

CIECO
Exploration and Production
(UK) Limited

Annual Report and Accounts for the year ended
31 December 2008



Company Registration Number: 2669936

CIECO Exploration and Production (UK) Limited

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CIECO Exploration and Production (UK) Limited

Officers and professional advisers

Directors

Mr S. Hirokawa
Mr S. Nakayama
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 7EA

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

Baker Botts (UK) LLP
41 Lothbury
London
EC2R 7HF

Auditors

Deloitte 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 2008.

Principal activities

The principal activities of the Company are oil and 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 2008 from the Hudson oilfield amounted to 0.497 million stock tank barrels (2007: 0.871 million). The average sales price realised in the year was £53.09 a barrel (2007: £34.42). The cost of production in the year was £21.07 a barrel (2007: £13.46).

During 2009 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 Faroes Continental Shelf licence and 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.

In 2008, the Company has completed its acquisition of 12.5% interest in Faroes Continental Shelf Exploration and Production Licence 005 Part Blocks 6004/1,2,3,6,7 and 8. Following this acquisition the Company has also acquired 6.25% of the interest in the UKCS Licence P.1192 Blocks 213/20b, 214/16b and 213/25c.

CIECO Exploration and Production (UK) Limited

Financial risk management objectives and policies

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 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 2008 was £18,929,000 (2007: £2,217,000). The directors do not recommend a dividend be paid (2007: £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.

Going Concern

The Company's business activities, together with factors likely to affect its future development, performance and position are set out in this Report. This Report also outlines the Company's financial risk management policies.

The Company has considerable financial resources and no borrowings. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company have adequate resources to continue its operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors

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

Mr M. Takagi (resigned 16 May 2008)

Mr S. Hirokawa (appointed 16 May 2008)

Mr S. Nakayama

M. Y. Seiya

Mr M. Katsumata

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 2008.

CIECO Exploration and Production (UK) Limited

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 LLP will continue in office.

By order of the Board



Mr M. Katsumata

Director

27 March 2009

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

CIECO Exploration and Production (UK) Limited

Directors' Statement of Responsibilities

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

Company law requires directors to prepare financial statements for each financial year. Under the 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). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit and 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departure 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 2008 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 Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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.

CIECO Exploration and Production (UK) Limited

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 2008 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 LLP
Chartered Accountants and Registered Auditors
London
27 March 2009

CIECO Exploration and Production (UK) Limited

Profit and loss account for the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Turnover	1,2,5	25,930	33,913
Cost of sales	5	(8,735)	(13,672)
Depletion	4,11	(2,031)	(8,593)
Gross profit		<u>15,164</u>	<u>11,648</u>
Administrative expenses	4,5,6,19	(612)	(1,051)
Operating profit	4	<u>14,552</u>	<u>10,597</u>
Interest receivable and similar income	7	1,793	1,745
Interest payable and similar charges	8	(2,425)	(7,875)
Profit on ordinary activities before taxation		<u>13,920</u>	<u>4,467</u>
Tax on profit on ordinary activities	9	5,009	(2,250)
Profit for the year	17	<u>18,929</u>	<u>2,217</u>
Profit and loss account brought forward		(19,501)	(21,718)
Profit and loss account carried forward		<u>(572)</u>	<u>(19,501)</u>

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 £18,929,000 (2007: £2,217,000) 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 2008

	Notes	2008 £000	2007 £000
Fixed assets			
Intangible fixed assets	10	3,860	407
Tangible oil and gas assets	11	5,218	5,474
Other tangible assets	11	202	268
Total		<u>9,280</u>	<u>6,149</u>
Current assets			
Stocks	12	53	125
Debtors	5 & 13	17,103	20,504
Short term deposits		32,610	22,642
Cash at bank and in hand	18(d)	46	30
		<u>49,812</u>	<u>43,301</u>
Current liabilities			
Creditors: amounts falling due within one year	5 & 14	(7,875)	(6,706)
Net current assets		<u>41,937</u>	<u>36,595</u>
Total assets less current liabilities		51,217	42,744
Provisions for liabilities	15	(27,263)	(37,719)
Net Assets		<u>23,954</u>	<u>5,025</u>
Capital and reserves			
Called up share capital	16	24,526	24,526
Profit and loss account		(572)	(19,501)
Shareholders' funds	17	<u>23,954</u>	<u>5,025</u>

These financial statements were approved by the Board of Directors on 27 March 2009.

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 2008

		2008	2007
	Notes	£000	£000
Operating activities			
Net cash inflow from operating activities	18(b)	28,950	26,307
Returns on investments and servicing of finance	18(a)	(142)	(2,346)
Taxation		(1,100)	(6,905)
Capital expenditure and financial investments	18(a)	(18,002)	(7,625)
Cash inflow before management of liquid resources and financing		<u>9,706</u>	<u>9,431</u>
Management of liquid resources	18(a)	(9,759)	(9,290)
(Decrease)/increase in cash in the year	18(c)	<u>(53)</u>	<u>141</u>

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

CIECO Exploration and Production (UK) Limited

Notes to the accounts for the year ended 31 December 2008

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 policy vii below) and also the accounting policy for impairment (see policy ix 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, except as noted in policy vii below.

Exploration and appraisal costs are initially capitalised to intangible fixed assets until the determination or cessation of exploration and appraisal (see policy iv). Upon determination and cessation of exploration and appraisal, all associated costs are capitalised as tangible oil and gas assets, irrespective of the success or failure of exploration activity. Such costs include the net present value at inception of the expected cost of decommissioning in accordance with accounting policy vi.

CIECO Exploration and Production (UK) Limited

Note 1. Statement of accounting policies (continued)

Costs capitalised to tangible oil and gas assets are depreciated 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 required to access the commercial reserves. Costs capitalised to intangibles assets are not depleted until these costs are transferred to tangible oil and gas assets.

Interest on borrowings to finance fixed asset expenditure is capitalised during the development 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 (see policy ix below):

iv) Intangible fixed assets

All the exploration and appraisal costs, including the expenditure on pre-licence, licence acquisition, geological, geophysical and engineering activities are capitalised as intangible assets. Intangible exploration and appraisal costs are not depleted.

Exploration and appraisal costs are transferred to tangible fixed assets and treated as depletable interests from the date development consent is received 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. Any adjustment arising from the re-assessment of the estimated cost of decommissioning is capitalised whilst the adjustment arising from the unwinding of the discount is taken to profit and loss account.

CIECO Exploration and Production (UK) Limited

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 required to access commercial reserves, 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 basis, using the combined production and reserves of the pool in line with Oil and Gas SORP. The Company has two cost pools, being UKCS and Faroes Continental Shelf, which therefore includes all the Company's interests.

Depreciation on all other, non-oil and gas, 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) Impairment

Tangible oil and gas assets which represent successful exploration costs transferred from intangible assets together with development costs and capitalised interest are assessed for impairment on a field-by-field basis.

CIECO Exploration and Production (UK) Limited

Note 1. Statement of accounting policies (continued)

The assessment of such assets for impairment 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 assessment to be made on a pool-by-pool basis. The policy adopted is consistent with the recent developments in International Financial Reporting Standards as they apply to full costs accounting companies and directors consider that this is more appropriate policy for the Company.

If the events or changes in circumstances indicate that the carrying amount of expenditure within the field may not be recoverable from future net revenues from the commercial reserves attributable to the field, a comparison between the net book value of the field and the discounted future cash flows from that field is undertaken. To the extent that the carrying amount exceeds the recoverable amount, the field net book value is written down to its recoverable amount and charged as additional depreciation.

Other tangible oil and gas assets, which have been transferred from intangible assets and represent costs that do not relate to commercially viable activities, are assessed for impairment on a pool wide basis.

The aggregate carrying value of the pool, including the field costs that fall within the pool, is compared against the expected recoverable amount of the pool. To the extent that the carrying amount exceeds the recoverable amount, the net book value is written down to its recoverable amount and charged as additional depreciation.

x) Turnover

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

xi) 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. This short term imbalance is underlift or overlift. Where material, adjustments in respect of overlift or underlift are recorded at market value against cost of sales. The equivalent balance sheet entry is recorded to creditors or debtors as applicable.

CIECO Exploration and Production (UK) Limited

Note 1. Statement of accounting policies (continued)

xii) 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.

xiii) 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.

xiv) 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.

xv) 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.

CIECO Exploration and Production (UK) Limited

Note 1. Statement of accounting policies (continued)

xvi) Leases

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

xvii) 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.

Note 2. Turnover

The Company's major activities are currently within the United Kingdom and consequently no segmental analysis is required.

Note 3. Impairment of fixed assets

As at the 31 December 2008 the directors performed an impairment test on the carrying value of the Company's tangible 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

Operating profit is stated after charging:

	2008	2007
	£000	£000
Operating leases		
Office rental	122	103
Depletion of Oil and Gas assets	2,031	8,593
Depreciation of other tangible fixed assets	68	89
Fees payable for the audit of the Company's annual account	37	36
	<hr/>	<hr/>

CIECO Exploration and Production (UK) Limited

Note 5. Related Party Transactions

The ITOCHU Corporation

- ◆ Included within turnover is income of £101,744 (2007: £99,145) from ITOCHU Oil Exploration (Azerbaijan) Inc. (IOEA) for consultancy services provided by the Company. £101,744 (2007: £99,145) is included within amounts due from fellow subsidiary companies at the year-end.
- ◆ Included within turnover is income of £41,057 (2007: £76,876) from ITOCHU Oil Exploration (BTC) Inc. (IOEB) for consultancy services provided by the Company. £41,057 (2007: £76,876) is included within amounts due from fellow subsidiary companies at the year-end.
- ◆ Included within turnover is income of £53,485 (2007: £16,589) from Japan Ohanet Oil & Gas Co. Limited (JOOG) for consultancy services provided by the Company. £53,485 (2007: £16,589) is included within amounts due from fellow subsidiary companies at the year-end.
- ◆ Included within turnover is income of £989,254 (2007: £982,092) from ITOCHU Corporation for consultancy services provided by the Company. £825,900 (2007: £868,362) is included within amounts due from parent companies at the year-end.
- ◆ Included within turnover is income of £163,176 (2007: £119,669) from CIECO Exploration and Production Namibia Co. Ltd for consultancy services provided by the Company. £163,176 (2007: £119,669) is included within amounts due from parent companies at the year-end.
- ◆ Included within turnover is income of £91,149 (2007: £91,149) from IPC Europe Ltd for consultancy services provided by the Company. £9,954 (2007: £10,957) is included within amounts due from fellow subsidiaries companies at the year-end.
- ◆ Included within turnover is income of £34,922 (2007: £8,825) from CIECO Energy (UK) Limited (ENERGY) for consultancy services provided by the Company. £26,755 (2007: £418,051) is included within amounts due from fellow subsidiary companies at the year-end.
- ◆ Included within turnover is income of £340,871 (2007: £255,837) from CIECO Energy (UKCS) Limited (UKCS) for consultancy services provided by the Company. £105,864 (2007: £264,675) is included within amounts due from fellow subsidiary companies at the year-end.
- ◆ Included within turnover is income of £60,549 (2007: £45,148) from CIECO Energy (CNS) Limited. (CNS) for consultancy services provided by the Company. £27,527 (2007: £50,235) is included within amounts due from fellow subsidiary companies at the year-end.

CIECO Exploration and Production (UK) Limited

Note 5. Related Party Transactions (continued)

- ◆ Included within administrative expenses are charges of £27,640 (2007: £24,000) to ITOCHU Europe PLC. (ITCE) for treasury payroll and management services. £183 (2007: £23,747) is included within amounts due to fellow subsidiary companies at the year-end.
- ◆ Included within administrative expenses are charges of £215,585 (2007: £153,505) 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 £119,057 (2007: £91,308) to ITOCHU Corporation, for support services primarily of a legal, financial, commercial and administrative nature.
- ◆ Included within cost of sales are charges of £2,385 (2007: £4,354) from IPC Europe Limited for services provided.
- ◆ Included within interest receivable are receipts of £323,215 (2007: £861,279) 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 £Nil (2007: £10,500,000) and US\$Nil (£Nil) (2007: US\$Nil (£Nil)).

IOEA, IOEB, IOEC, JOOG, ITCE, ENERGY, UKCS, CNS, 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

During the year the average monthly number of employees in the Company was ten (2007: ten).

Amounts paid by the Company in respect of these employees were as follows:

	2008	2007
	£000	£000
Wages and salaries	1,765	1,612
Social security costs	35	38
Pension contributions	45	78
Total	<u>1,845</u>	<u>1,728</u>

Staff costs include remuneration in respect of directors as follows:-

	2008	2007
	£ 000	£ 000
Directors' emoluments (excluding pension contributions)	<u>627</u>	<u>772</u>

The emolument of the highest paid director was £216,790 (2007: £282,536).

None of the directors made contributions to either the defined benefit scheme or the defined contribution pension scheme during the year (2007: £nil).

CIECO Exploration and Production (UK) Limited

Note 7. Interest receivable and similar income

	2008	2007
	£000	£000
Bank interest receivable	1,331	884
Interest receivable from fellow subsidiary	323	861
Other interest receivable	24	-
Effect of foreign exchange rates changes	115	-
Total	<u>1,793</u>	<u>1,745</u>

Note 8. Interest payable and similar charges

	2008	2007
	£000	£000
Losses on forward oil contracts	-	4,792
Finance charges	105	79
Unwinding of discounts on decommissioning provision (note 15)	2,316	2,484
Effect of foreign exchange rates changes	-	514
Bank guarantee fees	4	6
Total	<u>2,425</u>	<u>7,875</u>

CIECO Exploration and Production (UK) Limited

Note 9. Tax on profit on ordinary activities

i) Analysis of tax (credit)/charge in the year

	2008 £000	2007 £000
Current tax:		
Corporation tax at 50% (2007: 50%)	499	3,834
Corporation tax – adjustment to prior years	115	22
Total current tax charge	<u>614</u>	<u>3,856</u>
Deferred tax:		
Timing difference origination and reversal (note 15)	(5,623)	(1,606)
Total deferred tax	<u>(5,623)</u>	<u>(1,606)</u>
Tax (credit)/charge on profit in the year	<u>(5,009)</u>	<u>2,250</u>

The rate of corporation tax charged on the Company of 50% (2007: 50%) comprises the standard corporation tax rate of 30% (2007: 30%) plus a 20% (2007: 20%) supplementary charge in respect of ring-fence trades in the North Sea. With effect from 1 April 2008, Finance Bill 2008 has revised the standard corporation tax rate to 28% (2007: 30%), however this does not apply to ring fence activities.

ii) Factors affecting the tax charge for the year

	2008 £000	2007 £000
Profit on ordinary activities before tax	13,920	4,467
Corporation tax at the UK ring fence rate of 50% (2007: 50%)	<u>6,960</u>	<u>2,234</u>
Effects of:		
Expenses not deductible for corporation tax purposes	103	20
Impact of unwind of the decommissioning provision	1,158	1,242
Capital allowance in (excess)/lower than depreciation	(558)	3,676
Other deferred tax movements	(6,824)	(3,079)
Income taxed at lower rate	(346)	(377)
Expenses not deductible for SCT purposes	6	118
Prior period adjustment	115	22
Current tax charge for the year	<u>614</u>	<u>3,856</u>

iii) Factors that may affect the future tax charge

A deferred tax asset of £14,098,000 (2007: £7,541,000) has been recognised in respect of timing differences relating to the decommissioning provision where they are expected to reverse in the future as tax relief is gained on decommissioning expenditures. An additional deferred tax asset of £738,000 (2007: £15,268,000) has not been recognised in respect of timing differences relating to the decommissioning provision as there is insufficient evidence that the tax asset would be recovered. The asset would be recovered if sufficient taxable profits were to arise in the future.

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Note 10. Intangible fixed assets

	Oil & gas interests £000
Balance as at 1 January 2008	407
Additions	3,970
Reclassification to tangible fixed assets	(517)
Balance as at 31 December 2008	<u>3,860</u>
Balance as at 31 December 2007	<u>407</u>

The Company's exploration costs during 2008 include £3,970,000 (2007: £407,000) incurred on exploration licences in Faroe Island and the UKCS. As per SORP these costs are capitalised as intangible fixed asset pending determination. The reclassified costs in the above table were transferred to the pool of tangible fixed assets to be depreciated over future reserves of the pool 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 2008	198,538	395	258	199,191
Additions	380	-	2	382
Change in decommissioning estimate (note 15)	878	-	-	878
Transfer from intangible fixed assets	517	-	-	517
Balance as at 31 December 2008	200,313	395	260	200,968
Depletion and depreciation				
Balance as at 1 January 2008	193,064	215	170	193,449
Charge for the year	2,031	46	22	2,099
Balance as at 31 December 2008	195,095	261	192	195,548
Net book value as at 31 December 2008	5,218	134	68	5,420
Net book value as at 31 December 2007	5,474	180	88	5,742

Included within oil and gas assets is a cumulative cost balance of £7,037,000 (2007: £7,037,000) for capitalised interest, relating to the project loan for the Hudson field.

A ceiling test was conducted at 31 December 2008 in accordance with accounting policy (ix). All oil and gas assets passed the ceiling test.

The cost of oil and gas assets includes £49,377,000 (2007: £48,503,000) relating to capitalised decommissioning costs.

Oil and gas assets are depreciated on a unit-of –production basis as outlined in accounting policy vii. Oil and gas reserve estimates are based on a number of assumptions including oil price, future costs and reservoir performance, which are inherently uncertain. The amount of amount of reserves that will ultimately be recovered from any field can only be known with certainty when production from the 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'.

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Note 12. Stocks

	2008	2007
	£000	£000
Material and supplies	<u>53</u>	<u>125</u>

There is no material difference between the balance sheet value of stocks and their replacement value.

Note 13. Debtors: amounts receivable within one year

	2008	2007
	£000	£000
Trade debtors	675	1,153
Amounts due from parent company	826	868
Amounts due from fellow subsidiary companies	530	10,720
Other debtors	21	20
Prepayments and accrued income	360	208
Oil underlift	1,197	150
Corporation tax	1,315	829
Deferred tax asset (note 15)	12,179	6,556
Total	<u>17,103</u>	<u>20,504</u>

Note 14. Creditors: amounts falling due within one year

	2008	2007
	£000	£000
Trade creditors	15	46
Amounts due to fellow subsidiary companies	307	187
Accruals and deferred income	7,553	6,473
	<u>7,875</u>	<u>6,706</u>

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Note 15. Provision for liabilities

A. Provision for deferred corporation tax

i) Movement on deferred tax balance in the year

	2008 £000	2007 £000
Opening balance	6,556	4,950
Credit to profit and loss account	5,623	1,606
Closing balance	<u>12,179</u>	<u>6,556</u>

ii) Analysis of deferred corporation tax balance

	2008 £000	2007 £000
Accelerated capital allowances	(1,919)	(985)
Decommissioning provision	14,098	7,541
Undiscounted provision for deferred tax	<u>12,179</u>	<u>6,556</u>

B. Provision for decommissioning

	2008 £000	2007 £000
Opening balance	(37,719)	(33,653)
Revision to cost estimates (note 11)	(878)	(7,740)
Unwinding of discounted amount (note 8)	(2,316)	(2,484)
Utilisation of provision	13,650	6,158
Closing balance	<u>(27,263)</u>	<u>(37,719)</u>

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 2009 and 2018. During the year the discount rate estimate used is 6% (2007: 6%) to calculate the decommissioning provision.

Decommissioning expenditures expected to be incurred within one year amount to £13,008,000 (2007: £15,178,000).

Assumptions, based on current economic conditions, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly. However, the actual decommissioning costs will depend on a number of variables including future prices, which are inherently uncertain.

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Note 15. Provision for liabilities (continued)

C. Total provision for liabilities

	2008 £000	2007 £000
Provision for decommissioning	(27,263)	(37,719)
Total provision for liabilities	<u>(27,263)</u>	<u>(37,719)</u>

Note 16. Called up share capital

	2008 Number	2007 Number
a) Authorised:		
Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
b) Allotted, called up and fully paid:		
Ordinary shares of £1 each	<u>24,526</u>	<u>24,526</u>
	£000	£000
Nominal value of ordinary shares of £1 each	<u>24,526</u>	<u>24,526</u>

Note 17. Reconciliation of movements in shareholders' funds

	2008 £000	2007 £000
Shareholders' funds at 1 January	5,025	2,808
Profit for the year	18,929	2,217
Shareholders' funds at 31 December	<u>23,954</u>	<u>5,025</u>

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Note 18. Cash flow statement

a) Gross Cash Flows

	2008 £000	2007 £000
Returns on investment and servicing of finance:		
Interest received	1,657	1,707
Interest paid	(105)	(79)
Bank guarantee fees paid	(4)	(6)
Cash paid on hedge contracts	(1,690)	(3,968)
Net cash outflow	<u>(142)</u>	<u>(2,346)</u>
	2008 £000	2007 £000
Capital expenditure and financial investments:		
Payments to acquire tangible fixed assets	(382)	(706)
Payments to acquire intangible fixed assets	(3,970)	(761)
Decommissioning expenditure	(13,650)	(6,158)
Net cash outflow	<u>(18,002)</u>	<u>(7,625)</u>
	2008 £000	2007 £000
Management of liquid resources:		
Net increase in time deposits	(9,759)	(9,290)
Net cash outflow	<u>(9,759)</u>	<u>(9,290)</u>

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Note 18. Cash flow statement (continued)

b) Reconciliation of net cash inflow to operating profit:

	2008 £000	2007 £000
Operating profit	14,552	10,597
Depletion	2,031	8,593
Depreciation	68	89
Decrease in stocks	72	96
Decrease in debtors	9,368	5,419
Increase in creditors	2,859	1,513
Net cash inflow from operating activities	<u>28,950</u>	<u>26,307</u>

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

	2008 £000	2007 £000
(Decrease)/increase in cash in the year	(53)	141
Cash inflow from liquid resources	9,759	9,290
Change in net funds resulting from cash flows	<u>9,706</u>	<u>9,431</u>
Translation difference	278	(262)
Movement in net funds in the year	<u>9,984</u>	<u>9,169</u>
Net funds at 1 January	22,672	13,503
Net funds at 31 December	<u>32,656</u>	<u>22,672</u>

d) Analysis of changes in net funds:

	At 1 January 2008 £000	Cash flows £000	Foreign Exchange £000	At 31 December £000
Cash in hand and at bank	30	(53)	69	46
Liquid resources	22,642	9,759	209	32,610
Total	<u>22,672</u>	<u>9,706</u>	<u>278</u>	<u>32,656</u>

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Note 19. Capital commitments

As at 31 December 2008 the Company had committed to but not contracted capital expenditure of £19,719,000 (2007: £12,306,000).

Operating lease commitments are analysed as follows:

Operating lease which expires in September 2013	2008	2007
	£000	£000
Office rental	180	180
	<u>180</u>	<u>180</u>

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 £44,748 (2007: £77,583). 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 (2007: £nil). The pension charge to the profit and loss account for the year in respect of this scheme was £nil (2007: £nil). There was no provision to spread the cost of contributions over employees working lives at the year end (2007: £nil).

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Note 20. Pension schemes (continued)

An actuarial valuation of the ITOCHU Corporate Pension Scheme as at 31 December 2008 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:

	2008	2007
Rate of increase in pensionable salaries	4.50%	4.95%
Rate of increase of pensions in payment accrued before 6 April 1997	3.00%	3.00%
Discount rate	6.40%	5.70%
Inflation assumption (and increases to pensions in deferment accrued after 31 December 1995)	3.00%	3.45%

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 2008 the net pension liability relating to the whole scheme calculated in accordance with FRS 17 is as follows:

	2008		2007	
	Expected rate of return	£000	Expected rate of return	£000
Equities	6.50%	2,929	7.00%	5,466
Bonds	5.10%	4,425	5.70%	2,830
Cash and other investments	2.00%	333	4.00%	22
Property	6.50%	28	-	-
Total market value of assets	5.50%	7,715	6.50%	8,318
Present value of liabilities		(9,497)		(10,920)
Deficit in the scheme		<u>(1,782)</u>		<u>(2,602)</u>

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 2009 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 2009.

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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 2008, for which consolidated financial statements are not prepared, is CIECO North Sea Limited, a company incorporated in Japan. As at 31 December 2008 CIECO North Sea Limited was owned jointly by ITOCHU Corporation (80%) and Taiyo Oil Co. Limited (20%). As at 31 December 2008 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 2008	2.115
Revisions to previous estimates	-
Production	(0.497)
Net proven and probable reserves as at 31 December 2008	<u>1.618</u>

Notes: Crude oil includes natural gas liquids;
mmbbls means million barrels.