

Registered number: 792712

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

**Annual report and financial statements
for the year ended 31 December 2018**

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CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

Board of directors: B Balteskard
T G King
R Scott
P Wolfe

Strategic report

The directors present their strategic report for the year ended 31 December 2018.

Review of the business

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

The principal activities of the company comprise the exploration, 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. The directors' report sets out certain events which have occurred since the end of the financial year. It is the intention that the principal activities of the company will continue for the foreseeable future.

The profit for the year was £42.9 million (2017: loss £25.4 million). The company did not declare an ordinary dividend during the year (2017: £nil). The company paid a preference dividend of £2.2 million during the year (2017: £2.2 million).

The company's statement of financial position, on page 11 of the financial statements, shows the company has net assets of £385.1 million (2017: £342.1 million). The movements on the company's reserves comprise the profit for the year.

On 20 July 2018, the company increased its shareholding in its associated undertaking to 40.25% after the existing shareholders agreed to acquire their pro-rata share of Equinor's 27.3% interest in Norsea Pipeline Limited. Following changes in the group structure the company now holds a 40.25% investment in Norpipe Terminal Holdco Limited, which, in turn, holds 100% of Norsea Pipeline Limited.

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.

Under s414C 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 divisional 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.

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Strategic report (continued)

Principal risks and uncertainties

The principal risks and uncertainties facing the company are those that impact profitability.

A 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. Significant reductions in the price of crude oil, natural gas and natural gas liquids could require the company to reduce its capital expenditure or impair the carrying value of its assets. During the year, following an impairment review of the company's assets the company recognised an impairment credit of £2.5 million following a downward revision of the decommissioning asset. In 2017, an impairment credit of £0.1 million was recognized in full within the income statement. The prior year impairment credit was recorded following a downward revision of the decommissioning asset and changes to planned projects. It is not reasonably practicable to quantify the impact of any future impairments.

The company conducts its operations through joint arrangements in which the company shares control with its partners. There is a risk that the company's partners may at any time have economic, business or legal interests or goals that are inconsistent with those of the joint arrangement or the company, or the company's partners may be unable to meet their economic or other obligations and the company may be required to fulfill those obligations. Failure by the company to adequately manage the risks associated with joint arrangements could have a material adverse impact on the financial results of the company's operations.

On 23 June 2016, the United Kingdom voted to leave the European Union. The longer term political and economic effects of this event are as yet unclear as negotiations on Britain's future relationship with EU member states are ongoing with a target exit date of 31 October 2019. Management continue to monitor the situation closely and review potential risks to the company.

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

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Strategic report (continued)

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 2018 and 2017, the gains and losses from this activity were not material to the company's cash flows or income from continuing operations.

The company engages the services of an affiliate company, ConocoPhillips (U.K.) Limited, to enter into risk management transactions on its behalf. The affiliate company's commercial organisation uses futures and swaps in various markets to manage the risk to cash flows from price exposures on specific crude oil transactions.

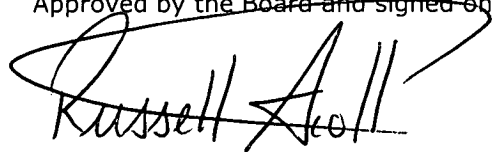
Interest Rate Risk

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.

Approved by the Board and signed on its behalf by:



R Scott
Director

31 July 2019

Registered office:
20th Floor
1 Angel Court
London
EC2R 7HJ

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Directors' report

The directors present their report for the year ended 31 December 2018.

Directors

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

B Balteskard
A D Hastings (resigned 15 June 2018)
T G King
K S Simpson (appointed 15 June 2018 – resigned 22 May 2019)
R G Stalker (resigned 25 September 2018)
R Scott (appointed 25 September 2018)
P Wolfe (appointed 22 May 2019)

Dividends

The company did not pay dividends to ordinary shareholders during the year (2017: £nil).

The dividends on the 5.75% redeemable preference shares, amounting to £2.2 million (2017: £2.2 million), were paid throughout the year.

The directors did not recommend a final dividend for the year ended 31 December 2018.

Future developments and events which have occurred since the end of the financial year

Company sale to Chrysaor

On 18 April 2019 it was announced that ConocoPhillips Company, the penultimate parent of the company, entered into an agreement to sell two ConocoPhillips United Kingdom subsidiaries, including the company's immediate parent, to Chrysaor E&P Limited for \$2.675 billion, plus interest and customary adjustments. The effective date for the transaction will be 1 January 2020. The transaction is subject to regulatory approval and other specific conditions precedent. The sale is expected to be completed in the second half of 2019.

The company's London-based commercial trading business, its 40.25% interest in Norpipe Terminal Holdco Limited, and its operatorship of the Teesside Oil Terminal are not part of the sale. These activities were transferred out of the company on 1 July 2019 to a new UK ConocoPhillips companies.

All ConocoPhillips pension plans will remain within the wider ConocoPhillips Group and will not be transferred to Chrysaor as part of the proposed sale.

Dividends

On 21 March 2019 the company declared an interim dividend of £226.5 million, which was paid on 27 March 2019. On 25 June 2019 the company declared an interim dividend of £93.5 million, which was paid on 27 June 2019. On 1 July 2019 the company declared and paid an interim dividend of £113.0 million.

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Directors' report (continued)

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 the Strategic 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.

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.

Auditors

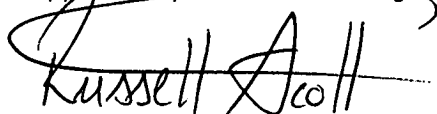
Each of the persons who is a director at the date of approval of this report confirms that:

- 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:



R Scott
Director

31 July 2019

Registered office:
20th Floor
1 Angel Court
London
EC2R 7HJ

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Statement of directors' responsibilities

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

Company law requires the directors to prepare the 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) including Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102)". 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of 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

Opinion

We have audited the financial statements of ConocoPhillips Petroleum Company U.K. Limited for the year ended 31 December 2018 which comprise the Income Statement, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 23, including a summary of significant accounting policies. 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), FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 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 prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

Kevin Weston (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen

Date: 11/8/2019

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Income Statement

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Turnover	3	2,177,222	1,957,578
Cost of sales		<u>(2,110,810)</u>	<u>(1,958,180)</u>
Operating profit/(loss)	4	66,412	(602)
Income from shares in associated undertaking		<u>7,306</u>	<u>7,642</u>
Profit on ordinary activities before interest and tax		73,718	7,040
Interest receivable and similar income	7	2,317	393
Interest payable and similar charges	8	<u>(17,408)</u>	<u>(16,433)</u>
Profit/(loss) on ordinary activities before tax		58,627	(9,000)
Tax on profit/(loss) on ordinary activities	9	<u>(15,707)</u>	<u>(16,359)</u>
Profit/(loss) for the financial year		<u>42,920</u>	<u>(25,359)</u>

All activities related to continuing operations.

The results for the current and prior year are equal to the total comprehensive income and accordingly a statement of comprehensive income has not been presented.

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

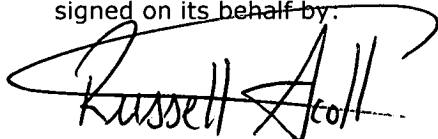
Registered number: 792712

Statement of financial position

At 31 December 2018

	Note	2018 £'000	2017 £'000
Fixed Assets			
Intangible assets	11	3,431	2,990
Tangible assets	12	355,344	495,027
Investments	13	31,965	31,965
		<u>390,740</u>	<u>529,982</u>
Current Assets			
Inventories	14	22,400	22,504
Debtors			
– amounts falling due within one year	15	323,965	219,321
– amounts falling due after one year	15	62,936	16,632
Cash at bank and in hand		537,744	420,849
		<u>947,045</u>	<u>679,306</u>
Creditors – amounts falling due within one year	16	(402,128)	(297,732)
Provisions for liabilities	17	<u>(9,351)</u>	<u>(2,808)</u>
Net current assets		<u>535,566</u>	<u>378,766</u>
Total assets less current liabilities		926,306	908,748
Creditors – amounts falling due after one year	16	(32,092)	(32,092)
Provisions for liabilities	17	<u>(509,161)</u>	<u>(534,523)</u>
Net assets		<u>385,053</u>	<u>342,133</u>
Capital and reserves			
Called up share capital	18	57	57
Share premium		28,517	28,517
Capital contribution		585	585
Retained earnings		355,894	312,974
Shareholder's funds		<u>385,053</u>	<u>342,133</u>

The financial statements were approved by the Board of Directors and authorised for issue on 31 July 2019 and signed on its behalf by:



R Scott
Director

31 July 2019

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Statement of changes in equity

For the year ended 31 December 2018

	Called up capital	Share premium	Capital contribution	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 January 2017	57	28,517	585	338,333	367,492
Loss for the year	-	-	-	(25,359)	(25,359)
At 31 December 2017	57	28,517	585	312,974	342,133
Profit for the year	-	-	-	42,920	42,920
At 31 December 2018	57	28,517	585	355,894	385,053

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements

For the year ended 31 December 2018

1. Accounting policies

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

General information

ConocoPhillips Petroleum Company U.K. Limited is a company incorporated in the United Kingdom under the Companies Act. The address of its registered office is 20th Floor, 1 Angel Court, London, EC2R 7HJ. The nature of the company's operations and its principal activities are set out in the Strategic Report on pages 1 to 3.

Statement of compliance

The financial statements of the company have been prepared in compliance with the United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost convention.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of and no objection to, the use of exemptions by the company's shareholders. The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the following disclosure exemptions available to it in respect of its individual financial statements:

- i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and the statement of cash flows presented in the consolidated financial statements of ConocoPhillips Holdings Limited, includes the company's cash flows;
- ii) from disclosing the financial instruments disclosures, required under FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as the information is provided in the consolidated financial statement disclosures;
- iii) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv); and
- iv) from disclosing the company key management personnel compensation in total, as required by FRS 102 paragraph 33.7.

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 income statement.

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Accounting policies (continued)

Property, plant & equipment

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment.

All capitalised costs including licence 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.

Subsequent expenditure is included in the assets carrying amount only where it is probable that the economic benefits associated with the item will flow to the company. Repairs and maintenance costs are expensed as incurred.

Impairment of non-financial assets

Assets used in operations are assessed for impairment at each reporting date or whenever changes in facts and circumstances indicate a possible significant deterioration in the future cash flows expected to be generated. Where there are indicators of impairment, the company estimates the recoverable amount of the asset or the cash generating unit to which the asset belongs. The recoverable amount is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying value, the carrying value is impaired and an impairment loss is recognised in the income statement. An impairment loss is reversed in a subsequent period if the reasons for the loss no longer apply.

Financial instruments

Financial assets

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Basic financial assets, including debtors and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the income statement.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the income statement.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Accounting policies (continued)

Financial instruments (continued)

Financial liabilities

Basic financial liabilities, including trade creditors and other creditors and short term loans, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current creditors. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivative instruments

The company, through arrangements with an affiliate company, ConocoPhillips (U.K.) Limited, uses 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 income statement in line with the underlying sales transaction.

Inventories

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 fair value less cost to sell and the amounts are reflected in current assets or current liabilities respectively. Other inventories, including warehouse inventory, are valued at average cost.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts, when applicable, are shown within creditors in current liabilities.

Decommissioning

Provision for the future cost of decommissioning 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 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 income statement. The capitalised cost is depreciated as part of the overall capital costs of the related assets.

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Accounting policies (continued)

Joint arrangements

The company's exploration, development, production and decommissioning activities are generally conducted in joint arrangements (which are not entities) with other companies. The financial statements reflect the relevant proportions of income, expenditure, assets and liabilities relating to the companies interests.

Tax

Tax expense for the period comprises current and deferred tax recognised in the reporting period. Current or deferred tax assets and liabilities are not discounted.

(i) Current tax

Current tax, including UK corporation 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 end of the financial year.

(ii) Deferred tax

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the end of the financial year and that are expected to apply to the reversal of the timing differences.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other taxable profits.

Petroleum revenue tax

The charge for petroleum revenue tax (PRT) forms part of the tax charge in the income statement. 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.

Revenue recognition

Revenues associated with the production of natural gas and natural liquids 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.

Where revenues are receivable based upon future events or production targets no amount is recognised unless those terms are either met or virtually certain. Amounts received in advance are recognised as deferred income in the statement of financial position and are released to the income statement on an appropriate and reasonable basis (e.g. production levels).

Leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Rentals paid under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

The company has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 and continues to credit such lease incentives to the income statement over the period to the first review date on which the rent is adjusted to market rates.

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Accounting policies (continued)

Gas field expenditure

Expenditure on acquiring unproved properties and exploring for and developing 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.

Reserve disclosures are made within the financial statements of the company's ultimate parent company, ConocoPhillips, for the ConocoPhillips group worldwide.

The company has taken advantage of the transition exemption under paragraph 35.10(j) of FRS 102 in respect of measuring exploration and development costs for oil and gas properties in the development or production phases at, or before, the date of transition to FRS 102.

Foreign currency

The company's functional and reporting currency is the pound sterling.

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 end of the financial year. All differences are taken to the income statement.

Related party transactions

The company has taken advantage of the exemption by paragraph 33.1A of FRS 102 on the grounds that it is a wholly owned subsidiary of a group headed by ConocoPhillips, whose financial statements are publicly available. The company discloses transactions with related parties which are not wholly owned with the same group.

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Accounting policies (continued)

Share based payments

The company has applied the requirements of FRS 102, Section 26 "Share based payments". The entity receiving the benefit of service should recognise an expense relating to share based payments irrespective of whether the entity holds the employees contract of service. All contracts of service are held with 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 FRS 102 Section 26, 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.

2. Critical judgements and estimates in applying the accounting policies

The preparation of the financial statements requires the directors to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The following are the critical judgements that the directors have made in the process of applying the company's accounting policies and that have the most significant effects on the amounts recognised in the financial statements:

Useful economic lives of tangible assets

The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful economic lives and residual values of assets. The useful economic lives and residual values are assessed annually. Depreciation rates are amended when necessary to reflect current estimates, based on technological advancements, future investments, economic utilisation and the physical condition of the assets. Changes to depreciation rates following the annual review of the remaining economic life of the asset is applied prospectively. If during the year there are changes in the remaining recoverable reserves which would significantly impact the depreciation rate, this change is applied prospectively.

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

2. Critical judgements and estimates in applying the accounting policies (continued)

Impairment of non-financial assets

Assets are assessed for impairment at each reporting date or whenever changes in facts and circumstances indicate a possible significant deterioration in the future cash flows expected to be generated. Where there are indicators of impairment, the company performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less cost to sell calculation is based on a post-tax discounted cash flow model incorporating an external market participants view of the asset less the incremental costs for disposing of the asset. The value in use calculation is based on a pre-tax discounted cash flow model which is based on cash flows derived from the company's corporate planning assumptions, excluding any significant future investments that will enhance the assets performance of the cash generating unit being tested. The discount rates used in the calculations are believed to be consistent with those used by principal market participants. The recoverable amount is sensitive to the discount rate used in the model as well as the expected future cash flows which include a growth rate assumption.

Decommissioning provision

Provision is made for decommissioning obligations and requires the company's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management's judgement.

Proved reserves

The determination of the company's estimated oil and natural gas reserves requires significant judgement and estimates to be applied. Reserve estimates are impacted by geological and engineering data, reservoir performance data and commodity prices. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data and the efficiency of extracting and processing the hydrocarbons.

Estimates of oil and natural gas reserves are used to calculate depreciation charges for the company's oil and gas assets where any changes in estimates are dealt with prospectively. Oil and natural gas reserves also have a direct impact on the assessment of the recoverability of asset carrying values reported in the financial statements. If proved reserves estimates are revised downwards, the results of the company may be affected by increased depreciation charge or impairment of the assets carrying value.

3. Turnover

Turnover represents the sales amounts derived from the company's production of crude oil, natural gas and natural gas liquids during the year, and of 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/(loss) are principally attributable to the production and trading of hydrocarbons in Europe. An analysis of turnover is given below.

	2018 £'000	2017 £'000
Exploration and production activities	303,674	247,592
Crude revenue	1,888,559	1,686,969
Other income	(15,011)	23,017
	<u>2,177,222</u>	<u>1,957,578</u>

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

3. Turnover (continued)

Geographical analysis of turnover by destination:

	2018 £'000	2017 £'000
United Kingdom	911,073	871,810
Continental Europe	791,928	748,906
Other	474,221	336,862
	<u>2,177,222</u>	<u>1,957,578</u>

4. Operating profit/(loss)

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

	2018 £'000	2017 £'000
Operating lease rentals		
- plant & machinery	170	1,804
- land & buildings	386	-
Depreciation and amortisation		
- owned assets	148,279	171,819
- impairment credit	(2,455)	(86)
- exploration write-off	9,569	44
Impairment loss on inventory	135	755
Foreign exchange loss	883	2,348

Following an impairment review of the company's assets, an impairment credit of £2.5 million has been recognised due to the downward revision of the decommissioning asset. The impairment was recognised in full within the income statement. In 2017 an impairment credit of £0.1 million was recognised in full within the income statement. The prior year impairment credit was recorded as a downward revision of the decommissioning asset and changes to planned projects.

5. Information regarding directors and employees

(a) Directors' emoluments

No emoluments were paid to the directors for their qualifying services in respect of ConocoPhillips Petroleum Company U.K. Limited in the current or preceding year. All directors' contracts of employment are held with another group company.

ConocoPhillips manages its operations at a divisional and geographical level. For this reason the company's directors believe that it is not practicable to apportion their remuneration between qualifying services for this company and other group companies in which they hold office.

(b) Employees

The company had no employees in the current or preceding year. All contracts of employment are held with ConocoPhillips (U.K.) Limited.

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

6. Auditors' remuneration

	2018 £'000	2017 £'000
Fees payable to the company's auditors for the audit of the company's annual accounts	<u>50</u>	<u>50</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 as the consolidated accounts of the company's parent, ConocoPhillips Holdings Limited, are required to disclose non-audit fees on a consolidated basis.

The auditors' remuneration is borne by another group company.

7. Interest receivable and similar income

	2018 £'000	2017 £'000
Bank interest	1,153	140
Intercompany interest	1,164	177
Other interest	<u>-</u>	<u>76</u>
	<u>2,317</u>	<u>393</u>

8. Interest payable and similar charges

	2018 £'000	2017 £'000
Bank loans and overdrafts	879	102
Unwinding of discount (Note 17)	14,358	14,090
Other interest	-	42
Dividends paid on preference shares	<u>2,171</u>	<u>2,199</u>
	<u>17,408</u>	<u>16,433</u>

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

9. Tax on profit/(loss) on ordinary activities

	2018 £'000	2017 £'000
Current tax		
UK corporation tax	66,138	50,986
Adjustments in respect of prior periods	191	(3,167)
Group relief – prior year	(2,616)	36,013
Total current tax	63,713	83,832
Deferred tax		
Origination and reversal of timing differences	(48,006)	(68,930)
Prior year	-	1,457
Total deferred tax	(48,006)	(67,473)
Tax on profit/(loss) on ordinary activities	15,707	16,359

The following table provides a reconciliation of UK statutory corporation tax at the standard rate to the total tax of the company on its profit/(loss) before tax.

	2018 £'000	2017 £'000
Profit/(loss) on ordinary activities before tax	58,627	(9,000)
Profit/(loss) on ordinary activities multiplied by standard rate of UK corporation tax of 19% (2017: 19.25%)	11,139	(1,732)
UK ring fence corporation tax and supplementary charge	13,330	(5,277)
Permanent differences	(6,337)	(3,973)
Adjustments in respect of prior periods:		
Current tax	191	(3,167)
Deferred tax	-	1,457
Group relief	(2,616)	36,013
Held over gains taxable in fellow group company	-	(6,962)
Total tax charge	15,707	16,359

Legislation has been enacted to reduce the non ring fence corporation tax rate from 20% to 19% effective 1 April 2017 and to 17% effective 1 April 2020. These changes are expected to have no material impact.

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

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 (2017: 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 its obligations under the Share Incentive Plan, the company recognised an expense of:

	2018 £'000	2017 £'000
Matching shares	<u>757</u>	<u>733</u>
	No.	No.
Number of issued ordinary shares	<u>15,291</u>	<u>19,413</u>
	£	£
Average price of ordinary shares issued	<u>50.49</u>	<u>37.95</u>

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.

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

10. Share based payments (continued)

Restricted Stock Units (continued)

To satisfy its obligations under the RSU award programme, the company recognised an expense of:

	2018 £'000	2017 £'000
Restricted Stock Units	<u>358</u>	<u>421</u>
	No.	No.
Number of lapsed RSU awards and ordinary shares issued	<u>6,071</u>	<u>9,319</u>
Exercise price of ordinary shares (£)	<u>35.96</u>	<u>29.35</u>
Exercise price of ordinary shares (\$)	<u>54.65</u>	<u>48.07</u>

11. Intangible fixed assets

	Total £'000
Cost	
At 1 January 2018	2,990
Additions	10,068
Revisions to decommissioning asset	(58)
Exploration write-off	<u>(9,569)</u>
At 31 December 2018	<u>3,431</u>

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

12. Tangible fixed assets

	Production & development costs £'000	Other operating assets £'000	Assets under construction £'000	Total £'000
Cost				
At 1 January 2018	2,515,037	5,714	27,792	2,548,543
Additions	-	-	37,199	37,199
Revisions to decommissioning asset	(31,058)	-	-	(31,058)
Disposals	(11,608)	(4,893)	-	(16,501)
Transfers	40,679	(430)	(40,249)	-
At 31 December 2018	<u>2,513,050</u>	<u>391</u>	<u>24,742</u>	<u>2,538,183</u>
Depreciation				
At 1 January 2018	2,048,266	5,250	-	2,053,516
Charge in year	148,245	34	-	148,279
Impairment credit	(2,455)	-	-	(2,455)
Disposals	(11,608)	(4,893)	-	(16,501)
At 31 December 2018	<u>2,182,448</u>	<u>391</u>	<u>-</u>	<u>2,182,839</u>
Net book value				
At 31 December 2018	<u>330,602</u>	<u>-</u>	<u>24,742</u>	<u>355,344</u>
At 31 December 2017	<u>466,771</u>	<u>464</u>	<u>27,792</u>	<u>495,027</u>

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

13. Fixed asset investments

	Subsidiary undertakings £'000	Associated undertakings £'000	Total £'000
Cost			
As at 1 January 2018 and 31 December 2018	<u>29,737</u>	<u>2,228</u>	<u>31,965</u>

Particulars of principal subsidiary undertakings:

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

The company holds 100% of the share capital and voting rights in each of the companies above. The registered office address of all the subsidiaries noted above is 20th Floor, Angel Court, London, EC2R 7HJ.

Particulars of associated undertakings:

	Proportion of shares and voting rights	Principal activities
Norpipe Terminal Holdco Limited	40.25%	NGL plant operation & crude oil stabilisation through its subsidiary.

In July 2018, the company increased its shareholding in its associated undertaking from 29.26% to 40.25% after the existing shareholders agreed to acquire their pro-rata share of Equinor's 27.3% interest in Norse Pipeline Limited. Following changes in the group structure the company now holds a 40.25% investment in Norpipe Terminal Holdco Limited, which, in turn, holds 100% of Norse Pipeline Limited.

Norpipe Terminal Holdco Limited is registered in England and Wales and the interest is held directly by this company. The registered office address of the associated undertaking is 20th Floor, 1 Angel Court, London, EC2R 7HJ.

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.

14. Inventories

	2018 £'000	2017 £'000
Raw materials and consumables	<u>22,400</u>	<u>22,504</u>

Following a review of inventories, there was an impairment charge of £0.1 million in the year (2017: £0.8 million).

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

15. Debtors

	2018		2017	
	Within one year £'000	After one year £'000	Within one year £'000	After one year £'000
Trade debtors	250,217	-	188,135	-
Amounts owed by group companies	50,267	-	19,158	-
Amounts owed by related parties	3,094	-	2,053	-
Other debtors	6,343	-	8,852	-
Prepayments and accrued income	4,120	915	-	-
Corporation tax	6,184	-	-	-
Deferred tax	3,740	62,021	1,123	16,632
	<u>323,965</u>	<u>62,936</u>	<u>219,321</u>	<u>16,632</u>

16. Creditors

	2018		2017	
	Within one year £'000	After one year £'000	Within one year £'000	After one year £'000
Bank loans and overdrafts	7,297	-	7,310	-
Trade creditors	32,849	-	25,621	-
Amounts owed to group companies	321,518	-	183,595	-
Accruals and deferred income	34,670	-	30,209	-
Other creditors	5,794	-	4,460	-
Corporation tax	-	-	46,537	-
Preference share capital (Note 18)	-	32,092	-	32,092
	<u>402,128</u>	<u>32,092</u>	<u>297,732</u>	<u>32,092</u>

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

17. Provisions for liabilities

	Decommissioning provision £'000	Deferred credits £'000	Deferred tax £'000	Total £'000
At 1 January 2018	537,331	517	-	537,848
Balance presented within debtors as at 1 January 2018 (Note 15)	-	-	(17,755)	(17,755)
Changes in estimates of existing obligations	(11,601)	-	-	(11,601)
New obligations	2,694	-	-	2,694
Adjustment for change in discount rate	(22,209)	-	-	(22,209)
Unwinding of discount (Note 8)	14,358	-	-	14,358
Costs incurred on existing obligations	(2,061)	-	-	(2,061)
Credited to income statement (Note 9)	-	(517)	(48,006)	(48,523)
Balance presented within debtors as at 31 December 2018 (Note 15)	-	-	65,761	65,761
At 31 December 2018	<u>518,512</u>	<u>-</u>	<u>-</u>	<u>518,512</u>
	(a)	(b)	(c)	
At 31 December 2018				
Current	9,351	-	-	9,351
Non-current	<u>509,161</u>	<u>-</u>	<u>-</u>	<u>509,161</u>
	<u>518,512</u>	<u>-</u>	<u>-</u>	<u>518,512</u>
At 31 December 2017				
Current	2,808	-	-	2,808
Non-current	<u>534,523</u>	<u>-</u>	<u>-</u>	<u>534,523</u>
	<u>537,331</u>	<u>-</u>	<u>-</u>	<u>527,331</u>

(a) At 31 December 2018, the provision for the future costs of decommissioning oil and natural gas production and related facilities was £518.5 million (2017: £537.3 million). The provision has been estimated using the present value of future decommissioning costs, inflated at 2.2% (2017: 2.2%) and discounted at 2.7% and 3.0% where settlement is expected within 10 years and after 10 years respectively (2017: 2.4% and 2.7%). 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 2018

17. Provisions for liabilities (continued)

(b) Deferred tax

	2018 £'000	2017 £'000
Analysis of movements during the year		
At 1 January	-	49,931
Balance restated within debtors (Note 15)	(17,755)	(213)
Income statement (Note 9)	<u>(48,006)</u>	<u>(67,473)</u>
At 31 December	(65,761)	(17,755)
Balance restated within debtors (Note 15)	<u>65,761</u>	<u>17,755</u>
At 31 December	<u>-</u>	<u>-</u>
Total provision for deferred tax	2018 £'000	2017 £'000
Deferred tax asset (Note 15)	(65,761)	(17,755)
Provisions for liabilities (Note 17)	<u>-</u>	<u>-</u>
	<u>(65,761)</u>	<u>(17,755)</u>
Analysis of total provision	2018 £'000	2017 £'000
Accelerated capital allowances	141,644	197,177
Decommissioning	<u>(207,405)</u>	<u>(214,932)</u>
	<u>(65,761)</u>	<u>(17,755)</u>

The net deferred tax liability expected to reverse in 2019 is estimated at £30 million being the reversal of timing differences.

18. Called up share capital

Allotted, called up and fully-paid	2018 £'000	2017 £'000
57,500 ordinary shares of £1.00 each	<u>57</u>	<u>57</u>
Share capital classified as a liability under FRS102 (section 22)		
500,000 class "B" cumulative redeemable preference shares of US\$100 each	<u>32,092</u>	<u>32,092</u>

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

18. Called up share capital (continued)

The company has a single class of ordinary share. There are no restrictions on the distribution of dividends and the repayment of capital.

The 500,000 class "B" cumulative redeemable preference shares, which were issued at par in 1996, are redeemable at any time upon one months 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 FRS 102, Section 22 "Liabilities and Equity" (Note 16).

19. Financial commitments

(a) Capital commitments

At 31 December commitments for future capital expenditure were as follows:

	2018 £'000	2017 £'000
Contracted but not provided for -	2,107	686

(b) Operating lease commitments

The company had the following future minimum lease payments under non-cancellable operating leases for each period as follows:

	2018 £'000	2017 £'000
Plant & machinery		
Payments due:		
- not later than one year	3,493	3,246
- later than one year and not later than five years	3,429	6,327
	6,922	9,573
	2018 £'000	2017 £'000
Land & buildings		
Payments due:		
- not later than one year	185	-
	185	-

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

20. Related party transactions

In accordance with FRS 102, Section 33.1A, Related Party Disclosure, 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
Norsea Pipeline Limited	Common control
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	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Norsea Pipeline Limited	117,484	76,251	2,499	8,737
Norpipe Petroleum UK Limited	28,358	34,018	(109)	3,316
Norpipe Oil AS	1,706	1,952	704	325

21. Financial instruments

Through arrangements with its affiliate, ConocoPhillips (U.K.) Limited, the company may hedge the price risk on specific crude oil transactions. Details in relation to the valuation techniques are disclosed in the financial statements of ConocoPhillips (U.K.) Limited.

There were no open derivative contracts as at 31 December 2018 or 31 December 2017.

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

21. Financial instruments (continued)

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the company's financial instruments, that are carried in the financial statements. Note that in all cases the fair value of those assets and liabilities is equal to the carrying value.

	Carrying amount & fair value	
	2018 £'000	2017 £'000
Financial assets		
Cash	537,744	420,849
Trade and other receivables	<u>321,140</u>	<u>218,198</u>
Financial liabilities		
<i>Amortised cost</i>		
Bank overdraft	(7,297)	(7,310)
Trade and other payables	(394,831)	(290,422)
Redeemable preference shares	<u>(32,092)</u>	<u>(32,092)</u>

The income, expense and changes in fair values of financial assets at fair value through profit or loss (FVTPL) recorded in the income statement is as follows:

	2018 £'000	2017 £'000
Net (loss)/gain on financial instruments:		
Net (loss)/gain on derivative instruments	19,456	(17,830)
Net income on interest bearing loans	<u>1,164</u>	<u>177</u>

22. Events which have occurred since the end of the financial year

Company sale to Chrysaor

On 18 April 2019 it was announced that ConocoPhillips Company, the penultimate parent of the company, entered into an agreement to sell two ConocoPhillips United Kingdom subsidiaries, including the company's immediate parent, to Chrysaor E&P Limited for \$2.675 billion, plus interest and customary adjustments. The effective date for the transaction will be 1 January 2018. The transaction is subject to regulatory approval and other specific conditions precedent. The sale is expected to be completed in the second half of 2019.

The company's London-based commercial trading business, its 40.25% interest in Norpipe Terminal Holdco Limited, and its operatorship of the Teesside Oil Terminal are not part of the sale. These activities were transferred out of the company on 1 July 2019 to a new UK ConocoPhillips companies.

All ConocoPhillips pension plans will remain within the wider ConocoPhillips Group and will not be transferred to Chrysaor as part of the proposed sale.

CONOCOPHILLIPS PETROLEUM COMPANY U.K. LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2018

22. Events which have occurred since the end of the financial year (continued)

Dividends

On 21 March 2019 the company declared an interim dividend of £226.5 million, which was paid on 27 March 2019. On 25 June 2019 the company declared an interim dividend of £93.5 million, which was paid on 27 June 2019. On 1 July 2019 the company declared and paid an interim dividend of £113.0 million.

23. 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 2018, 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 2018 Annual Report may be obtained from 925 N. Eldridge Parkway, 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 20th Floor, 1 Angel Court, London, EC2R 7HJ.