amounts owed by related parties	4,501	8,656
Other debtors	17,609	14,941
Current Taxation	<u>2,943</u>	<u>-</u>
	<u>546,622</u>	<u>482,674</u>

### 16. Creditors

	2012		2011	
	Within one year £'000	After one year £'000	Within one year £'000	After one year £'000
Bank loans and overdrafts	54	-	5,691	-
Trade creditors	57,758	-	69,109	-
Amounts owed to group companies	310,691	113,700	149,027	113,700
Current Taxation	-	-	51	-
Accruals and deferred income	179,266	-	186,651	-
Preference share capital (Note 18)	<u>-</u>	<u>32,092</u>	<u>-</u>	<u>32,092</u>
	<u>547,769</u>	<u>145,792</u>	<u>410,529</u>	<u>145,792</u>

Included within amounts owed to group undertakings are loans repayable as follows

	2012 £'000	2011 £'000
Amounts repayable		
In one year or less, or on demand	890	935
Between two and five years	<u>113,700</u>	<u>113,700</u>
	<u>114,590</u>	<u>114,635</u>

The interest rate applied to the company's loan is variable and linked to LIBOR. The loan is due for repayment in 2015.

# CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

## Notes to the financial statements (continued)

For the year ended 31 December 2012

### 17. Provisions for liabilities

	Decommissioning provision £'000	Deferred taxation £'000	Total £'000
At 1 January 2012	265,016	249,638	514,654
Changes in estimates of existing obligations	6,521	-	6,521
New obligations	42,546	-	42,546
Adjustment for change in discount rate	(756)	-	(756)
Unwinding of discount (Note 7)	7,315	-	7,315
Costs incurred on existing obligations	(3,587)	-	(3,587)
Debited to profit & loss account	-	207,314	207,314
At 31 December 2012	<u>317,055</u> (a)	<u>456,952</u> (b)	<u>774,007</u>
<b>At 31 December 2012</b>			
Current	21,601	-	21,601
Non-current	<u>295,454</u>	<u>456,952</u>	<u>752,406</u>
	<u>317,055</u>	<u>456,952</u>	<u>774,007</u>
<b>At 31 December 2011</b>			
Current	4,004	-	4,004
Non-current	<u>261,012</u>	<u>249,638</u>	<u>510,650</u>
	<u>265,016</u>	<u>249,638</u>	<u>514,654</u>

(a) At 31 December 2012, the provision for the future costs of decommissioning oil and natural gas production and related facilities was £317.1 million (2011 £265.0 million). The provision has been estimated using the present value of future decommissioning costs, inflated at 2.5% (2011 2.5%) and discounted at 1.8% and 3.0% where settlement is expected within 10 years and after 10 years respectively (2011 1.9% and 2.9%). Costs expected to be incurred within the next year have been disclosed as current. All other costs are not currently expected to be incurred within the next year.

# CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

## Notes to the financial statements (continued)

For the year ended 31 December 2012

### 17. Provisions for liabilities (continued)

(b) Deferred taxation

	2012 £'000	2011 £'000
<b>Analysis of movements during the year</b>		
At 1 January	249,638	76,268
Profit and loss account (Note 8)	207,314	173,370
At 31 December	456,952	249,638
<b>Analysis of provision</b>		
Accelerated capital allowances	604,950	397,348
Rolled over gains	10,481	13,831
Decommissioning	(158,528)	(164,310)
Petroleum Revenue Tax (PRT)	49	2,769
	456,952	249,638

### 18. Called up share capital

<b>Allotted, called up and fully-paid</b>	2012 £'000	2011 £'000
57,500 ordinary shares of £1.00 each	57	57
<b>Share capital classified as a liability under FRS25</b>		
500,000 class "B" cumulative redeemable preference shares of US\$100 each	32,092	32,092

The 500,000 class "B" cumulative redeemable preference shares, which were issued at par in 1996, are redeemable at any time upon one month's notice from the company. They carry a fixed dividend of 5.75% payable quarterly in arrears.

The class "B" cumulative redeemable preference shares are denominated in United States dollars and carry no voting rights unless the preference dividend is in arrears by six months or more. They have no premium paid on redemption. They have preferential rights over the ordinary shares to receive on winding up the amount of US\$100 per share together with the accrued dividend.

The issued preference share capital of £32.1 million is classified as a financial liability under the requirements of FRS25 "Financial Instruments: Disclosure and Presentation" (Note 16).



# CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

## Notes to the financial statements (continued)

For the year ended 31 December 2012

### 19. Reserves

	Share premium £'000	Capital contribution £'000	Profit & loss account £'000
At 1 January 2012	28,517	585	289,488
Profit for the financial year	-	-	66,230
Dividends paid	-	-	(140,000)
At 31 December 2012	<u>28,517</u>	<u>585</u>	<u>215,718</u>

### 20. Reconciliation of movements in shareholder's funds

	2012 £'000	2011 £'000
Profit for the financial year	66,230	96,334
Dividends paid	(140,000)	(30,000)
Net (decrease)/increase to shareholder's funds	(73,770)	66,334
Opening shareholder's funds	<u>318,647</u>	<u>252,313</u>
Closing shareholder's funds	<u>244,877</u>	<u>318,647</u>

### 21. Financial commitments

#### (a) Capital commitments

At 31 December commitments for future capital expenditure were as follows

	2012 £'000	2011 £'000
Contracted but not provided for	<u>63,369</u>	<u>117,108</u>

# CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

## Notes to the financial statements (continued)

For the year ended 31 December 2012

### 22. Derivatives not at fair value

The company has derivatives that it has not included in the financial statements at fair value. The fair value of derivatives held at the year end are as follows:

	2012		2011	
	Asset £'000	Liability £'000	Asset £'000	Liability £'000
Oil price contracts	-	-	197	-

The oil price contracts hedge the price risk on specific crude oil transactions and are through arrangements with ConocoPhillips Limited, an affiliated company. Following the repositioning of ConocoPhillips, the company no longer engages in the services of ConocoPhillips Limited to enter risk management transactions. From 1 May 2012, the group policy was to remain exposed to market prices.

### 23. Related party transactions

In accordance with FRS 8 3(e) "Related Party Disclosures" the company has taken advantage of the exemption not to disclose related party transactions with other wholly-owned members of the group.

The company's interests in associated undertakings are detailed in Note 13.

Other related parties and their relationship to the company are as follows:

Company name	Relationship
Norpipe Petroleum UK Limited	Common control
Norpipe Oil AS	Common control

Transactions with related parties relating to recharged costs, on an arms length basis, are detailed below:

	Net Recharges to/(from)		Debtor/(Creditor) at 31 December	
	2012 £'million	2011 £'million	2012 £'million	2011 £'million
Norsea Pipeline Limited	98.6	84.7	10.3	12.0
Norpipe Petroleum UK Limited	44.8	40.0	4.0	6.2
Norpipe Oil AS	1.7	0.9	0.5	0.4

### 24. Ultimate controlling party

ConocoPhillips, a company registered in Delaware, USA, which the directors regard as the company's ultimate parent undertaking with respect to the year to 31 December 2012, is the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member. Copies of the 2012 Annual Report may be obtained from 600 North Dairy Ashford, Houston, TX 77079, USA.

ConocoPhillips Holdings Limited, a company registered in England is the parent undertaking of the smallest group of undertakings for which group financial statements are drawn up and of which the company is a member. Copies of the financial statements may be obtained from Portman House, 2 Portman Street, London, W1H 6DU.

**CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED**

THE FOLLOWING SUPPLEMENTARY  
INFORMATION IS UNAUDITED

## CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

### Supplementary information on oil exploration & production activities – unaudited

This information has been prepared in accordance with the provisions of the Statement of Recommended Practice – Accounting for Oil and Gas exploration, development, production and decommissioning activities

#### (a) Capitalised costs relating to oil & gas exploration and production activities as at 31 December:

	2012 £'000	2011 £'000
<b>Gross capitalised costs</b>		
Proved properties	1,864,657	1,456,817
Unproved properties	<u>2,652</u>	<u>15</u>
	1,867,309	1,456,832
Accumulated depreciation & amortisation	<u>(857,076)</u>	<u>(805,359)</u>
<b>Net capitalised costs</b>	<u>1,010,233</u>	<u>651,473</u>

#### (b) Pre-production costs incurred in oil & gas exploration and production activities as at 31 December:

	2012 £'000	2011 £'000
Exploration & appraisal costs	<u>2,637</u>	<u>-</u>
Capitalised costs included in total above	<u>2,652</u>	<u>15</u>

#### (c) Results of operations of oil & gas exploration and production activities as at 31 December:

	2012 £'000	2011 £'000
Turnover	2,541,907	1,570,626
Production costs	(2,220,004)	(1,166,557)
Impairment charge	-	(11,023)
Depreciation & amortisation	<u>(51,717)</u>	<u>(60,023)</u>
	270,186	333,023
Allocable taxes	<u>(203,139)</u>	<u>(235,736)</u>
Results of operations & production	<u>67,047</u>	<u>97,287</u>