# CIECO
# Exploration and Production
# (UK) Limited

## Annual Report and Accounts for the year ended 31 December 2011



## Company Registration Number: 2669936

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# CIECO Exploration and Production (UK) Limited

## Officers and professional advisers

### Directors

Mr S Hirokawa
Mr A Tanabe
Mr T Ogura
Mr M Mitsuhashi

### Secretary

Mr A Gupta

### 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

### Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
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 2011

## Principal activities

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

The Group has equity interests in the Hutton (8 63%), North West Hutton (25.77%), Hudson (25 77%), Cardhu/North Uist (6 25%) 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

The subsidiary undertaking principally affecting the profits or net assets of the Group in the year are listed in note 12 to the financial statements

## Business review

The Group's net production for 2011 from the Hudson oilfield amounted to 0 388 million stock tank barrels (2010 0 435 million) The average sales price realised in the year was £68.82 a barrel (2010 £52 14) The cost of production in the year was £20 68 a barrel (2010 £24 77)

During 2012 it is anticipated that production will continue from the Hudson oilfield and the Western Isles Development Plan (WIDP) will progress The work programme for the decommissioning of the North West Hutton oilfield will continue Exploration opportunities on UKCS license P 1192 blocks 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.

**Financial risk management objectives and policies**

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

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

The Group 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 Group made a profit after tax for the year ended 31 December 2011 of £7,444,000 (2010 Loss £8,046,000) The directors do not recommend a dividend be paid (2010. £nil). During the year, Group profit after tax has increased due to high oil price realised and decrease in impairment recognised on Anne Marie asset

**Supplier payment policy**

It is Group 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 Group'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 Group's financial risk management policies

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

After making enquiries, the directors have a reasonable expectation that the Group has 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 S Hirokawa
Mr A Tanabe
Mr Y Seiya (resigned on 1 April 2011)
Mr. T Ogura (appointed on 1 April 2011)
Mr. M Mitsuhashi (appointed on 1 October 2011)
None of the directors held any shares in the Group's ultimate holding company, ITOCHU Corporation, or in any other group company as at 31 December 2011

## Auditor

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 Group's auditor's 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 Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

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 auditor annually and Deloitte LLP will continue in office

By order of the Board

**A. Tanabe**
**Director**
**30 March 2012**

**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 the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

## 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 2011 which comprise the Group profit and loss account, the Group and parent company balance sheets, the Group cash flow statement and the related notes 1 to 24 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CIECO EXPLORATION AND PRODUCTION (UK) LIMITED (continued)

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

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

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

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

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

Matthew Donaldson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
30 March 2012

# CIECO Exploration and Production (UK) Limited

**Group profit and loss account for the year ended 31 December 2011**

| | Notes | 2011<br>£000 | 2010<br>£000 |
|---|---|---|---|
| Turnover | 1,2 | 28,326 | 25,185 |
| Cost of sales | | (7,922) | (10,701) |
| Depletion and impairment | 4,11 | 163 | (16,055) |
| **Gross profit/(loss)** | | 20,567 | (1,571) |
| Administrative expenses | 4,6 | (656) | (1,008) |
| **Operating profit/(loss)** | 4 | 19,911 | (2,579) |
| Gain on sale of tangible fixed asset | | - | 258 |
| **Profit/(Loss) on ordinary activities** | | 19,911 | (2,321) |
| Interest receivable and similar income | 7 | 167 | 144 |
| Interest payable and similar | 8 | (951) | (1,226) |
| **Profit/ (Loss) on ordinary activities before taxation** | | 19,127 | (3,403) |
| Tax on profit/(loss) on ordinary activities | 9 | (11,683) | (4,643) |
| **Profit/ (Loss) on ordinary activities after taxation** | | 7,444 | (8,046) |
| **Minority interest** | 20 | 860 | 11,382 |
| **Profit for the year** | | 8,304 | 3,336 |
| **Profit and loss account brought forward** | | 7,471 | 4,135 |
| **Profit and loss account carried forward** | | 15,775 | 7,471 |

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 £7,444,000 (2010 loss· £8,046,000) 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 14 to 36 form part of these financial statements

# CIECO Exploration and Production (UK) Limited

## Group balance sheet as at 31 December 2011

| | Notes | 2011 £000 | 2010 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible fixed assets | 10 | 32,136 | 23,671 |
| Tangible oil and gas assets | 11 | 182 | 1,680 |
| Other tangible assets | 11 | 101 | 132 |
| **Total** | | 32,419 | 25,483 |
| **Current assets** | | | |
| Stocks | 13 | 44 | 42 |
| Debtors | 14 | 6,628 | 8,182 |
| Short-term deposits | 21(d) | 27,030 | 22,892 |
| Cash at bank and in hand | 21(d) | 20 | 357 |
| | | 33,722 | 31,473 |
| **Current liabilities** | | | |
| Creditors: amounts falling due within one year | 15 | (5,188) | (12,719) |
| **Net current assets** | | 28,534 | 18,754 |
| **Total assets less current liabilities** | | 60,953 | 44,237 |
| **Provisions for liabilities** | 16 | (21,953) | (18,908) |
| **Net Assets** | | 39,000 | 25,329 |
| **Capital and reserves** | | | |
| Called up share capital | 17 | 24,526 | 24,526 |
| Profit and loss account | 18 | 15,775 | 7,471 |
| **Shareholders' funds** | 19 | 40,301 | 31,997 |
| Minority interest | 20 | (1,301) | (6,668) |
| **Total capital employed** | | 39,000 | 25,329 |

These financial statements were approved by the Board of Directors on 30 March 2012.

The notes on pages 14 to 36 form part of these financial statements

Signed on behalf of the Board of Directors

Abid Tanabe

A Tanabe
Director

Company Registration Number 2669936

# CIECO Exploration and Production (UK) Limited

## Company balance sheet as at 31 December 2011

| | Notes | 2011 £000 | 2010 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible fixed assets | 10 | 32,136 | 23,671 |
| Tangible oil and gas assets | 11 | 182 | 1,680 |
| Other tangible assets | 11 | 101 | 132 |
| Investment | 12 | - | - |
| **Total** | | 32,419 | 25,483 |
| **Current assets** | | | |
| Stocks | 13 | 44 | 42 |
| Debtors | 14 | 7,723 | 8,666 |
| Short-term deposits | | 26,958 | 22,892 |
| Cash at bank and in hand | | 10 | 353 |
| | | 34,735 | 31,953 |
| **Current liabilities** | | | |
| Creditors amounts falling due within one year | 15 | (4,910) | (3,974) |
| **Net current assets** | | 29,825 | 27,979 |
| **Total assets less current liabilities** | | 62,244 | 53,462 |
| **Provisions for liabilities** | 16 | (21,953) | (18,908) |
| **Net Assets** | | 40,291 | 34,554 |
| **Capital and reserves** | | | |
| Called up share capital | 17 | 24,526 | 24,526 |
| Profit and loss account | 18 | 15,765 | 10,028 |
| **Shareholders' funds** | 19 | 40,291 | 34,554 |

These financial statements were approved by the Board of Directors on 30 March 2012

The notes on pages 14 to 36 form part of these financial statements

Signed on behalf of the Board of Directors

A Tanabe
Director

Company Registration Number 2669936

# CIECO Exploration and Production (UK) Limited

## Group cash flow Statement for the year ended 31 December 2011

| | Notes | 2011<br>£000 | 2010<br>£000 |
|---|---|---|---|
| **Operating activities** | | | |
| Net cash inflow from operating activities | 21(b) | 8,857 | 21,956 |
| Returns on investments and servicing of finance | 21(a) | 131 | 81 |
| Taxation | | (441) | (1,246) |
| Capital expenditure and financial investments | 21(a) | (4,768) | (17,124) |
| Cash inflow before management of liquid resources and financing | | 3,779 | 3,667 |
| Management of liquid resources | 21(a) | (4,173) | (3,361) |
| (Decrease)/ increase in cash in the year | 21(c) | (394) | 306 |

The notes on pages 14 to 36 form part of these financial statements.

# CIECO Exploration and Production (UK) Limited

## Notes to the accounts for the year ended 31 December 2011

## 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) below). 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)

## 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

## 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 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

## 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 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

## 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

Corporation tax is 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

**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.

**xviii) Basis of consolidation**

These accounts consolidate the accounts of the Company and its subsidiary companies, collectively the Group, made up to the period end The results of the subsidiary entities are included in the Group profit and loss account from the date of acquisition to the date of disposal. JOGMEC holding in CIECO E&P Faroe Limited shares has been accounted as Minority interest.

**xix) Profit and loss of the company**

As permitted by Section 408 of the Companies Act 2006, a separate profit and loss account for the parent company is not presented. The profit for the year in the accounts of the Company is £5,737,000 (2010: £5,877,000)

**Note 2. Turnover**

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

**Note 3. Impairment of fixed assets**

As at 31 December 2011 the directors performed an impairment test on the carrying value of the Group's tangible oil and gas assets The test indicated that forecast future cash flows are sufficient to cover the carrying value except on intangible fixed assets related to Faroe Islands on which impairment was recognised (as disclosed in Note 11) The directors also performed the impairment test on the recoverable value of the Company's investment. The test indicated that investment is not recoverable and hence an impairment loss of £2,731,000 (2010 loss £1,790,000) has been recorded

## Note 4. Operating profit

Operating profit is stated after charging

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Operating leases | | |
| Office rental | 180 | 180 |
| Depletion of Oil and Gas assets | (1,376) | 403 |
| Impairment of Oil and Gas assets | 1,179 | 15,608 |
| Depreciation of other tangible fixed assets | 34 | 44 |
| Fees for the audit of the Company's annual accounts | 39 | 38 |
| Fees for the audit of the Company's subsidiary annual accounts | 3 | 3 |

## Note 5. Related Party Transactions

The ITOCHU Corporation

- Included within turnover is income of £Nil (2010: £22,804) from ITOCHU Oil Exploration (Azerbaijan) Inc. (IOEA) for consultancy services provided by the Company £Nil (2010 £22,804) is included within amounts due to fellow subsidiary companies at the year-end

- Included within turnover is income of £31,060 (2010 £67,620) from Japan Ohanet Oil & Gas Co. Limited (JOOG) for consultancy services provided by the Company £31,060 (2010 £67,620) is included within amounts due to fellow subsidiary companies at the year-end

- Included within turnover is income of £1,368,554 (2010: £1,313,575) from ITOCHU Corporation for consultancy services provided by the Company £1,368,554 (2010 £1,313,575) is included within amounts due from parent companies at the year-end

- Included within turnover is income of £55,255 (2010 £76,457) from CIECO Exploration and Production Namibia Co. Ltd for consultancy services provided by the Company £55,255 (2010 £76,457) is included within amounts due to parent companies at the year-end.

- Included within turnover is income of £Nil (2010 £51,655) from IPC Europe Ltd for consultancy services provided by the Company.

- Included within turnover is income of £147,060 (2010 ££9,402) from CIECO Energy (UK) Limited (ENERGY) for consultancy services provided by the Company £154,720 (2010· £18,167) is included within amounts due from fellow subsidiary companies at the year-end

**Note 5. Related Party Transactions (continued)**

- Included within turnover is income of £178,504 (2010 £214,919) from CIECO Energy (UKCS) Limited (UKCS) for consultancy services provided by the Company £211,770 (2010 £217,173) is included within amounts due from fellow subsidiary companies at the year-end

- Included within turnover is income of £31,500 (2010 £37,927) from CIECO Energy (CNS) Limited. (CNS) for consultancy services provided by the Company. £37,370 (2010: £40,229) is included within amounts due from fellow subsidiary companies at the year-end

- Included within interest receivable is interest income of £107,113 (2010 £85,246) from ITOCHU Treasury Centre Europe Plc (ITCE)

- Included within administrative expenses are charges of £28,040 (2010 £26,050) to ITOCHU Europe PLC (ITCE) for treasury payroll and management services. £Nil (2010 £33,827) is included within amounts due to fellow subsidiary companies at the year-end.

- Included within administrative expenses are charges of £141,981 (2010: £256,098) 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 £186,226 (2010· £216,904) to ITOCHU Corporation, for support services primarily of a legal, financial, commercial and administrative nature

- Included within administrative expenses are charges of £127,344 (2010: £419,321) to CIECO E&P (Faroe) Limited. £1,096,035 (2010 £499,439) is included within amounts due from fellow subsidiary companies at year end

- Included within cost of sales are charges of £2,371 (2010 £2,814) from IPC Europe Limited for services provided

IOEA, IOEB, IOEC, JOOG, ITCE, ENERGY, UKCS, CNS, CIECO E&P (Namibia) Co Ltd, IPC, CIECO E&P (Faroe) Ltd 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

**Note 6. Directors and employees**

During the year the average monthly number of employees in the Group was nine (2010 ten).

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

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Wages and salaries | 2,086 | 2,283 |
| Social security costs | 43 | 36 |
| Pension contributions | 60 | 68 |
| Total | 2,189 | 2,387 |

Staff costs include remuneration in respect of directors as follows:

| | 2011 | 2010 |
|---|---|---|
| | £ 000 | £ 000 |
| Directors' emoluments (excluding pension contributions) | 568 | 897 |

The emolument of the highest paid director was £290,770 (2010· £296,578)

None of the directors made contributions to either the defined benefit scheme or the defined contribution pension scheme during the year (2010 £Nil).

**Note 7. Interest receivable and similar income**

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Bank interest receivable | 36 | 26 |
| Interest receivable from fellow subsidiary | 107 | 85 |
| Other interest receivable | 3 | 33 |
| Effect of foreign exchange rate changes | 21 | - |
| Total | 167 | 144 |

**Note 8. Interest payable and similar charges**

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Finance charges | 11 | 12 |
| Unwinding of discounts on decommissioning provision (note 16) | 940 | 1,205 |
| Effect of foreign exchange rates changes | - | 9 |
| Total | 951 | 1,226 |

# CIECO Exploration and Production (UK) Limited

**Note 9. Tax on profit on ordinary activities**

i) Analysis of tax charge in the year

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Current tax | | |
| Corporation tax at 50%/62% (2010. 50%) | 5,516 | 4,152 |
| Corporation tax adjustment to prior years | (298) | (143) |
| Total current tax charge | 5,218 | 4,009 |
| Deferred tax | | |
| Timing difference origination and reversal (note 16) | 6,465 | 634 |
| Total deferred tax | 6,465 | 634 |
| Tax charge on profit in the year | 11,683 | 4,643 |

ii) Factors affecting the tax charge for the year

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Profit/(Loss) on ordinary activities before tax | 19,127 | (3,403) |
| Corporation tax at the UK ring fence rate of 50%/62% (2010 50%) | 11,271 | (1,702) |
| Effects of | | |
| Non deductible expenses (non taxable income) | 575 | 7,777 |
| Impact of unwind of the decommissioning provision | 555 | 602 |
| Capital allowance in excess than depreciation | (6,284) | (1,276) |
| Timing difference in relation to decommissioning | (599) | (1,189) |
| Income taxed at lower rate | (2) | (61) |
| Prior period adjustment | (298) | (143) |
| Current tax charge for the year | 5,218 | 4,009 |

The rate of corporation tax charged on the Group of 50% (2010 50%) comprises the standard corporation tax rate of 30% (2010 30%) plus a 20% (2010 20%) supplementary charge in respect of ring-fence trades in the North Sea With effect from 24 March 2011, Finance Bill 2011 has increased the supplementary charge rate on ring fence trades in the North Sea from 20% to 32% The standard corporation tax rate has revised to 26% (2010 28%) with effect from 1 April 2011, however this does not apply to ring fence activities.

**Note 9. Tax on profit on ordinary activities (continued)**

iii) Factors that may affect the future tax charge

A deferred tax asset of £10,215,000 (2010 £9,509,000) 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

**Note 10. Intangible fixed assets**

**Group and Company:**

| | **Oil & gas interests £000** |
|---|---|
| Balance as at 1 January 2011 | 23,671 |
| Additions | 9,948 |
| Reclassification to tangible fixed assets | (1,483) |
| Balance as at 31 December 2011 | 32,136 |
| Balance as at 31 December 2010 | 23,671 |

The Group's exploration costs during 2011 include £9,948,000 (2010 £19,805,000) incurred on exploration licences in Faroe Island and the UKCS The reclassified costs in the above table include £1,179,000 incurred on exploration well in Faroe Island. The remaining reclassified costs of £304,000 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.

# CIECO Exploration and Production (UK) Limited

## Note 11. Tangible fixed assets

### Group and Company:

| | Oil and Gas Assets | Short Leasehold | Fixtures and Fittings | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Cost** | | | | |
| Balance as at 1 January 2011 | 216,489 | 395 | 251 | 217,135 |
| Additions | 63 | - | 3 | 66 |
| Disposal | - | - | (1) | (1) |
| Change in decommissioning estimate (note 16) | (3,241) | - | - | (3,241) |
| Transfer from intangible fixed assets | 1,483 | - | - | 1,483 |
| **Balance as at 31 December 2011** | 214,794 | 395 | 253 | 215,442 |
| **Depletion and depreciation** | | | | |
| Balance as at 1 January 2011 | 214,809 | 320 | 194 | 215,323 |
| Charge for the year | (1,376) | 19 | 15 | (1,342) |
| Impairment | 1,179 | - | - | 1,179 |
| Disposal | - | - | (1) | (1) |
| **Balance as at 31 December 2011** | 214,612 | 339 | 208 | 215,159 |
| **Net book value as at 31 December 2011** | 182 | 56 | 45 | 283 |
| Net book value as at 31 December 2010 | 1,680 | 75 | 57 | 1,812 |

The negative depreciation in the year results from a reduction in estimates for decommissioning in respect of the NW Hutton and Hutton fields, in excess of the carrying value of these fields

Included within oil and gas assets is a cumulative cost balance of £7,037,000 (2010 £7,037,000) for capitalised interest, relating to the project loan for the Hudson field

A ceiling test was conducted at 31 December 2011 in accordance with accounting policy (ix) The costs reclassified from intangible fixed assets relate to Faroe Islands (as disclosed in note 10) were immediately impaired in line with group's accounting policy, as there are no commercial reserves attributable to the Faroes Continental Shelf cost pool

The cost of oil and gas assets includes £46,374,000 (2010 £49,615,000) relating to capitalised decommissioning costs

**Note 11. Tangible fixed assets (continued)**

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 reserves that will ultimately be recovered from any field can only be known with certainty when production from the field has ceased

The Group 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'

**Note 12. Investments**

| **Company:** | **Investments** |
|---|---|
| | **£000** |
| Balance as at 1 January 2011 | - |
| Additions during year | 2,731 |
| Impairment | (2,731) |
| Balance as at 31 December 2011 | - |

The principal subsidiary undertaking of the company is

| | Shareholding | Class of shares held | Country of registration | Principal activity |
|---|---|---|---|---|
| Cieco E&P (Faroe) Limited | 55 % | A Ordinary | England and Wales | Oil and gas exploration, development and production |

**Note 13. Stocks**

**Group and Company:**

| | **2010** | **2010** |
|---|---|---|
| | **£000** | **£000** |
| Material and supplies | 44 | 42 |

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

# CIECO Exploration and Production (UK) Limited

**Note 14. Debtors: amounts receivable within one year**

| | Group 2011 £000 | Company 2011 £000 | Group 2010 £000 | Company 2010 £000 |
|---|---|---|---|---|
| Trade debtors | 3,230 | 3,230 | 818 | 818 |
| Amounts due from parent company | 996 | 996 | 1,070 | 1,070 |
| Amounts due from fellow subsidiary | 404 | 1,499 | 276 | 775 |
| Other debtors | 73 | 73 | 25 | 25 |
| Prepayments and accrued income | 328 | 328 | 289 | 274 |
| Oil underlift | 1,597 | 1,597 | 1,410 | 1,410 |
| Corporation tax | - | - | 4,155 | 4,155 |
| Deferred tax asset (note 16) | - | - | 139 | 139 |
| Total | 6,628 | 7,723 | 8,182 | 8,666 |

Amounts due from fellow subsidiary are non interest bearing

**Note 15. Creditors: amounts falling due within one year**

| | Group 2011 £000 | Company 2011 £000 | Group 2010 £000 | Company 2010 £000 |
|---|---|---|---|---|
| Trade creditors | 82 | 82 | 41 | 41 |
| Amounts due to fellow subsidiary | 224 | 224 | 161 | 161 |
| Accruals and deferred income | 4,261 | 4,051 | 12,517 | 3,772 |
| Oil overlift | - | - | - | - |
| Corporation tax | 621 | 553 | | |
| Total | 5,188 | 4,910 | 12,719 | 3,974 |

Amounts due to fellow subsidiary are non interest bearing

**Note 16. Provision for liabilities**

**A. Provision for deferred corporation tax**

i) Movement on deferred tax balance in the year

| **Group and Company:** | **2011** | **2010** |
|---|---|---|
| | **£000** | **£000** |
| Opening balance | 139 | 6,833 |
| Losses utilised in the period | - | (6,060) |
| Debit to profit and loss account | (6,465) | (634) |
| Closing balance | (6,326) | 139 |

ii) Analysis of deferred corporation tax balance

| **Group and Company:** | **2011** | **2010** |
|---|---|---|
| | **£000** | **£000** |
| Accelerated capital allowances | (16,541) | (9,370) |
| Decommissioning provision | 10,215 | 9,509 |
| Undiscounted provision for deferred tax | (6,326) | 139 |

**B. Provision for decommissioning**

| **Group and Company:** | **2011** | **2010** |
|---|---|---|
| | **£000** | **£000** |
| Opening balance | (18,908) | (21,479) |
| Revision to cost estimates (note 11) | 3,241 | 1,398 |
| Unwinding of discounted amount (note 8) | (940) | (1,205) |
| Utilisation of provision | 980 | 2,378 |
| Closing balance | (15,627) | (18,908) |

Provision has been made in accordance with accounting policy (vi), calculated as the present value of decommissioning costs expected to be incurred between 2012 and 2025 During the year the discount rate estimate used is 6% (2010 6%) to calculate the decommissioning provision

Decommissioning expenditures expected to be incurred within one year amount to £2,540,000 (2010 £6,552,000)

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

## Note 16. Provision for liabilities (continued)

### C. Total provision for liabilities

| Group and Company: | 2011 £000 | 2010 £000 |
|---|---|---|
| Total provision for liabilities | (21,953) | (18,908) |

## Note 17. Called up share capital

| | 2011 Number | 2010 Number |
|---|---|---|
| **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 18. Profit and loss account

| | Group 2011 £000 | Company 2011 £000 | Group 2010 £000 | Company 2010 £000 |
|---|---|---|---|---|
| Profit and loss account at 1 January | 7,471 | 10,028 | 4,135 | 4,151 |
| Profit for the period | 8,304 | 5,737 | 3,336 | 5,877 |
| Profit and loss at 31 December | 15,775 | 15,765 | 7,471 | 10,028 |

# CIECO Exploration and Production (UK) Limited

## Note 19. Reconciliation of movements in shareholders' funds

| | Group 2011 £000 | Company 2011 £000 | Group 2010 £000 | Company 2010 £000 |
|---|---|---|---|---|
| Shareholders' funds at 1 January | 25,329 | 34,554 | 28,661 | 28,677 |
| Profit for the period | 8,304 | 5,737 | 3,336 | 5,877 |
| Movement in minority interest (note 20) | 5,367 | - | (6,668) | - |
| Shareholders' funds at 31 December | 39,000 | 40,291 | 25,329 | 34,554 |

## Note 20. Minority Interest

| | £000 |
|---|---|
| Balance as at 1 January 2011 | (6,668) |
| Capital introduced | 6,227 |
| Loss on ordinary activities after taxation | (860) |
| Balance as at 31 December 2011 | (1,301) |

The minority has agreed to fund up to 71% of the trading losses incurred by that company.

# CIECO Exploration and Production (UK) Limited

## Note 21. Group cash flow statement

### a) Gross Cash Flows

| | 2011<br>£000 | 2010<br>£000 |
|---|---|---|
| **Returns on investment and servicing of finance:** | | |
| Interest received | 142 | 93 |
| Interest paid | (11) | (12) |
| Net cash inflow | 131 | 81 |

| | 2011<br>£000 | 2010<br>£000 |
|---|---|---|
| **Capital expenditure and financial investments:** | | |
| Payments to acquire tangible fixed assets | (66) | 87 |
| Payments to acquire intangible fixed assets | (9,948) | (19,805) |
| Decommissioning expenditure | (980) | (2,378) |
| Disposal of fixed assets | - | 258 |
| Issue of ordinary shares in subsidiary company | 6,226 | 4,714 |
| Net cash outflow | (4,768) | (17,124) |

| | 2011<br>£000 | 2010<br>£000 |
|---|---|---|
| **Management of liquid resources:** | | |
| Net increase in time deposits | (4,173) | (3,361) |
| Net cash inflow | (4,173) | (3,361) |

**Note 21. Group cash flow statement (continued)**

**b) Reconciliation of net cash inflow to operating profit:**

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Operating profit/(loss) | 19,911 | (2,580) |
| Depletion | (1,376) | 403 |
| Impairment | 1,179 | 15,608 |
| Depreciation | 34 | 44 |
| Increase in stocks | (2) | (7) |
| (Increase)/decrease in debtors | (2,737) | 2,667 |
| (Decrease)/increase in creditors | (8,152) | 5,821 |
| Net cash inflow from operating activities | 8,857 | 21,956 |

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

| | 2011 £000 | 2010 £000 |
|---|---|---|
| (Decrease)/increase in cash in the year | (394) | 306 |
| Cash inflow from liquid resources | 4,173 | 3,361 |
| Change in net funds resulting from cash flows | 3,779 | 3,667 |
| Translation difference | 22 | 48 |
| Movement in net funds in the year | 3,801 | 3,715 |
| Net funds at 1 January | 23,249 | 19,534 |
| Net funds at 31 December | 27,050 | 23,249 |

**d) Analysis of changes in net funds:**

| | At 1 January 2011 £000 | Cash flows £000 | Foreign Exchange £000 | At 31 December £000 |
|---|---|---|---|---|
| Cash in hand and at bank | 357 | (394) | 57 | 20 |
| Liquid resources | 22,892 | 4,173 | (35) | 27,030 |
| Total | 23,249 | 3,779 | 22 | 27,050 |

**Note 22. Capital commitments**

As at 31 December 2011 the Group had committed to but not contracted capital expenditure of £2,551,000 (2010 £2,551,000)

Operating lease commitments are analysed as follows

| Operating lease which expires in September 2013 | 2011 £000 | 2010 £000 |
|---|---|---|
| Office rental | 180 | 180 |
| | 180 | 180 |

**Note 23. 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 £59,919 (2010 £67,960) 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 (2010. £nil) The pension charge to the profit and loss account for the year in respect of this scheme was £nil (2010. £nil) There was no provision to spread the cost of contributions over employees working lives at the year end (2010 £nil)

**Note 23. Pension schemes (continued)**

An actuarial valuation of the ITOCHU Corporate Pension Scheme as at 31 December 2011 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

| | 2011 | 2010 |
|---|---|---|
| Rate of increase in pensionable salaries | 4 60% | 5 00% |
| Rate of increase of pensions in payment accrued before 6 April 1997 | 3.00% | 3.00% |
| Discount rate | 4 80% | 5.50% |
| Inflation assumption (and increases to pensions in deferment accrued after 31 December 1995) | 3 10% | 3 50% |

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 2011 the net pension liability relating to the whole scheme calculated in accordance with FRS 17 is as follows:

| | 2011 Expected rate of return | 2011 £000 | 2010 Expected rate of return | 2010 £000 |
|---|---|---|---|---|
| Equities | 5.25% | 1,875 | 6 75% | 2,553 |
| Bonds | 3 60% | 9,073 | 4 75% | 6,958 |
| Other | 3 10% | 313 | 3.50% | 417 |
| Total market value of assets | | 11,261 | | 9,928 |
| Present value of liabilities | | (13,699) | | (12,275) |
| Deficit in the scheme | | (2,438) | | (2,347) |

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 2012 is 41 2% 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 2012

**Note 24. Ultimate parent company and parent undertaking of largest group of which the Company is a member**

The immediate parent company as at 31 December 2011, for which consolidated financial statements are not prepared, is CIECO North Sea Limited, a company incorporated in Japan As at 31 December 2011 CIECO North Sea Limited was owned 100% by ITOCHU Corporation, a company incorporated in Japan and of the largest group of which the Company is a member 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

During January 2012, CIECO North Sea Limited has sold their full equity interest in the Company to ITOCHU Corporation.

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** (Unaudıted)

The net proven and probable oıl and gas reserves to whıch the Company has an equıty entıtlement are

| | **United Kingdom Crude oil mmbbls** |
|---|---|
| Balance at 1 January 2011 | 1.444 |
| Revısıons to prevıous estımates | 0 352 |
| Productıon | (0 388) |
| Net proven and probable reserves as at 31 December 2011 | 1.408 |

Notes Crude oıl ıncludes natural gas lıquıds,
mmbbls means mıllıon barrels