

**Registered number: 1491002**

## **CONOCOPHILLIPS (U.K.) THETA LIMITED**

**Annual report and financial statements  
for the year ended 31 December 2010**

**WEDNESDAY**



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# **CONOCOPHILLIPS (U.K.) THETA LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS 2010**

**Board of directors:** P C Warwick  
J M Warrender  
R H Anderson  
A D Hastings  
C W Conway

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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 2010

#### **Principal activities**

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

The principal activities of the company comprise the exploration, development, production of crude oil, natural gas and natural gas liquids. The activities are principally undertaken in the North Sea.

The company also holds the group's investment in ConocoPhillips (U K ) Lambda Limited, a company registered in Ireland.

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 £29.2 million (2009: £57.7 million). The company paid an ordinary dividend of £25.0 million (2009: £80.0 million).

The company's balance sheet, on page 9, of the financial statements, shows the company has net assets of £218.3 million (2009: £214.1 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.

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.

## **CONOCOPHILLIPS (U.K.) THETA LIMITED**

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

#### **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 2010 and 2009, 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 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.

## **CONOCOPHILLIPS (U.K.) THETA LIMITED**

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

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

##### *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.

There are no unrealised commodity derivative contracts at 31 December 2010 (2009 Nil) in relation to the company.

#### **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 £25.0 million (2009 £80.0 million).

The directors did not recommend a final dividend for the year ended 31 December 2010.

On 15 April 2011, the company paid an ordinary dividend to shareholders of £30.0 million.

#### **Directors**

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

A R Halliwell (resigned 5 March 2010)  
T W Fredin (resigned 31 January 2010)  
P C Warwick  
R H Anderson  
A D Hastings  
J M Warrender  
C W Conway (appointed 9 April 2010)

## CONOCOPHILLIPS (U.K.) THETA LIMITED

### Directors' report (continued)

#### 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, 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 H Anderson  
Director

28 June 2011

Registered office  
Portman House  
2 Portman Street  
London  
W1H 6DU

## **CONOCOPHILLIPS (U.K.) THETA 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 (U.K.) THETA LIMITED**

We have audited the financial statements of ConocoPhillips (U K ) Theta Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Accounting Policies and the related notes 1 to 19. 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 2010 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 (U.K.) THETA 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*

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

*4 July* 2011



## CONOCOPHILLIPS (U.K.) THETA LIMITED

### Profit and loss account

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Turnover	1	56,146	91,823
Cost of sales		<u>(40,539)</u>	<u>(39,851)</u>
<b>Operating profit</b>	2	15,607	51,972
Income from shares in group undertakings		<u>20,000</u>	<u>35,000</u>
<b>Profit on ordinary activities before interest and taxation</b>		35,607	86,972
Interest receivable and similar income	5	1,122	2,218
Interest payable and similar charges	6	<u>(2,349)</u>	<u>(2,817)</u>
<b>Profit on ordinary activities before taxation</b>		34,380	86,373
Tax on profit on ordinary activities	7	<u>(5,149)</u>	<u>(28,649)</u>
<b>Profit for the financial year</b>	16	<u>29,231</u>	<u>57,724</u>

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

**CONOCOPHILLIPS (U.K.) THETA LIMITED**

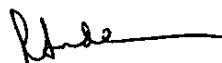
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**Balance sheet**

At 31 December 2010

	<b>Note</b>	<b>2010 £'000</b>	<b>2009 £'000</b>
<b>Fixed Assets</b>			
Tangible assets	9	106,339	110,613
Investments	10	<u>18</u>	<u>18</u>
		106,357	110,631
<b>Current Assets</b>			
Stocks	11	1,018	895
Debtors	12	120,970	118,111
Cash at bank and in hand		<u>86,510</u>	<u>77,340</u>
		208,498	196,346
<b>Creditors – amounts falling due within one year</b>	13	(20,550)	(23,854)
<b>Provisions for liabilities</b>	14	<u>(25,939)</u>	<u>(10,279)</u>
Net current assets		<u>162,009</u>	<u>162,213</u>
<b>Total assets less current liabilities</b>		268,366	272,844
<b>Provisions for liabilities</b>	14	<u>(50,053)</u>	<u>(58,762)</u>
		<u>218,313</u>	<u>214,082</u>
<b>Capital and reserves</b>			
Called up share capital	15	5,502	5,502
Share premium	16	91	91
Revaluation reserve	16	31,910	31,910
Other reserves	16	80,745	80,745
Profit and loss Account	16	<u>100,065</u>	<u>95,834</u>
<b>Shareholder's funds</b>	17	<u>218,313</u>	<u>214,082</u>

The financial statements were approved by the Board of Directors and authorised for issue on 28 June 2011 and signed on its behalf by



R H Anderson  
Director

28 June 2011

## CONOCOPHILLIPS (U.K.) THETA LIMITED

### Statement of accounting policies

For the year ended 31 December 2010

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 of 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.

#### Tangible fixed assets

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.

## CONOCOPHILLIPS (U.K.) THETA LIMITED

### Statement of accounting policies (continued)

For the year ended 31 December 2010

#### 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 which is other than a temporary decline in value.

#### 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 recognised in respect of retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

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.

#### 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.

## CONOCOPHILLIPS (U.K.) THETA LIMITED

### Statement of accounting policies (continued)

For the year ended 31 December 2010

#### 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.

Fixed asset revaluations prior to the implementation of FRS15 are treated as cost under the transitional provisions of FRS15 and the company will not be updating the valuation in the future.

## **CONOCOPHILLIPS (U.K.) THETA LIMITED**

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

For the year ended 31 December 2010

#### **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.

#### **Derivative instruments**

The company, through arrangements with an affiliate company, ConocoPhillips 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 profit and loss account in line with the underlying sales transaction.

#### **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 (U.K.) THETA LIMITED

### Notes to the financial statements

For the year ended 31 December 2010

#### 1. Turnover

Turnover represents the sales amounts derived from the company's production of oil, gas and condensate 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 are principally attributable to the production and trading of hydrocarbons in Europe. No further segmental analysis of turnover and operating profit is provided as the directors believe that this could be seriously prejudicial to the best interests of the company.

#### 2. Operating profit

Operating profit is stated after charging

	2010 £'000	2009 £'000
Depreciation and amortisation - owned assets	<u>16,149</u>	<u>20,795</u>

#### 3. Information regarding directors' and employees

##### (a) Directors' emoluments

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

ConocoPhillips manages its operations at a segmental 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 another group company.

## CONOCOPHILLIPS (U.K.) THETA LIMITED

### Notes to the financial statements (continued)

For the year ended 31 December 2010

#### 4. Auditors' remuneration

	2010 £'000	2009 £'000
Fees payable to the company's auditors for the audit of the company's annual accounts	<u>7</u>	<u>7</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 (U K ) Limited, are required to disclose non-audit fees on a consolidated basis

The auditors' remuneration is borne by another group company

#### 5 Interest receivable and similar income

	2010 £'000	2009 £'000
Bank interest	79	168
Interest received from group companies	<u>1,043</u>	<u>2,050</u>
	<u>1,122</u>	<u>2,218</u>

#### 6. Interest payable and similar charges

	2010 £'000	2009 £'000
Interest paid to group companies	2	1
Unwinding of discount (Note 14)	2,347	2,812
Other interest	<u>-</u>	<u>4</u>
	<u>2,349</u>	<u>2,817</u>



## CONOCOPHILLIPS (U.K.) THETA LIMITED

### Notes to the financial statements (continued)

For the year ended 31 December 2010

#### 7. Tax on profit on ordinary activities

	2010 £'000	2009 £'000
Current tax		
UK corporation tax at 28% and 50% (2009 28% & 50%)	16,604	31,212
Adjustments in respect of prior periods	(1,660)	1,200
Group relief	(1,496)	(1,255)
UK petroleum revenue tax at 50%	2,053	4,153
Total current tax	15,501	35,310
Deferred tax		
Origination and reversal of timing differences	(10,211)	(5,434)
Petroleum revenue tax at 50% (2009 50%)	(141)	(1,227)
Total deferred tax	(10,352)	(6,661)
Taxation on profit on ordinary activities	5,149	28,649

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 charge

	2010 £'000	2009 £'000
Profit on ordinary activities before taxation	34,380	86,373
Current tax charge	15,501	35,310
Effective rate of current tax	45.1%	40.9%

	% profit before tax	
UK corporation tax rate	28.0%	28.0%
Increase/(decrease) resulting from		
UK ring fence corporation tax and supplementary charge	8.3%	12.7%
Timing differences	30.0%	7.1%
Permanent differences	(15.0%)	(9.2%)
Adjustments in respect of prior periods	(4.8%)	1.4%
Group relief	(4.4%)	(1.5%)
Petroleum revenue tax (net of corporation tax)	3.0%	2.4%
Effective current tax rate	45.1%	40.9%

## CONOCOPHILLIPS (U.K.) THETA LIMITED

### Notes to the financial statements (continued) -

For the year ended 31 December 2010

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

The statutory rate of UK corporation tax on profits other than ring fence oil and gas profits was 28% (2009 28%) With effect from 1 April 2011 the enacted UK corporation tax rate has been reduced to 27% It is anticipated that this rate will be further reduced to 26% by subsequent legislation The company expects that its total effective tax rate on profits will continue to exceed the UK statutory corporation tax rate of 28% (27% effective 1 April 2011) as a consequence of ring fence corporation tax and the supplementary charge applying to its ring fence profits

With effect from 24 March 2011, the rate of supplementary charge was increased from 20% to 32% in respect of Ring Fence profits The relevant legislation is expected to be enacted around July 2011 The one-time restatement of the company's deferred taxation liability as at 31 December 2010 to the revised rate will result in an additional taxation charge of approximately £1.9 million in the 2011 financial statements

In 2012, it is anticipated that the rate of supplementary corporation tax relief available in respect of decommissioning costs will be restricted to 20%

#### 8. Dividends on equity shares

Amounts recognised as distributions to equity holders in the year

	2010 £'000	2009 £'000
Interim dividend for the year ended 31 December 2010 of £4.77 (2009 £15.28) per ordinary share	<u>25,000</u>	<u>80,000</u>
	<u>25,000</u>	<u>80,000</u>

There are no proposed final dividends for the year ended 31 December 2010 (2009 Nil)

On 15 April 2011, the company paid an ordinary dividend to shareholders of £30.0 million

## CONOCOPHILLIPS (U.K.) THETA LIMITED

### Notes to the financial statements (continued)

For the year ended 31 December 2010

#### 9. Tangible fixed assets

	<b>Production &amp; development costs £'000</b>
<b>Cost or valuation</b>	
At 1 January 2010	446,498
Additions	<u>11,875</u>
At 31 December 2010	<u>458,373</u>
<b>Depreciation</b>	
At 1 January 2010	335,885
Charge in year	<u>16,149</u>
At 31 December 2010	<u>352,034</u>
<b>Net book value</b>	
At 31 December 2010	<u>106,339</u>
At 31 December 2009	<u>110,613</u>

On 1 January 1997, the tangible assets of the company were revalued to the fair value of the consideration paid for them by Saga Petroleum International Holdings Limited, the company's ultimate parent company in the UK prior to its acquisition by ConocoPhillips (U K ) Limited. Subsequent to the company's acquisition by ConocoPhillips (U K ) Limited, the company took advantage of the transitional provisions of FRS15 and will not be updating the valuation in the future.

# CONOCOPHILLIPS (U.K.) THETA LIMITED

## Notes to the financial statements (continued)

For the year ended 31 December 2010

### 10. Fixed asset investments

#### Cost

At 1 January & 31 December 2010

**Subsidiary  
undertakings  
£'000**

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#### Particulars of principal subsidiary undertakings:

ConocoPhillips (U K ) Lambda Limited

#### Principal activities

Oil exploration & production

The company holds 100% of the ordinary share capital and voting rights and 99% of the company's €1 26997 shares in ConocoPhillips (U K ) Lambda 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 (U K ) Limited, for which consolidated financial statements are prepared

### 11. Stocks

	<b>2010 £'000</b>	<b>2009 £'000</b>
Raw materials and consumables	<u>1,018</u>	<u>895</u>

### 12. Debtors

	<b>2010 £'000</b>	<b>2009 £'000</b>
Trade debtors	7,464	6,376
Amounts owed by group companies	111,242	111,735
Other debtors	<u>2,264</u>	<u>-</u>
	<u>120,970</u>	<u>118,111</u>

Amounts owed by group companies, include an interest-bearing loan of £80 0 million (2009 £80 0 million) with no specific repayment date. The interest rate is variable and linked to LIBOR. The remainder of the balance arises in the company's normal course of business

All amounts due within one year

## CONOCOPHILLIPS (U.K.) THETA LIMITED

### Notes to the financial statements (continued)

For the year ended 31 December 2010

#### 13. Creditors

	2010 £'000	2009 £'000
Amounts owed to group companies	12,374	12,636
Current tax	2,278	5,882
Accruals and deferred income	5,898	5,336
	<u>20,550</u>	<u>23,854</u>

#### 14. Provisions for liabilities

	Decommissioning provision £'000	Deferred credits £'000	Deferred taxation £'000	Total £'000
At 1 January 2010	49,557	2,575	16,909	69,041
Adjustment for change in discount rate	5,527	-	-	5,527
Unwinding of discount (Note 6)	2,347	-	-	2,347
Changes in estimates of existing obligations	12,919	-	-	12,919
Costs incurred on existing obligations	(2,580)	-	-	(2,580)
Credited to profit & loss account	-	(1,156)	(10,352)	(11,508)
Receipts & payments	-	246	-	246
At 31 December 2010	<u>67,770</u> (a)	<u>1,665</u> (b)	<u>6,557</u> (c)	<u>75,992</u>
<b>At 31 December 2010</b>				
Current	25,939	-	-	25,939
Non-current	<u>41,831</u>	<u>1,665</u>	<u>6,557</u>	<u>50,053</u>
	<u>67,770</u>	<u>1,665</u>	<u>6,557</u>	<u>75,992</u>
<b>At 31 December 2009</b>				
Current	10,279	-	-	10,279
Non-current	<u>39,278</u>	<u>2,575</u>	<u>16,909</u>	<u>58,762</u>
	<u>49,557</u>	<u>2,575</u>	<u>16,909</u>	<u>69,041</u>

# CONOCOPHILLIPS (U.K.) THETA LIMITED

## Notes to the financial statements (continued)

For the year ended 31 December 2010

### 14. Provisions for liabilities (continued)

- (a) At 31 December 2010, the provision for the future costs of decommissioning oil and natural gas production and related facilities was £67.8 million (2009 £49.6 million). The provision has been estimated using the present value of future decommissioning costs, inflated at 2.5% (2009 2.5%) and discounted at 3.4% or 4.4% where settlement is expected within 10 years and after 10 years respectively (2009 3.4% and 5.6%). 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.
- (b) Deferred credit balances relate to amounts outstanding for "Take or Pay" or "Send or Pay" arrangements in respect of transportation systems and dedicated gas contracts, where economic benefits are expected to transfer over the course of the related asset useful lives.
- (c) Deferred taxation

	2010 £'000	2009 £'000
<b>Analysis of movements during the year</b>		
At 1 January	16,909	23,570
Profit and loss account (Note 7)	(10,352)	(6,661)
At 31 December	6,557	16,909
	2010 £'000	2009 £'000
<b>Analysis of provision</b>		
Accelerated capital allowances	38,727	39,903
Petroleum Revenue Tax (PRT)	(727)	(657)
Decommissioning	(33,885)	(24,779)
Other timing differences	2,442	2,442
	6,557	16,909

### 15. Called up share capital

Allotted, called up and fully-paid	2010 £'000	2009 £'000
5,240,000 ordinary "A" shares of £1.00 each	5,240	5,240
5,240,000 ordinary "B" shares of £0.05 each	262	262
	5,502	5,502

## CONOCOPHILLIPS (U.K.) THETA LIMITED

### Notes to the financial statements (continued)

For the year ended 31 December 2010

#### 16. Reserves

	Share premium £'000	Revaluation reserve £'000	Other reserves £'000	Profit & loss account £'000
At 1 January 2010	91	31,910	80,745	95,834
Profit for the financial year	-	-	-	29,231
Dividends paid	-	-	-	(25,000)
At 31 December 2010	<u>91</u>	<u>31,910</u>	<u>80,745</u>	<u>100,065</u>

On 1 January 1997, the tangible assets of the company were revalued to the fair value of the consideration paid for them by Saga Petroleum International Holdings Limited, the company's ultimate parent company in the UK prior to its acquisition by ConocoPhillips (U K ) Limited. Subsequent to the company's acquisition by ConocoPhillips (U K ) Limited, the company took advantage of the transitional provisions of FRS15 and will not be updating the valuation in the future.

Other reserves relate to amounts contributed to the company by its immediate parent undertaking. In April 1998, the company received a capital contribution of \$80.0 million (£49.7 million) by way of a transfer of a promissory note with Saga Petroleum International AS. The promissory note was subsequently cancelled in exchange for repayment of amounts due to Saga Petroleum International AS by the company. In November 1998 the company received a further capital contribution of \$50.0 million (£31.0 million) from its immediate parent undertaking by way of cash.

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

	2010 £'000	2009 £'000
Profit for the financial year	29,231	57,724
Dividends paid	<u>(25,000)</u>	<u>(80,000)</u>
Net increase/(decrease) in shareholder's funds	4,231	(22,276)
Opening shareholder's funds	<u>214,082</u>	<u>236,358</u>
Closing shareholder's funds	<u>218,313</u>	<u>214,082</u>

## CONOCOPHILLIPS (U.K.) THETA LIMITED

### Notes to the financial statements (continued)

For the year ended 31 December 2010

#### 18. Financial commitments

##### (a) Capital commitments

At 31 December commitments for future capital expenditure were as follows

	2010 £'000	2009 £'000
Contracted but not provided for	<u>1,643</u>	<u>4,955</u>

#### 19. 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 2010, 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 2010 Annual Report may be obtained from 600 North Dairy Ashford, Houston, TX 77079, USA.

ConocoPhillips (U K ) 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 (U.K.) THETA LIMITED**

THE FOLLOWING SUPPLEMENTARY  
INFORMATION IS UNAUDITED

## CONOCOPHILLIPS (U.K.) THETA 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:

	2010 £'000	2009 £'000
<b>Gross capitalised costs</b>		
Proved properties	458,373	446,498
Accumulated depreciation & amortisation	<u>(352,034)</u>	<u>(335,885)</u>
<b>Net capitalised costs</b>	<u>106,339</u>	<u>110,613</u>

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

	2010 £'000	2009 £'000
Turnover	56,146	91,823
Production costs	(24,390)	(19,056)
Depreciation & amortisation	<u>(16,149)</u>	<u>(20,795)</u>
	15,607	51,972
Allocable taxes	<u>(6,011)</u>	<u>(29,436)</u>
Results of operations & production	<u>9,596</u>	<u>22,536</u>