

CIECO
Exploration and Production
(UK) Limited

Annual Report and Accounts for the year ended
31 December 2009

C-0135568-017



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 2009

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 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

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 2009 from the Hudson oilfield amounted to 0.480 million stock tank barrels (2008: 0.497 million). The average sales price realised in the year was £38.39 a barrel (2008: £53.09). The cost of production in the year was £15.75 a barrel (2008: £21.07).

During 2010 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, UKCS licence 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.

CIECO Exploration and Production (UK) Limited

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 2009 of £4,707,000 (2008 £18,929,000). The directors do not recommend a dividend be paid (2008 £nil).

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 placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Group 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 S Hirokawa
Mr S Nakayama
M Y Seiya
Mr M Katsumata

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 2009.

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:

- 1) so far as the director is aware, there is no relevant audit information of which the Group's auditors are unaware, and
- 11) 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 auditors are aware of that information

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

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

30 March 2010

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 Group, and of the profit and loss of the Group 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 to enable them to ensure that the financial statements comply with 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

CIECO Exploration and Production (UK) Limited

INDEPENDENT AUDITORS' 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 2009 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 22. 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 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

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 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 (APB'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.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 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.

CIECO Exploration and Production (UK) Limited

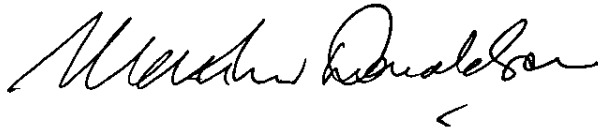
Opinion on other matter prescribed by the Companies Act 2006

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 Auditors
London, UK
30 March 2010

CIECO Exploration and Production (UK) Limited

Group profit and loss account for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Turnover	1,2,5	20,408	25,930
Cost of sales	5	(7,260)	(8,735)
Depletion	4,11	(3,755)	(2,031)
Gross profit		<u>9,393</u>	<u>15,164</u>
Administrative expenses	4,5,6	(629)	(612)
Operating profit	4	<u>8,764</u>	<u>14,552</u>
Gain on sale of tangible fixed asset	11	2,956	-
Profit on ordinary activities before finance charge		<u>11,720</u>	<u>14,552</u>
Interest receivable and similar income	7	196	1,793
Interest payable and similar charges	8	(1,866)	(2,425)
Profit on ordinary activities before taxation		<u>10,050</u>	<u>13,920</u>
Tax on profit on ordinary activities	9	(5,343)	5,009
Profit for the year	18	<u>4,707</u>	<u>18,929</u>
Profit and loss account brought forward		(572)	(19,501)
Profit and loss account carried forward		<u>4,135</u>	<u>(572)</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 £4,707,000 (2008 £18,929,000) 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 35 form part of these financial statements.

CIECO Exploration and Production (UK) Limited

Group balance sheet as at 31 December 2009

	Notes	2009 £000	2008 £000
Fixed assets			
Intangible fixed assets	10	19,580	3,860
Tangible oil and gas assets	11	3,488	5,218
Other tangible assets	11	155	202
Total		<u>23,223</u>	<u>9,280</u>
Current assets			
Stocks	13	35	53
Debtors	5 & 14	14,246	17,103
Short term deposits		19,477	32,610
Cash at bank and in hand	19(d)	57	46
		<u>33,815</u>	<u>49,812</u>
Current liabilities			
Creditors amounts falling due within one year	5 & 15	(6,898)	(7,875)
Net current assets		<u>26,917</u>	<u>41,937</u>
Total assets less current liabilities		50,140	51,217
Provisions for liabilities	16	(21,479)	(27,263)
Net Assets		<u>28,661</u>	<u>23,954</u>
Capital and reserves			
Called up share capital	17	24,526	24,526
Profit and loss account		4,135	(572)
Shareholders' funds	18	<u>28,661</u>	<u>23,954</u>

These financial statements were approved by the Board of Directors on 30 March 2010

The notes on pages 14 to 35 form part of these financial statements

Signed on behalf of the Board of Directors



Mr M Katsumata
Director

CIECO Exploration and Production (UK) Limited

Company balance sheet as at 31 December 2009

	Notes	2009 £000	2008 £000
Fixed assets			
Intangible fixed assets	10	19,580	3,860
Tangible oil and gas assets	11	3,488	5,218
Other tangible assets	11	155	202
Investment	12	-	-
Total		<u>23,223</u>	<u>9,280</u>
Current assets			
Stocks	13	35	53
Debtors	5 & 14	14,260	17,103
Short term deposits		19,477	32,610
Cash at bank and in hand	19(d)	57	46
		<u>33,829</u>	<u>49,812</u>
Current liabilities			
Creditors amounts falling due within one year	5 & 15	(6,896)	(7,875)
Net current assets		<u>26,933</u>	<u>41,937</u>
Total assets less current liabilities		50,156	51,217
Provisions for liabilities	16	(21,479)	(27,263)
Net Assets		<u>28,677</u>	<u>23,954</u>
Capital and reserves			
Called up share capital	17	24,526	24,526
Profit and loss account		4,151	(572)
Shareholders' funds	18	<u>28,677</u>	<u>23,954</u>

These financial statements were approved by the Board of Directors on 30 March 2010.

The notes on pages 14 to 35 form part of these financial statements

Signed on behalf of the Board of Directors



Mr M Katsumata
Director

CIECO Exploration and Production (UK) Limited

Group cash flow Statement for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Operating activities			
Net cash inflow from operating activities	19(b)	9,183	28,950
Returns on investments and servicing of finance	19(a)	102	(142)
Taxation		(150)	(1,100)
Capital expenditure and financial investments	19(a)	(22,137)	(18,002)
Cash (outflow)/inflow before management of liquid resources and financing		<u>(13,002)</u>	<u>9,706</u>
Management of liquid resources	19(a)	13,187	(9,759)
Decrease/(increase) in cash in the year	19(c)	<u>185</u>	<u>(53)</u>

The notes on pages 14 to 35 form part of these financial statements

CIECO Exploration and Production (UK) Limited

Notes to the accounts for the year ended 31 December 2009

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) and (ix) 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)

iii) Oil and gas exploration and development activities (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 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. The Company has two cost pools, being UKCS and Faroes Continental Shelf.

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.

CIECO Exploration and Production (UK) Limited

Note 1. Statement of accounting policies (continued)

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

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 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

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.

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 £4,723,000 (2008: £18,929,000).

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 the 31 December 2009 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 and there is no impairment.

Note 4. Operating profit

Operating profit is stated after charging

	2009	2008
	£000	£000
Operating leases		
Office rental	180	180
Depletion of Oil and Gas assets	3,703	2,031
Depreciation of other tangible fixed assets	52	68
Fees for the audit of the Company's annual accounts	37	37
Fees for the audit of the Company's subsidiary annual accounts	2	-
	<hr/>	<hr/>

CIECO Exploration and Production (UK) Limited

Note 5. Related Party Transactions

The ITOCHU Corporation

- ◆ Included within turnover is income of £144,626 (2008: £101,744) from ITOCHU Oil Exploration (Azerbaijan) Inc (IOEA) for consultancy services provided by the Company £144,626 (2008: £101,744) is included within amounts due from fellow subsidiary companies at the year-end
- ◆ Included within turnover is income of £832 (2008: £41,057) from ITOCHU Oil Exploration (BTC) Inc (IOEB) for consultancy services provided by the Company. £832 (2008: £41,057) is included within amounts due from fellow subsidiary companies at the year-end
- ◆ Included within turnover is income of £39,510 (2008: £53,485) from Japan Ohanet Oil & Gas Co Limited (JOOG) for consultancy services provided by the Company £39,510 (2008: £53,485) is included within amounts due from fellow subsidiary companies at the year-end
- ◆ Included within turnover is income of £1,092,020 (2008: £989,254) from ITOCHU Corporation for consultancy services provided by the Company £896,894 (2008: £825,900) is included within amounts due from parent companies at the year-end.
- ◆ Included within turnover is income of £184,995 (2008: £163,176) from CIECO Exploration and Production Namibia Co Ltd for consultancy services provided by the Company £184,995 (2008: £163,176) is included within amounts due from parent companies at the year-end
- ◆ Included within turnover is income of £133,455 (2008: £91,149) from IPC Europe Ltd for consultancy services provided by the Company £17,018 (2008: £9,954) is included within amounts due from fellow subsidiaries companies at the year-end
- ◆ Included within turnover is income of £30,130 (2008: £34,922) from CIECO Energy (UK) Limited (ENERGY) for consultancy services provided by the Company £285,906 (2008: (£26,755)) is included within amounts due to/(from) fellow subsidiary companies at the year-end
- ◆ Included within turnover is income of £337,869 (2008: £340,871) from CIECO Energy (UKCS) Limited (UKCS) for consultancy services provided by the Company £614,045 (2008: £105,864) is included within amounts due from fellow subsidiary companies at the year-end.
- ◆ Included within turnover is income of £59,357 (2008: £60,549) from CIECO Energy (CNS) Limited (CNS) for consultancy services provided by the Company £90,180 (2008: £27,527) 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 interest receivable is interest income of £43,000 (2008 £Nil) from ITOCHU Treasury Centre Europe Plc (ITCE)
- ◆ Included within administrative expenses are charges of £32,090 (2008. £27,640) to ITOCHU Europe PLC (ITCE) for treasury payroll and management services £Nil (2008 £183) is included within amounts due to fellow subsidiary companies at the year-end
- ◆ Included within administrative expenses are charges of £273,339 (2008 £215,585) 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 £190,253 (2008 £119,057) to ITOCHU Corporation, for support services primarily of a legal, financial, commercial and administrative nature
- ◆ Included within administrative expenses are charges of £15,644 (2008 £Nil) to CIECO E&P (Faroe) Limited. £13,644 (2008 £Nil) is included within amounts due from fellow subsidiary companies at year end.
- ◆ Included within cost of sales are charges of £3,036 (2008 £2,385) from IPC Europe Limited for services provided
- ◆ Included within interest receivable are receipts of £Nil (2008 £323,215) from Energy for interest receivable on loans made to that company

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

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 (2008 ten)

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

	2009	2008
	£000	£000
Wages and salaries	2,227	1,765
Social security costs	36	35
Pension contributions	48	45
Total	<u>2,311</u>	<u>1,845</u>

Staff costs include remuneration in respect of directors as follows -

	2009	2008
	£ 000	£ 000
Directors' emoluments (excluding pension contributions)	<u>1,111</u>	<u>627</u>

The emolument of the highest paid director was £304,432 (2008 £216,790)

None of the directors made contributions to either the defined benefit scheme or the defined contribution pension scheme during the year (2008: £nil)

CIECO Exploration and Production (UK) Limited

Note 7. Interest receivable and similar income

	2009	2008
	£000	£000
Bank interest receivable	82	1,331
Interest receivable from fellow subsidiary	43	323
Other interest receivable	71	24
Effect of foreign exchange rates changes	-	115
Total	<u>196</u>	<u>1,793</u>

Note 8. Interest payable and similar charges

	2009	2008
	£000	£000
Finance charges	27	105
Unwinding of discounts on decommissioning provision (note 16)	1,734	2,316
Effect of foreign exchange rates changes	105	-
Bank guarantee fees	-	4
Total	<u>1,866</u>	<u>2,425</u>

CIECO Exploration and Production (UK) Limited

Note 9. Tax on profit on ordinary activities

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

	2009	2008
	£000	£000
Current tax		
Corporation tax at 50% (2007: 50%)	-	499
Corporation tax adjustment to prior years	(3)	115
Total current tax (credit)/charge	<u>(3)</u>	<u>614</u>
Deferred tax		
Timing difference origination and reversal (note 16)	11,406	(5,623)
Losses not utilised in the period	(6,060)	
Total deferred tax	<u>5,346</u>	<u>(5,623)</u>
Tax charge/(credit) on profit in the year	<u>5,343</u>	<u>(5,009)</u>

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

ii) Factors affecting the tax charge for the year

	2009	2008
	£000	£000
Profit on ordinary activities before tax	10,050	13,920
Corporation tax at the UK ring fence rate of 50% (2007: 50%)	<u>5,025</u>	<u>6,960</u>
Effects of		
Non taxable income	(1,470)	103
Capital allowance in excess than depreciation	(6,936)	(558)
Timing difference in relation to decommissioning	(2,629)	(5,666)
Income taxed at lower rate	(66)	(346)
Expenses not deductible for tax purposes	16	6
Prior period adjustment	(3)	115
Losses not utilised in the period	6,060	-
Current tax (credit)/charge for the year	<u>(3)</u>	<u>614</u>

CIECO Exploration and Production (UK) Limited

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

iii) Factors that may affect the future tax charge

A deferred tax asset of £9,801,000 (2008 £14,098,000) 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 £1,851,000 (2008. £738,000) 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.

Note 10. Intangible fixed assets

Group and Company:

	Oil & gas interests £000
Balance as at 1 January 2009	3,860
Additions	15,893
Reclassification to tangible fixed assets	(173)
Balance as at 31 December 2009	<u>19,580</u>
Balance as at 31 December 2008	<u>3,860</u>

The Group's exploration costs during 2009 include £15,893,000 (2008 £3,970,000) incurred on exploration licences in the Faroe Islands 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

Group and Company:

	Oil and Gas Assets	Short Leasehold	Fixtures and Fittings	Total
	£000	£000	£000	£000
Cost				
Balance as at 1 January 2009	200,313	395	260	200,968
Additions	164	-	5	169
Change in decommissioning estimate (note 16)	1,636	-	-	1,636
Transfer from intangible fixed assets	173	-	-	173
Balance as at 31 December 2009	202,286	395	265	202,946
Depletion and depreciation				
Balance as at 1 January 2009	195,095	261	192	195,548
Charge for the year	3,703	34	18	3,755
Balance as at 31 December 2009	198,798	295	210	199,303
Net book value as at 31 December 2009	3,488	100	55	3,643
Net book value as at 31 December 2008	5,218	134	68	5,420

Included within oil and gas assets is a cumulative cost balance of £7,037,000 (2008 £7,037,000) for capitalised interest, relating to the project loan for the Hudson field

A ceiling test was conducted at 31 December 2009 in accordance with accounting policy (ix). All oil and gas assets passed the ceiling test

The cost of oil and gas assets includes £51,013,000 (2008: £49,377,000) 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 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'

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Note 11. Tangible fixed assets (continued)

During 2009, Cieco Exploration and Production (UK) Limited, together with existing joint venture partners, signed a Sales and Purchase Agreement (SPA) for the disposal of licence interests in P184, Blocks 211/27a and P474, Blocks 211/27c. This includes the NW Hutton field, which is currently being decommissioned. The sale is structured in two steps, in order to allow the sellers to continue to carry out the decommissioning work. Step 1 entitles the purchaser to carry out normal activities on the licences outside of the decommissioning area, and step 2 transfers full legal entitlement to the licences following completion of the decommissioning. The purchaser has an option to relinquish the licence if certain conditions, which include satisfactory completion of decommissioning by 31 December 2012, are not met. The Directors consider the likelihood of not meeting these conditions to be remote. In reaching this conclusion, the Directors note that the decommissioning plan for the field was pre-approved by the Department of Energy and Climate Change, and that progress to date is in accordance with the plan. Accordingly, a profit on sale of the licences of £2,956k has been recognised following completion of step 1 during the year.

Note 12. Investments

Company:	Investments £000
Additions during year	-
Balance as at 31 December 2009	-
Balance as at 31 December 2008	-

The principal subsidiary undertaking of the company is

	Shareholding	Class of shares held	Country of registration	Principal activity
Cieco E&P (Faroe) Limited	100%	Ordinary	England and Wales	Oil and gas exploration, development and production

Note 13. Stocks

Group and Company:	2009 £000	2008 £000
Material and supplies	35	53

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

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Note 14. Debtors: amounts receivable within one year

	Group 2009 £000	Compan y2009 £000	Group 2008 £000	Compa ny2008 £000
Trade debtors	1,612	1,612	675	675
Amounts due from parent company	897	897	826	826
Amounts due from fellow subsidiary	826	840	530	530
Other debtors	790	790	21	21
Prepayments and accrued income	243	243	360	360
Oil underlift	2,186	2,186	1,197	1,197
Corporation tax	859	859	1,315	1,315
Deferred tax asset (note 16)	6,833	6,833	12,179	12,179
Total	14,246	14,260	17,103	17,103

Note 15. Creditors: amounts falling due within one year

	Group 2009 £000	Company 2009 £000	Group 2008 £000	Company 2008 £000
Trade creditors	14	14	15	15
Amounts due to fellow subsidiary	286	286	307	307
Accruals and deferred income	5,934	5,932	7,553	7,553
LPG overlift	664	664		
Total	6,898	6,896	7,875	7,875

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Note 16. Provision for liabilities

A. Provision for deferred corporation tax

i) Movement on deferred tax balance in the year

Group and Company:	2009	2008
	£000	£000
Opening balance	12,179	6,556
(Debit)/credit to profit and loss account	(5,346)	5,623
Closing balance	<u>6,833</u>	<u>12,179</u>

ii) Analysis of deferred corporation tax balance

Group and Company:	2009	2008
	£000	£000
Accelerated capital allowances	(9,023)	(1,919)
Decommissioning provision	9,796	14,098
Losses not utilised in the period	6,060	-
Undiscounted provision for deferred tax	<u>6,833</u>	<u>12,179</u>

B. Provision for decommissioning

Group and Company:	2009	2008
	£000	£000
Opening balance	(27,263)	(37,719)
Revision to cost estimates (note 11)	(1,636)	(878)
Unwinding of discounted amount (note 8)	(1,734)	(2,316)
Utilisation of provision	9,154	13,650
Closing balance	<u>(21,479)</u>	<u>(27,263)</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 2010 and 2018. During the year the discount rate estimate used is 6% (2008 6%) to calculate the decommissioning provision

Decommissioning expenditures expected to be incurred within one year amount to £11,099,000 (2008. £13,008,000).

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 16. Provision for liabilities (continued)

C. Total provision for liabilities

Group and Company:	2009 £000	2008 £000
Provision for decommissioning	(21,479)	(27,263)
Total provision for liabilities	<u>(21,479)</u>	<u>(27,263)</u>

Note 17. Called up share capital

	2009 Number	2008 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 18. Reconciliation of movements in shareholders' funds

	Group 2009 £000	Company 2009 £000	Group 2008 £000	Company 2008 £000
Shareholders' funds at 1 January	23,954	23,954	5,025	5,025
Profit for the period	4,707	4,723	18,929	18,929
Shareholders' funds at 31 December	<u>28,661</u>	<u>28,677</u>	<u>23,954</u>	<u>23,954</u>

CIECO Exploration and Production (UK) Limited

Note 19. Group cash flow statement

a) Gross Cash Flows

	2009 £000	2008 £000
Returns on investment and servicing of finance:		
Interest received	129	1,657
Interest paid	(27)	(105)
Bank guarantee fees paid	-	(4)
Cash paid on hedge contracts	-	(1,690)
Net cash outflow/(inflow)	<u>102</u>	<u>(142)</u>
	2009 £000	2008 £000
Capital expenditure and financial investments:		
Payments to acquire tangible fixed assets	(169)	(382)
Payments to acquire intangible fixed assets	(15,893)	(3,970)
Decommissioning expenditure	(9,154)	(13,650)
Disposal of fixed assets	3,079	-
Net cash outflow	<u>(22,137)</u>	<u>(18,002)</u>
	2009 £000	2008 £000
Management of liquid resources:		
Net decrease/(increase) in time deposits	13,187	(9,759)
Net cash inflow/(outflow)	<u>13,187</u>	<u>(9,759)</u>

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Note 19. Group cash flow statement (continued)

b) Reconciliation of net cash inflow to operating profit:

	2009 £000	2008 £000
Operating profit	8,764	14,552
Depletion	3 703	2,031
Depreciation	52	68
Decrease in stocks	18	72
(Increase)/decrease in debtors	(2,377)	9,368
(Decrease)/increase in creditors	(977)	2,859
Net cash inflow from operating activities	<u>9,183</u>	<u>28,950</u>

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

	2009 £000	2008 £000
Increase/(decrease) in cash in the year	185	(53)
Cash (outflow)/inflow from liquid resources	(13,187)	9,759
Change in net funds resulting from cash flows	<u>(13,002)</u>	<u>9,706</u>
Translation difference	(120)	278
Movement in net funds in the year	<u>(13,122)</u>	<u>9,984</u>
Net funds at 1 January	32,656	22,672
Net funds at 31 December	<u>19,534</u>	<u>32,656</u>

d) Analysis of changes in net funds:

	At 1 January 2009 £000	Cash flows £000	Foreign Exchange £000	At 31 December £000
Cash in hand and at bank	46	185	(174)	57
Liquid resources	32,610	(13,187)	54	19,477
Total	<u>32,656</u>	<u>(13,002)</u>	<u>(120)</u>	<u>19,534</u>

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Note 20. Capital commitments

As at 31 December 2009 the Group had committed to but not contracted capital expenditure of £11,452,000 (2008 £19,719,000)

Operating lease commitments are analysed as follows

Operating lease which expires in September 2013	2009 £000	2008 £000
Office rental	180	180
	<u>180</u>	<u>180</u>

Note 21. 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 (2008 £44,748). 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 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 (2008 £nil). The pension charge to the profit and loss account for the year in respect of this scheme was £nil (2008. £nil). There was no provision to spread the cost of contributions over employees working lives at the year end (2008. £nil).

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Note 21. Pension schemes (continued)

An actuarial valuation of the ITOCHU Corporate Pension Scheme as at 31 December 2009 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

	2009	2008
Rate of increase in pensionable salaries	5.10%	4.50%
Rate of increase of pensions in payment accrued before 6 April 1997	3.00%	3.00%
Discount rate	5.75%	6.40%
Inflation assumption (and increases to pensions in deferment accrued after 31 December 1995)	3.60%	3.00%

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 2009 the net pension liability relating to the whole scheme calculated in accordance with FRS 17 is as follows

	2009		2008	
	Expected rate of return	£000	Expected rate of return	£000
Equities	7.20%	1,800	6.50%	2,929
Bonds	5.10%	6,845	5.10%	4,425
Cash and other investments	3.60%	120	2.00%	333
Property	7.20%	7	6.50%	28
Total market value of assets		8,772	5.50%	7,715
Present value of liabilities		(11,784)		(9,497)
Deficit in the scheme		<u>(3,012)</u>		<u>(1,782)</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 2010 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 2010.

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Note 22. Ultimate parent company and parent undertaking of largest group of which the Company is a member

The immediate parent company as at 31 December 2009, for which consolidated financial statements are not prepared, is CIECO North Sea Limited, a company incorporated in Japan. As at 31 December 2009 CIECO North Sea Limited was owned jointly by ITOCHU Corporation (80%) and Taiyo Oil Co. Limited (20%). As at 31 December 2009 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 2009	1 618
Revisions to previous estimates	-
Production	(0 480)
Net proven and probable reserves as at 31 December 2009	<u>1.138</u>

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