CIECO Exploration and Production (UK) Limited

Annual Report and Accounts for the year ended 31 December 2007

Company Registration Number: 2669936

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CIECO Exploration and Production (UK) Limited

Officers and professional advisers

Directors

Mr S Nakayama
Mr M Takagi
Mr Y Seiya
Mr M Katsumata

Secretary

Mr M Katsumata

Registered Office

CIECO Exploration and Production (UK) Limited
River Plate House
7-11 Finsbury Circus
London
EC2M 7DH

Bankers

Bank of Tokyo-Mitsubishi UFJ Limited
12-15 Finsbury Circus
London
EC2M 7BT

Mizuho Corporate Bank Limited
River Plate House
7-11 Finsbury Circus
London
EC2M 7DH

Sumitomo Mitsui Banking Corporation Europe Limited
Temple Court
11 Queen Victoria Street
London
EC4A 3TR

Solicitors

CMS Cameron McKenna LLP
Mitre House
160 Aldersgate St
London
EC1A 4DD

Auditors

Deloitte & Touche LLP
Chartered Accountants
London

CIECO Exploration and Production (UK) Limited

Report of the directors

The directors submit their annual report and audited accounts for the year ended 31 December 2007

Principal activities

The principal activities of the Company are oil & gas exploration, development and production on the UK Continental Shelf

The Company has equity interests in the Hutton (10 79%), North West Hutton (25 77%), Hudson (25 77%) and Q-West (12 75%) oilfields, together with associated interests in pipelines, and terminal facilities and attendant acreage.

The Company also provides technical, commercial financial and legal advisory services to other members of the ITOCHU Corporation group

Business review

The Company's net production for 2007 from the Hudson oilfield amounted to 0 871 million stock tank barrels (2006 0 732 million) The average sales price realised in the year was £34 42 a barrel (2006 £33.32) or £29 25 a barrel (2006· £27 09) after taking account of financial instruments used to manage the Company's oil price risk The cost of production in the year was £13 46 a barrel (2006 £14 87)

During 2008 it is anticipated that production will continue from the Hudson oilfield The main work programme for the decommissioning of the North West Hutton oilfield will continue Exploration opportunities on the acreage within which the Hudson field is located are being pursued The Company will continue to provide technical, commercial and financial advisory services

During 2007 the Company has entered into two farm-in agreements with Faroe Petroleum Plc The first agreement allows the Company to farm-in a 12.5% interest in the Faroes Continental Shelf Exploration and Production Licence 005 Part Blocks 6004/1,2,3,6,7 and 8. On completion of first farm in agreement, the Company also has an option to farm in 2 5% of the interest in the UKCS Licence P 1192 Blocks 213/20b, 214/16b and 213/25c.

Financial risk management objectives and policies

The Company's remaining oil and gas reserves can only be calculated with a degree of uncertainty and will only be known when production from each oil and gas field has ceased The Company manages the operations and monitors the performance of each of the Company's oil and gas fields so that optimum commercial recovery of reserves can be achieved and to maintain proper estimates of its remaining proven and probable reserves, which are used for some of the accounting estimates and reported in the 'Oil and gas reserve statistics'

The Company is exposed to oil price and currency exchange rate variations over which it has no control Where the directors deemed it appropriate the Company manages these risks by taking future contracts to fix the prices and/or exchange rates for part of its anticipated future production

The Company has no external floating rate debt and consequently is not exposed to interest rate risk.

The Company has sufficient cash resources in order to maintain its ongoing operations and future developments

The Company currently sells all its production to a major oil company and believes that there is no significant credit risk associated with these sales

Results and dividends

The profit for the year ended 31 December 2007 was £2,217,000 (2006 loss of £6,078,000) The directors do not recommend a dividend be paid (2006 £nil)

Supplier payment policy

It is Company policy to settle all debts with creditors on a timely basis and in accordance with the terms of credit agreed with each supplier.

Directors

The directors who served during the year were as follows

Mr M Takagi
Mr S Nakayama (appointed 1 June 2007)
M Y Seiya
Mr N Takei (resigned 1 June 2007)
Mr M Katsumata (appointed 8 January 2007)

CIECO Exploration and Production (UK) Limited

None of the directors held any shares in the Company's ultimate holding company, ITOCHU Corporation, or in any other group company as at 31 December 2007 except as noted below

	ITOCHU Corporation 31 December 2007
Mr M. Takagi	13,042

Mr M Katsumata was appointed as company secretary on 8 January 2007.

Auditors

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

i) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

ii) the director has taken all the steps that he ought to have taken as a director in order to make himself 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 s234Za of the Companies Act 1985

Elective resolutions are in force to dispense with the obligations of laying the Annual Report before the Company in general meeting and holding Annual General Meetings. The Company is therefore not obliged to reappoint the auditors annually and Deloitte & Touche LLP will continue in office.

By order of the Board

Mr M. Katsumata
Director
28 March 2008

Registered Office
River Plate House
7-11 Finsbury Circus
London
EC2M 7DH

CIECO Exploration and Production (UK) Limited

Directors' Statement of Responsibilities

The dırectors are responsıble for preparıng the Annual Report and the financıal statements ın accordance wıth applıcable law and regulatıons

Company law requıres dırectors to prepare financıal statements for each financıal year Under the law the dırectors have elected to prepare the financıal statements ın accordance wıth Unıted Kıngdom Generally Accepted Accountıng Practıce (Unıted Kıngdom Accountıng Standards and applıcable law). The financıal statements are requıred by law to gıve a true and faır vıew of the state of affaırs of the Company and of the profit and loss of the Company for that perıod In preparıng these financıal statements, the dırectors are requıred to

- select suıtable accountıng polıcıes and then apply them consıstently,
- make ȷudgements and estımates that are reasonable and prudent,
- state whether applıcable UK Accountıng Standards have been followed, and
- prepare the financıal statements on the goıng concern basıs unless ıt ıs ınapproprıate to presume that the Company wıll contınue ın busıness

The dırectors are responsıble for keepıng proper accountıng records whıch dısclose wıth reasonable accuracy at any tıme the financıal posıtıon of the Company and enable them to ensure that the financıal statements comply wıth Companıes Act 1985 They are also responsıble for safeguardıng the assets of the Company and hence for takıng reasonable steps for the preventıon and detectıon of fraud and other ırregularıtıes

CIECO Exploration and Production (UK) Limited

Independent Auditor's report to the members of
CIECO Exploration and Production (UK) Limited

We have audited the financial statements of CIECO Exploration and Production (UK) Limited for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes 1 to 21 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 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 auditors' 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the other information contained in the Annual Report as described in the contents section, and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any further information outside the Annual Report

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion.

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
28 March 2008

CIECO Exploration and Production (UK) Limited

Profit and loss account for the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Turnover	1, 2 & 5	33,913	26,975
Cost of sales	5	(13,672)	(11,842)
Depletion	4	(8,593)	(15,383)
Gross profit/(loss)		11,648	(250)
Administrative expenses	4,5,6,19	(1,051)	(1,022)
Operating profit/(loss)	4	10,597	(1,272)
Interest receivable and similar income	7	1,745	1,428
Interest payable and similar charges	8	(7,875)	(9,469)
Profit/(loss) on ordinary activities before taxation		4,467	(9,313)
Tax on profit/(loss) on ordinary activities	9	(2,250)	3,235
Profit/(loss)for the year	17	2,217	(6,078)
Profit and loss account brought forward		(21,718)	(15,640)
Profit and loss account carried forward		(19,501)	(21,718)

All income and expenditure relates to continuing activities

There have been no recognised gains or losses for the current financial year other than the profit of £2,217,000 (2006 loss £6,078,000) shown above. Consequently no statement of total recognised gains and losses is presented with these financial statements

The result as shown in the profit and loss account is not materially different from the result on an unmodified historical cost basis

The notes on pages 13 to 33 form part of these financial statements

CIECO Exploration and Production (UK) Limited

Balance sheet as at 31 December 2007

	Notes	2007 £000	2006 £000
Fixed assets			
Intangible fixed assets	10	407	-
Oil and gas assets	11	5,474	5,294
Other tangible assets	11	268	330
Total		6,149	5,624
Current assets			
Stocks	12	125	221
Debtors	5 & 13	20,504	24,251
Short term investments		22,642	13,489
Cash at bank and in hand	18(d)	30	14
		43,301	37,975
Current liabilities			
Creditors amounts falling due within one year	5 & 14	(6,706)	(7,138)
Net current assets		36,595	30,837
Total assets less current liabilities		42,744	36,461
Provisions for liabilities	15	(37,719)	(33,653)
Net Assets		5,025	2,808
Capital and reserves			
Called up share capital	16	24,526	24,526
Profit and loss account		(19,501)	(21,718)
Equity shareholders' funds	17	5,025	2,808

These financial statements were approved by the Board of Directors on 28 March 2008

The notes on pages 13 to 33 form part of these financial statements

Signed on behalf of the Board of Directors

Mr M. Katsumata
Director

CIECO Exploration and Production (UK) Limited

Cash flow Statement for the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Operating activities			
Net cash inflow from operating activities	18(b)	26,307	9,973
Returns on investments and servicing of finance	18(a)	(2,346)	(3,717)
Taxation		(6,905)	(1,557)
Capital expenditure and financial investments	18(a)	(7,625)	(3,518)
Cash inflow before management of liquid resources and financing		9,431	1,181
Management of liquid resources	18(a)	(9,290)	(1,243)
Increase/(decrease) in cash in the year	18(c)	141	(62)

The notes on pages 13 to 33 form part of these financial statements.

Notes to the accounts for the year ended 31 December 2007

Note 1. Statement of accounting policies

i) Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards including, with the exception of the Company's accounting policy for depletion and depreciation (see below), the Statement of Recommended Practice "Accounting for oil and gas exploration and development activities" as published by the Oil Industry Accounting Committee (the "Oil and Gas SORP")

ii) Joint arrangements

The Company's exploration, development and production activities are generally conducted in joint arrangements with other companies The accounts reflect the relevant proportions of production, capital expenditure and operating costs applicable to the Company's interests The effects of re-determinations of equity interests in joint arrangements are accounted for when the outcome of the re-determination is known In the case of producing fields, adjustments to past production entitlements arising therefrom are accounted for in the manner agreed with other companies participating in the arrangements, usually by means of adjustments to future production entitlements

iii) Oil and gas exploration and development activities

Exploration, appraisal and development costs are accounted for under the full cost policy as set out in the Oil and Gas SORP

Exploration and appraisal costs are initially capitalised to intangible fixed assets until the determination or cessation of exploration (see policy (iv)) All costs associated with exploring for and developing oil and gas reserves are capitalised into one pool within oil and gas assets, irrespective of the success or failure of specific parts of the overall exploration activity Such costs include the net present value at inception of the expected cost of decommissioning in accordance with accounting policy (vi).

Costs capitalised to oil and gas assets are written off based on the "unit-of-production basis" in accordance with accounting policy (vii) Costs recognised in the calculation are the undepleted balance, including capitalised interest on financing for development purposes during the period prior to commencement of production, together with estimated future development costs Costs capitalised to intangibles assets are not depleted until these costs are transferred to oil and gas assets

Note 1. Statement of accounting policies (continued)

Interest on borrowings to finance fixed asset expenditure is capitalised during the period prior to commencement of production from those facilities, except to the extent that such capitalisation would necessitate a provision under a ceiling test calculation, calculated as follows

The net amount at which fields, either in production, under or being considered for development, are recorded in the accounts, are assessed on a pool-by-pool basis against the likely future net revenues to be derived from the estimated remaining commercial reserves. The assessment is made on the basis of future oil prices, exchange rates and cost levels forecast at the balance sheet date A provision for impairment is made by way of accelerated depreciation where the carried value of the assets exceeds the discounted future net cash flows to be derived from its estimated remaining commercial reserves.

iv) Intangible fixed assets

Exploration costs are initially capitalised as intangible fixed assets and are non-depletable interests Costs are transferred to tangible fixed assets and treated as depletable interests from commencement of production or upon determination of non commerciality or cessation of exploration on each licence

v) Commercial reserves

Commercial reserves are proven and probable reserves that are the estimated quantities of crude oil, natural gas and gas liquids which geological, geophysical and engineering data demonstrate to be recoverable from known reservoirs in future years and which can be commercially produced

vi) Decommissioning

Decommissioning licences are generally required to restore oil and gas field sites at the end of the producing lives of the fields to a condition acceptable to the relevant authorities The expected cost of decommissioning, discounted to its net present value, is recorded as a provision with a corresponding addition within oil and gas assets when the installation of facilities has had an environmental impact The capitalised cost is amortised over the life of the operation on a unit-of-production basis and the increase in the net present value of the expected liability is included in interest charges

Note 1. Statement of accounting policies (continued)

vii) Depletion and depreciation

Those costs that have been capitalised to oil and gas assets, together with anticipated future development costs of fields in production calculated at price levels ruling at the balance sheet date, are depleted on a unit-of-production basis Depletion is calculated on a field-by-field basis by reference to the proportion that production for the year bears to the total of the estimated remaining commercial reserves as at the end of the period plus production in the period

The calculation of depletion on a field-by-field basis is a departure from the principles of full cost accounting as set out in the Oil and Gas SORP, which recommends the calculation be made on a pool-by-pool basis The policy adopted is consistent with recent developments in International Financial Reporting Standards as they apply to full cost accounting companies and directors consider that this is a more appropriate policy for the Company.

Intangible assets are not depleted until such time as they are transferred to oil and gas assets, at which point those costs not relating to commercially viable activities are maintained separately from other field assets and are depleted on a unit of production and pool by pool basis in line with Oil and Gas SORP

Depreciation on all other tangible fixed assets is provided on a 25% reducing balance basis

viii) Effect of changing estimates

Changes in estimates affecting unit-of-production calculations for petroleum revenue tax are accounted for prospectively over the estimated remaining commercial reserves of each field.

Changes in estimates affecting unit-of-production calculations for depletion is accounted for prospectively over the estimated remaining commercial reserves of the pool

ix) Turnover

Turnover represents the invoiced value of petroleum products sold during the year Turnover also includes consultancy costs recharged to other group entities

x) Overlift and underlift

Lifting or offtake arrangements are frequently such that an imbalance between cumulative production entitlement and cumulative sales at the reporting date occur Where material, an adjustment at market value in respect of overlift or underlift is recorded against cost of sales and creditors or debtors as applicable

Note 1. Statement of accounting policies (continued)

xi) Stocks

The Company's share of material and supplies, such as drill-pipe, well casing, stock of oil within the Brent System pipelines and field production and maintenance material, are included in current assets at the lower of cost and net realisable value

xii) Taxation

Petroleum revenue tax and corporation tax are provided on the relevant taxable profits at the current rates

Deferred corporation tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements Deferred corporation tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered Deferred corporation tax assets and liabilities are not discounted

Provision is made for deferred petroleum revenue tax, where required, over the expected life of each field on a unit-of-production basis taking into account the estimated benefit of uplift, oil allowance, safeguard and decommissioning costs

xiii) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at the relevant rate of exchange prevailing at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are restated into sterling at the rates of exchange ruling at the balance sheet date

Foreign exchange gains and losses are recognised in the profit and loss account for the year

xiv) Pension costs

For defined benefit schemes and defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Note 1. Statement of accounting policies (continued)

xv) **Leases**

Operating lease rentals are charged to the profit and loss account in equal annual amounts over the lease term

xvi) **Liquid resources**

The Company classifies short-term cash deposits which can be called on demand without any material penalty within short term investments and as liquid resources for the purposes of the cash flow statement

xvii) **Hedge contracts**

The Company had previously entered into several oil price contracts covering part of its oil production. The contracts were for specific volumes of oil over periods of three months Any amount receivable or payable by the Company is dependent on the average oil price over the period of the contract compared to the fixed contract price If the average oil price is below the fixed contract price the Company receives the difference between the average price and the fixed price for the contracted volumes If the average oil price is above the fixed contract price the Company pays the difference The directors have used these contracts to provide a hedge against future oil prices and any gains or losses arising from these contracts are only recognised when the exposure that is being hedged is itself recognised

Note 2. Turnover

All the Company's activities are currently within the United Kingdom and consequently no segmental analysis is required Similarly as only one depletion pool is operated, profits and net operating assets are not analysed by geographical area

Note 3. Impairment of fixed assets

As at the 31 December 2007 the directors performed an impairment test on the carrying value of the Company's oil and gas assets. The test indicated that forecast future cash flows are sufficient to cover the carrying value and there is no impairment

Note 4. Operating profit/(loss)

Operatıng profit/(loss) ıs stated after chargıng

	2007 £000	2006 £000
Operatıng leases		
Office rental	103	71
Depletıon of Oıl and Gas assets	8,593	15,383
Depreciatıon of other tangıble fixed assets	89	110
Fees payable for the audıt of the Company's annual account	36	34

Note 5. Related Party Transactions

The ITOCHU Corporatıon

- Included within turnover ıs income of £99,145 (2006 £129,540) from ITOCHU Oil Exploratıon (Azerbaıjan) Inc (IOEA) for consultancy servıces provıded by the Company £99,145 (2006. £57,540) ıs ıncluded wıthın amounts due from fellow subsıdıary companıes at the year-end

- Included wıthın turnover ıs ıncome of £76,876 (2006 £115,128) from ITOCHU Oıl Exploratıon (BTC) Inc (IOEB) for consultancy servıces provıded by the Company £76,876 (2006· £52,128) ıs ıncluded wıthın amounts due from fellow subsıdıary companıes at the year-end

- Included wıthın turnover ıs ıncome of £16,589 (2006 £24,576) from Japan Ohanet Oıl & Gas Co Lımıted (JOOG) for consultancy servıces provıded by the Company £16,589 (2006 £575) ıs ıncluded wıthın amounts due from fellow subsıdıary companıes at the year-end

- Included wıthın turnover ıs ıncome of £982,092 (2006 £559,418) from ITOCHU Corporatıon for consultancy servıces provıded by the Company £868,362 (2006· £288,980) ıs ıncluded wıthın amounts due from parent companıes at the year-end.

- Included wıthın turnover ıs ıncome of £119,669 (2006 £Nıl) from CIECO Exploratıon and Productıon Namıbıa Co Ltd for consultancy servıces provıded by the Company £119,669 (2006 £Nıl) ıs ıncluded wıthın amounts due from parent companıes at the year-end

- Included wıthın turnover ıs ıncome of 91,149 (2006. £Nıl) from IPC Europe Ltd for consultancy servıces provıded by the Company £10,957 (2006 £Nıl) ıs ıncluded wıthın amounts due from fellow subsıdıarıes companıes at the year-end

- Included wıthın turnover ıs ıncome of £8,825 (2006 £34,731) from CIECO Energy (UK) Lımıted (ENERGY) for consultancy servıces provıded by the Company £418,051 (2006 £498,343) ıs ıncluded wıthın amounts due to fellow subsıdıary companıes at the year-end

Note 5. Related Party Transactions (continued)

- Included within turnover is income of £255,837 (2006 £295,598) from CIECO Energy (UKCS) Limited (UKCS) for consultancy services provided by the Company £264,675 (2006 £301,882) is included within amounts due from fellow subsidiary companies at the year-end

- Included within turnover is income of £45,148 (2006 £52,164) from CIECO Energy (CNS) Limited (CNS) for consultancy services provided by the Company £50,235 (2006· £54,797) is included within amounts due from fellow subsidiary companies at the year-end

- Included within turnover are oil sales of £Nil (2006· £8,531,853) to ITOCHU Petroleum (Singapore) Pte Limited (IPCSPR) At the year-end £Nil (2006 £Nil) is included within amounts due to fellow subsidiary companies for monies received from IPCSP for oil not sold at the balance sheet date

- Included within administrative expenses are charges of £24,000 (2006. £17,667) to ITOCHU Europe PLC (ITCE) for treasury payroll and management services £23,747 (2006 £Nil) is included within amounts due to fellow subsidiary companies at the year-end

- Included within administrative expenses are charges of £153,505 (2006 £164,834) to ITOCHU Oil Exploration Co Limited, for support services primarily of a technical and administrative nature This amount is included within amounts due to fellow subsidiary companies at the year-end

- Included within administrative expenses are charges of £91,308 (2006 £98,307) to ITOCHU Corporation, for support services primarily of a legal, financial, commercial and administrative nature

- Included within cost of sales are charges of £4,354 (2006 £3,081) from IPCSPR for services provided

- Included within interest receivable are receipts of £861,279 (2006 £773,611) from Energy for interest receivable on loans made to that company

- Included within amounts due from fellow subsidiary companies are inter-company loans to Energy The amounts due at year-end are £10,500,000 (2006· £10,772,004) and US$Nil (£Nil) (2006 US$8,242,678 (£4,211,464)

IOEA, IOEB, IOEC, JOOG, ITCE, ENERGY, UKCS, CNS, IPCSPR, CIECO E&P (Namibia) Co Ltd, IPC and ITOCHU Oil Exploration Co. Ltd are subsidiaries of ITOCHU Corporation

All of the directors and the secretary of the Company are employees of ITOCHU Oil Exploration Co. Ltd and ITOCHU Corporation

CIECO Exploration and Production (UK) Limited

Note 6. Directors and employees

Dunng the year the average monthly number of employees ın the Company was ten (2006 nıne)

Amounts paıd by the Company ın respect of these employees were as follows

	2007	2006
	£000	**£000**
Wages and salarıes	1,612	1,236
Socıal securıty costs	38	39
Pensıon contrıbutıons	78	54
Total	1,728	1,329

Staff costs ınclude remuneratıon ın respect of dırectors as follows -

	2007	2006
	£ 000	**£ 000**
Dırectors' emoluments (excludıng pensıon contrıbutıons)	772	418

The emolument of the hıghest paıd dırector was £282,536 (2006 £218,979)
None of the dırectors made contrıbutıons to eıther the defined benefit scheme or the defined contrıbutıon pensıon scheme durıng the year (2006 £nıl)

Note 7. Interest receivable and similar income

	2007 £000	2006 £000
Bank interest receivable	884	654
Interest receivable from fellow subsidiary	861	774
Total	1,745	1,428

Note 8. Interest payable and similar charges

	2007 £000	2006 £000
Losses on forward oil contracts	4,792	4,791
Finance charges	79	43
Unwinding of discounts on decommissioning provision (Note 15)	2,484	3,297
Interest payable on corporation tax underpaid	-	36
Effect of foreign exchange rates changes	514	1,290
Bank guarantee fees	6	12
Total	7,875	9,469

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

ı) Analysıs of tax charge/(credıt) ın the penod

	2007 £000	2006 £000
Current tax		
Corporatıon tax at 50% (2006: 50%)	3,834	2,872
Corporatıon tax – adjustment to pnor years	22	99
Total current tax charge	3,856	2,971
Deferred tax		
Tımıng dıfference ongınatıon and reversal (Note 15)	(1,606)	(6,206)
Total deferred tax	(1,606)	(6,206)
Tax charge/(credıt) on profit/(loss) ın the penod	2,250	(3,235)

The rate of corporatıon tax charged on the Company of 50% (2006 50%) compnses the standard corporatıon tax rate of 30% (2006 30%) plus a 20% (2006 20%) supplementary charge ın respect of nng-fence trades ın the North Sea.

ıı) Factors affectıng the tax charge for the penod

	2007 £000	2006 £000
Profit/(loss) on ordınary actıvıtıes before tax	4,467	(9,313)
Corporatıon tax at the UK nng fence rate of 50% (2006 50%)	2,234	(4,656)
Effects of		
Expenses not deductıble for corporatıon tax purposes	1,262	1,674
Capıtal allowance lower than deprecıatıon	3,676	7,138
Other deferred tax movements	(3,079)	(1,256)
Items taxed @30%	(377)	(301)
Expenses not deductıble for SCT purposes	118	273
Pnor penod adjustment	22	99
Current tax charge for the penod	3,856	2,971

ııı) Factors that may affect the future tax charge

A deferred tax asset of £7,541,000 (2006: £6,121,000) has been recognısed ın respect of tımıng dıfferences relatıng to the decommıssıonıng provısıon where they are expected to reverse ın the future as tax relıef ıs gaıned on decommıssıonıng expendıtures An addıtıonal deferred tax asset of £15,268,000 (2006· £10,705,000) has not been recognısed ın respect of tımıng dıfferences relatıng to the decommıssıonıng provısıon as there ıs ınsuffıcıent evıdence that the tax asset would be recovered The asset would be recovered ıf suffıcıent taxable profits were to anse ın the future.

Note 10. Intangible fixed assets

	Oil & gas interests £000
Balance as at 1 January 2007	-
Additions	761
Reclassification to tangible fixed assets	(354)
Balance as at 31 December 2007	407
Balance as at 31 December 2006	-

The Company's exploration costs during 2007 include £407,000 (2006 £Nil) incurred on two farm in exploration licences in Faroe Island and the UKCS As per SORP these costs are capitalised as Intangible fixed asset pending determination The remaining exploration costs were transferred to the pool of tangible fixed assets to be depreciated over future production as these exploration costs did not identify any commercial reserves

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Note 11. Tangible fixed assets

	Oil and Gas Assets	Short Leasehold	Fixtures and Fittings	Total
	£000	£000	£000	£000
Cost				
Balance as at 1 January 2007	189,765	381	245	190,391
Additions	679	14	13	706
Change in decommissioning estimate (Note 15)	7,740	-	-	7,740
Transfer from intangible fixed assets	354	-	-	354
Balance as at 31 December 2007	198,538	395	258	199,191
Depletion and depreciation				
Balance as at 1 January 2007	184,471	155	141	184,767
Charge for the year	8,593	60	29	8,682
Balance as at 31 December 2007	193,064	215	170	193,449
Net book value as at 31 December 2007	5,474	180	88	5,742
Net book value as at 31 December 2006	5,294	226	104	5,624

Included within oil and gas assets is a cumulative cost balance of £7,037,000 (2006 £7,037,000) for capitalised interest, relating to the project loan for the Hudson field

A ceiling test was conducted at 31 December 2007 in accordance with accounting policy (iii) All oil and gas assets passed the ceiling test

The cost of oil and gas assets includes £48,503,000 (2006 £40,763,000) relating to capitalised decommissioning costs.

Note 12. Stocks

	2007 £000	2006 £000
Oil stocks	125	221

Note 13. Debtors: amounts receivable within one year

	2007 £000	2006 £000
Trade debtors	1,153	1,112
Amounts due from parent company	868	289
Amounts due from fellow subsidiary companies	10,720	14,952
Other debtors	20	47
Prepayments and accrued income	208	348
Oil underlift	150	2,553
Corporation tax	829	-
Deferred tax asset (Note 15)	6,556	4,950
Total	20,504	24,251

Note 14. Creditors: amounts falling due within one year

	2007 £000	2006 £000
Trade creditors	46	142
Amounts due to parent company	-	19
Amounts due to fellow subsidiary companies	187	150
Corporation tax	-	2,769
Accruals and deferred income	6,473	4,058
	6,706	7,138

Note 15. Provision for liabilities

A. Provision for deferred corporation tax

i) Movement on deferred tax balance in the period

	2007 £000	2006 £000
Opening balance	4,950	(1,256)
Credit to profit and loss account	1,606	6,206
Closing balance	6,556	4,950

ii) Analysis of deferred corporation tax balance

	2007 £000	2006 £000
Accelerated capital allowances	(985)	(1,171)
Decommissioning provision	7,541	6,121
Undiscounted provision for deferred tax	6,556	4,950

B. Provision for decommissioning

	2007 £000	2006 £000
Opening balance	(33,653)	(20,014)
Revision to cost estimates (Note 11)	(7,740)	(12,952)
Unwinding of discounted amount (Note 8)	(2,484)	(3,297)
Utilisation of provision	6,158	2,610
Closing balance	(37,719)	(33,653)

Provision has been made in accordance with the Oil and Gas SORP for decommissioning costs, in accordance with accounting policy (vi), calculated as the present value of decommissioning costs expected to be incurred between 2008 and 2018. During the year the discount rate estimate used has been adjusted to 6% (2006 10%) to calculate the decommissioning provision

Decommissioning expenditures expected to be incurred within one year amount to £15,178,000 (2006. £8,134,000)

Note 15. Provision for liabilities (continued)

C. Total provision for liabilities

	2007 £000	2006 £000
Provision for decommissioning	(37,719)	(33,653)
Total provision for liabilities	(37,719)	(33,653)

Note 16. Called up share capital

	2007 000	2006 000
a) Authorised:		
Ordinary shares of £1 each	50,000	50,000
b) Allotted, called up and fully paid:		
Ordinary shares of £1 each	24,526	24,526
	£000	**£000**
Nominal value of ordinary shares of £1 each	24,526	24,526

Note 17. Reconciliation of movements in shareholders' funds

	2007 £000	2006 £000
Shareholders' funds at 1 January	2,808	8,886
Profit/(loss) for the year	2,217	(6,078)
Shareholders' funds at 31 December	5,025	2,808

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Note 18. Cash flow statement

a) Gross Cash Flows

	2007 £000	2006 £000
Returns on investment and servicing of finance:		
Interest received	1,707	1,426
Interest paid	(79)	(81)
Bank guarantee fees paid	(6)	(12)
Cash paid on hedge contracts	(3,968)	(5,050)
Net cash outflow	(2,346)	(3,717)

	2007 £000	2006 £000
Capital expenditure and financial investments:		
Payments to acquire tangible fixed assets	(706)	(552)
Payments to acquire intangible fixed assets	(761)	(356)
Decommissioning expenditure	(6,158)	(2,610)
Net cash outflow	(7,625)	(3,518)

	2007 £000	2006 £000
Management of liquid resources:		
Net increase in time deposits	(9,290)	(1,243)
Net cash outflow	(9,290)	(1,243)

Note 18. Cash flow statement (continued)

b) Reconciliation of net cash inflow to operating profit:

	2007 £000	2006 £000
Operating profit/(loss)	10,597	(1,272)
Depletion	8,593	15,383
Depreciation	89	110
Decrease/(increase) in stocks	96	(38)
Decrease in debtors	5,419	1,439
Increase/(decrease) in creditors	1,513	(5,649)
Net cash inflow from operating activities	26,307	9,973

c) Reconciliation of net cash flow to movement in net funds:

	2007 £000	2006 £000
Increase/(decrease) in cash in the year	141	(62)
Cash inflow from liquid resources	9,290	1,243
Change in net funds resulting from cash flows	9,431	1,181
Translation difference	(262)	(708)
Movement in net funds in the year	9,169	473
Net funds at 1 January	13,503	13,030
Net funds at 31 December	22,672	13,503

d) Analysis of changes in net funds:

	At 1 January 2007 £000	Cash flows £000	Foreign Exchange £000	At 31 December £000
Cash in hand and at bank	14	141	(125)	30
Liquid resources	13,489	9,290	(137)	22,642
Total	13,503	9,431	(262)	22,672

Note 19. Capital commitments

As at 31 December 2007 the Company had committed to but not contracted capital expenditure of £12,306,000 (2006 £8,013,000)

Operating lease commitments are analysed as follows

Operating lease which expires in September 2013	**2007**	**2006**
	£000	**£000**
Office rental	180	169
	180	169

In July 2006 the Company entered a new office lease including an adjacent area with the benefit of a rent free period for this new area until 7 February 2007, after which an additional annual rental of £82,286 becomes payable

Note 20. Pension schemes

a) Defined contributions scheme

The Company participates in a defined contributions pension scheme operated by ITOCHU Europe PLC The contributions for the year were £77,583 (2006: £54,175) There were no contributions outstanding or prepaid at the balance sheet date

b) Defined benefits scheme – Stanplan F

The Company was also a member of a multi-employer defined benefit pension scheme, Stanplan F, operated by ITOCHU Europe PLC The winding up of this scheme was completed on 9 January 2004 and neither Stanplan F or the Company have any direct or indirect liabilities remaining under this scheme

c) Defined benefit scheme – ITOCHU Corporate Pension Scheme

The Company is also a member of a multi-employer defined benefit scheme, ITOCHU Corporate Pension Scheme, operated by ITOCHU Europe PLC. This scheme was closed to new members on 1 July 1995 None of the Company's current employees are members of this scheme. Contributions to the scheme are charged to the profit and loss account over the employees' working lives with the Company

Contributions to the scheme are paid in accordance with the recommendations of the qualified independent actuary on the basis of triennial actuarial valuations and interim annual reviews as required under the Minimum Funding Requirement The most recent full valuation was carried out at on 1 January 2007 Details of the actuarial valuation of the ITOCHU Corporate Pension Scheme are disclosed within the accounts of ITOCHU Europe PLC

No contributions were paid into the ITOCHU Corporate Pension Scheme for the year (2006: £nil) The pension charge to the profit and loss account for the year in respect of this scheme was £nil (2006 £nil) There was no provision to spread the cost of contributions over employees working lives at the year end (2006 £nil)

An actuarial valuation of the ITOCHU Corporate Pension Scheme as at 31 December 2007 was carried out by a qualified independent actuary, using a set of assumptions consistent with those required under FRS 17 and based on a full valuation carried out as at 1 January 2007 The main assumptions used by the actuary were

	2007	**2006**
Rate of increase in pensionable salaries	4 95%	4 60%
Rate of increase of pensions in payment accrued before 6 April 1997	3 00%	3 00%
Discount rate	5 70%	5 20%
Inflation assumption (and increases to pensions in deferment accrued after 31 December 1995)	3.45%	3 10%

Note 20. Pension schemes (continued)

In the opinion of the directors, the Company is unable to separately identify its share of the assets and liabilities of the scheme on a reasonable and consistent basis for FRS 17 purposes. As at 31 December 2007 the net pension liability relating to the whole scheme calculated in accordance with FRS 17 is as follows

	2007 Expected rate of return	2007 £000	2006 Expected rate of return	2006 £000
Equities	7 00%	5,466	7 00%	4,925
Bonds	5 70%	2,830	5 20%	2,423
Cash and other investments	4 00%	22	4 00%	364
Total market value of assets	6.50%	8,318	6 30%	7,712
Present value of liabilities		(10,920)		(9,270)
Deficit in the scheme		(2,602)		(1,558)

Under the valuation method used by FRS 17, the projected unit method, the current service cost will increase as the members of the scheme approach retirement

The agreed rate of contribution to the scheme for 2008 is 24 7% of pensionable salaries paid As none of the Company's current employees' is a member of this scheme the Company does not anticipate making any contributions to the scheme in 2008

Note 21. Ultimate parent company and parent undertaking of largest group of which the Company is a member

The immediate parent company as at 31 December 2007, for which consolidated financial statements are not prepared, is CIECO North Sea Limited, a company incorporated in Japan. As at 31 December 2007 CIECO North Sea Limited was owned jointly by ITOCHU Corporation (80%) and Taiyo Oil Co Limited (20%) As at 31 December 2007 the ultimate parent of the Company and of the largest group of which the Company is a member is ITOCHU Corporation, a company incorporated in Japan for which consolidated financial statements are prepared Copies of these financial statements can be obtained from the registered office of CIECO Exploration and Production (UK) Limited

ITOCHU Corporation has given a confirmation to the Department of Trade and Industry, dated 9 February 1993, that adequate funds will be made available to the Company to meet its share of costs in respect of the Hutton, North West Hutton and Hudson fields.

CIECO Exploration and Production (UK) Limited

Oil and gas reserve statistics (Unaudited)

The net proven and probable oil and gas reserves to which the Company has an equity entitlement are

	United Kingdom Crude oil mmbbls
Balance at 1 January 2007	1 832
Revisions to previous estimates	1 154
Production	(0 871)
Net proven and probable reserves as at 31 December 2007	2 115

Notes Crude oil includes natural gas liquids,
mmbbls means million barrels