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CIECO
Exploration and Production
(UK) Limited

Annual Report and Accounts for the year ended 31 December 2014

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 Sugimoto

Secretary

Mr A Gupta

Registered Office

CIECO Exploration and Production (UK) Limited
The Broadgate Tower
20 Primrose Street
London
EC2A 2EW

Bankers

Sumitomo Mitsui Banking Corporation Europe Limited
Temple Court
99 Queen Victoria Street
London
EC4A 4EH

Mizuho Corporate Bank Limited
London Branch
Bracken House, One Friday Street
London
EC4M 9JA

Solicitors

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

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
2 New Street Square
London
EC4A 3BZ

CIECO Exploration and Production (UK) Limited

Report of the directors

The dırectors submıt theır annual report and audıted accounts for the year ended 31 December 2014

Results and dividends

The Company made a loss after tax for the year ended 31 December 2014 of £567,000 (2013 profit of £3,663,000) The decrease ın profit (to a loss) for the year prıncıpally reflects lower production volumes from the Company's only producıng asset, Hudson, whıch has been shut-ın sınce October 2014 due to operatıonal ıssues, a lower average realısed oıl prıce, hıgher costs of productıon per barrel and sıgnıficantly the recognıtion of an ımpaırment charge of £16,737,000 ın respect of prevıously capıtalısed costs of unsuccessful exploratıon and evaluatıon actıvıtıes ın accordance wıth the Company's accountıng polıcıes Further detaıls of the Company's key performance ındıcators ("KPIs") are presented ın the Strategıc report and detaıls of the impaırment charge are ıncluded ın note 11

The dırectors do not recommend a dıvıdend be paıd (2013 £nıl)

Going concern

The Company's busıness actıvıties, together wıth factors lıkely to affect ıts future development, performance and posıtıon are set out ın the Strategıc Report The Strategıc Report also outlınes the Company's financıal risk management polıcıes

The dırectors have consıdered the Company's busıness actıvıtıes wıth the factors lıkely to affects ıts future development, performance and lıquıdıty posıtıon together wıth reserves, cash flow and ıts bankıng and group facılıtıes ın theır assessment of goıng concern As a consequence, the dırectors belıeve that the Company is well placed to manage theır busıness rısks successfully despıte the current uncertaın economıc outlook.

After makıng enquırıes, the dırectors have a reasonable expectatıon that the Company has adequate resources to contınue theır operatıonal exıstence for the foreseeable future Accordıngly, they contınue to adopt the going concern basıs ın preparıng the annual report and financıal statements.

Directors

The dırectors, who served durıng the year and to the date of thıs report, were as follows:

Mr S Hırokawa
Mr. A. Tanabe
Mr. T. Sono (resıgned on 1 Aprıl 2014)
Mr. M Mıtsuhashı (resıgned on 1 Aprıl 2014)
Mr. T. Sugımoto (appoınted on 1 Aprıl 2014)

Report of the directors (continued)

None of the directors held any shares in the Company's ultimate holding company, ITOCHU Corporation, or in any other group company as at 31 December 2014.

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 Company's auditor is unaware, and

ii) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's 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

杉本 匡

T. Sugimoto
Director
31 March 2015

Registered Office
The Broadgate Tower
20 Primrose Street
London
EC2A 2EW

CIECO Exploration and Production (UK) Limited

Strategic report

The dırectors submıt theır strategıc report for the year ended 31 December 2014

Principal activities

The prıncıpal actıvıtıes of the Company are oıl and gas exploratıon, development and productıon on the UK Contınental Shelf

The Company has equıty ınterests ın the Hutton (8 63%), Hudson (25 77%), Western Isles (23 08%), and Q-West (12 75%) oılfields, together wıth assocıated ınterests in pıpelınes, and termınal facılıtıes and attendant acreage

The Company also provides technıcal, commercıal, financıal and legal advısory servıces to other members of the ITOCHU Corporatıon group.

Business review

Detaıls of the Company's results for the year are provıded ın the Dırector's report. The Company's key performance ındıcators for the year are net productıon, average sales prıce and cost of productıon.

The Company's net production for 2014 from the Hudson oilfield amounted to 0 219 mıllıon stock tank barrels (2013 0.302 mıllıon) The average sales prıce realısed ın the year was £61 27 a barrel (2013 £69 77). The cost of production ın the year was £43.46 a barrel (2013 £39 49).

Durıng 2014, consıderable ınvestment was made on capıtal expendıture of developıng Western Isles project The Company has been awarded lıcense P2179 blocks 20/5b and 21/d under the UK 28th lıcensing round As detaıled ın note 3 and note 11 an ımpaırment charge of £16,737,000 has been recognısed for the unsuccessful exploratıon costs prevıously transferred from ıntangıble fixed assets to tangıble fixed assets

Outlook for 2015

Hudson field ıs currently shut down due to a wet gas cooler faılure on the Tern platform. It ıs currently expected that productıon wıll restart ın early Aprıl 2015. It ıs antıcıpated that productıon wıll contınue from the Hudson oılfield and development of the Western Isles project wıll progress. The Company wıll contınue to provıde technıcal, commercıal and financial advısory servıces to other Group companıes.

Strategic report (continued)

Financial risk management objectives and policies

The Company is exposed to oil price and currency exchange rate variations over which it has no control Where the directors deem it appropriate the Company manages these risks by taking out future contracts to fix the prices for part of its anticipated future production. The Company has no oil hedges outstanding as at 31 December 2014 (2013 none) The Company manages foreign currency risk by converting US Dollars receipts at spot rates periodically and as required for payment in Sterling.

The Company closely monitors and manages its liquidity risk by reviewing cash flow requirements on a regular basis relative to the existing bank and group facilities and the maturity of profile of these facilities. The Company has entered into committed external borrowing facilities to manage development expenditure of the Western Isles project The Company reviews its cash flow requirements on an ongoing basis to ensure it has suitable resources for its needs In addition, it has significant cash balance to carry out its operations smoothly in future

The Company currently sells all its production to major oil companies and the directors consider that there is no significant credit risk associated with these sales Cash balances are invested in short-term bank deposits with a view to minimise counter-party credit risks.

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

By order of the Board

杉本 匡

T. Sugimoto
Director
31 March 2015

Registered Office
The Broadgate Tower
20 Primrose Street
London
EC2A 2EW

Directors' Statement of Responsibilities

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

Company law requıres the dırectors to prepare financıal statements for each financıal year Under that law the dırectors have elected to prepare the financıal statements ın accordance wıth Unıted Kıngdom Generally Accepted Accountıng Practice (Unıted Kıngdom Accountıng Standards and applıcable law) Under company law the dırectors must not approve the financıal statements unless they are satısfied that they gıve a true and faır vıew of the state of affaırs of the Company and of the profit or loss of the Company for that perıod In preparıng these financıal statements, the dırectors are requıred to

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

The dırectors are responsıble for keepıng adequate accountıng records that are sufficıent to show and explaın the Company's transactıons and dısclose wıth reasonable accuracy at any tıme the financıal posıtıon of the Company and enable them to ensure that the financıal statements comply wıth the Companıes Act 2006 They are also responsıble for safeguardıng the assets of the Company and hence for takıng reasonable steps for the preventıon and detectıon of fraud and other ırregularıtıes

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 2014 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 23. 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 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its loss 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.

Opinion on other matter prescribed by the Companies Act 2006

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

G. Hollis

Graham Hollis ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
31 March 2015

CIECO Exploration and Production (UK) Limited

Profit and loss account for the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Turnover	1, 2	15,690	23,850
Cost of sales		(11,896)	(9,832)
Depletion and impairment	3, 4, 11	(18,227)	(3,471)
Gross (loss)/profit		(14,433)	10,547
Administrative expenses	4, 6	(2,415)	(2,818)
Operating (loss)/profit	4	(16,848)	7,729
Interest receivable and similar income	7	215	190
Interest payable and similar charges	8	(1,545)	(1,619)
(Loss)/profit on ordinary activities before taxation		(18,178)	6,300
Tax on (loss)/profit on ordinary activities	9	17,611	(2,637)
(Loss)/profit on ordinary activities after taxation		(567)	3,663

All income and expenditure relates to continuing activities.

There have been no recognised gains or losses for the current or previous financial year other than the loss of £567,000 (2013: profit £3,663,000) shown above Consequently no separate 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 34 form part of these financial statements

CIECO Exploration and Production (UK) Limited

Balance sheet as at 31 December 2014

	Notes	2014 £000	2013 £000
Fixed assets			
Intangible fixed assets	10	580	16,529
Tangible oil and gas assets	11	217,501	114,444
Other tangible assets	11	201	233
Total		218,282	131,206
Current assets			
Stocks	12	44	47
Debtors	13	2,138	9,261
Short-term deposits	20(d)	37,888	30,487
Cash at bank and in hand	20(d)	6	14
		40,076	39,809
Current liabilities			
Creditors. amounts falling due within one year	14	(23,991)	(28,882)
Net current assets		16,085	10,927
Total assets less current liabilities		234,367	142,133
Creditor: amounts falling due after one year	15	(154,423)	(45,131)
Provisions for liabilities	16	(32,357)	(48,848)
Net assets		47,587	48,154
Capital and reserves			
Called up share capital	17	24,526	24,526
Profit and loss account	18	23,061	23,628
Shareholders' funds	19	47,587	48,154

These financial statements were approved by the Board of Directors on 31 March 2015.

The notes on pages 14 to 34 form part of these financial statements.

Signed on behalf of the Board of Directors

杉本匡

T. Sugimoto
Director

Company Registration Number: 2669936

CIECO Exploration and Production (UK) Limited

Cash flow statement for the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Net cash inflow from operating activities	20(b)	7,466	31,198
Returns on investments and servicing of finance	20(a)	208	118
Taxation		-	48
Investing activities	20(a)	(78,437)	(68,239)
Financing activities	20(a)	78,272	45,131
Cash inflow before management of liquid resources and financing		7,509	8,256
Management of liquid resources	20(a)	(7,386)	(8,311)
Increase/(decrease) in cash in the year	20(c)	123	(55)

The notes on pages 14 to 34 form part of these financial statements

Notes to the accounts for the year ended 31 December 2014

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 intangible 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

Production 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 reassessment of the estimated cost of decommissioning is capitalised within tangible fixed assets with a corresponding amount being recognised as provision whilst the adjustment arising from the unwinding of the discount is taken to the profit and loss account

Note 1. Statement of accounting policies (continued)

vii) Depletion and depreciation

Those costs that have been capitalised to tangible 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 and the 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 commercial reserves of the total cost pool in line with Oil and Gas SORP The Company has one cost pool, being UKCS, which therefore includes all the Company's interests

Depreciation on all other, non-oil and gas, tangible fixed assets are provided on a 25% reducing balance basis

viii) Effect of changing estimates

Changes in estimates affecting unit-of-production calculations for depletion are 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

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 and the directors consider that this is more appropriate policy for the Company

Note 1. Statement of accounting policies (continued)

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 and services 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.

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

Note 1. Statement of accounting policies (continued)

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

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

xvi) Leases

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

xvii) Liquid resources

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

Note 2. Turnover

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

Note 3. Impairment of fixed assets

As at 31 December 2014, the directors performed an impairment test on the carrying value of the Company's tangible oil and gas assets The test indicated that in accordance with the Company's accounting policy (see note 1 (vii)) an impairment of £16,737,000 was required to be recognised in respect of the Company's past unsuccessful exploration costs See note 11 for further details.

Note 4. Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	2014 £000	2013 £000
Office rental	141	276
Depletion and impairment of Oil and Gas assets (note 11)	1,423	3,393
Impairment of Oil & Gas assets (note 11)	16,737	-
Depreciation of other tangible fixed assets (note 11)	67	78
Fees for the audit of the Company's annual accounts	43	42

Note 5. Related Party Transactions

The ITOCHU Corporation

- Included within turnover is income of £11,809 (2013: £37,723) from ITOCHU Oil Exploration (Azerbaijan) Inc. (IOEA) for consultancy services provided by the Company £11,809 (2013 £37,723) is included within amounts due from fellow subsidiary companies at the year end

- Included within turnover is income of £nil (2013· £5,086) from Japan Ohanet Oil & Gas Co Limited (JOOG) for consultancy services provided by the Company. £nil (2013 £5,086) is included within amounts due from fellow subsidiary companies at the year end.

- Included within turnover is income of £227,968 (2013 £937,164) from ITOCHU Corporation for consultancy services provided by the Company £191,219 (2013 £786,324) is included within amounts due from parent company at the year end.

- Included within turnover is income of £15,000 (2013 £52,232) from CIECO Exploration and Production Namibia Co Ltd for consultancy services provided by the Company. £15,000 (2013 £52,232) is included within amounts due from fellow subsidiary companies at the year end.

Note 5. Related Party Transactions (continued)

- Included wıthın turnover ıs ıncome of £220,000 (2013 £954,343) from CIECO Energy (UK) Lımıted (ENERGY) for consultancy servıces provıded by the Company £nıl (2013: £983,993) ıs ıncluded wıthın amounts due from fellow subsıdıary companıes at the year end.

- Included wıthın ınterest receıvable ıs ınterest ıncome of £23,277 (2013 £nıl) from ITOCHU Treasury Centre Europe Plc (ITCE)

- Included wıthın ınterest receıvable ıs ınterest ıncome of £nıl (2013: £11,826) from CIECO E&P (Faroe) Lımıted

- Included wıthın admınıstrative expenses are charges of £37,809 (2013 £37,635) to ITOCHU Europe PLC. (ITCE) for treasury payroll and management servıces £23,250 (2013. £16,776) ıs ıncluded wıthın amounts due to fellow subsıdıary companıes at the year end

- Included wıthın admınıstrative expenses are charges of £303,789 (2013 £865,845) to ITOCHU Oıl Exploratıon Co Lımıted, for support servıces prımarıly of a technıcal and admınıstratıve nature £654,234 (2013: £514,655) ıs ıncluded wıthın amounts due to fellow subsıdıary companıes at the year end.

- Included wıthın admınıstratıve expenses are charges of £66,271 (2013: £593,656) to ITOCHU Corporatıon, for support servıces prımarıly of a legal, financıal, commercıal and admınıstratıve nature. £119,309 is included wıthin amounts due to fellow subsıdıary companıes at the year end.

- Included wıthın admınıstratıve expenses are charges of £50,000 (2013 £25,593) to CIECO E&P (Faroe) Lımıted. £nıl (2013 £1,286,770) ıs ıncluded wıthın amounts due from fellow subsidıary companies at year end

- Included wıthın cost of sales are charges of £21,077 (2013: £22,289) from IPC Europe Lımıted for services provıded

- Durıng the year £761,014 (2013: £377,589) was recognısed in respect of ınterest and commıtment fees payable relatıng to amounts due to fellow subsıdıary dısclosed ın note 15. £235,826 ıs ıncluded wıthın amounts due to fellow subsıdıary companıes at the year end

- Durıng the year £46,176 (2013: £13,811) was recognısed ın respect to guarantee fees payable relatıng to amounts due to fellow subsıdiary dısclosed ın note 15 £46,176 ıs ıncluded wıthın amounts due from parent company at the year end.

Note 5. Related Party Transactions (continued)

- During the year £38,810 (2013 £nil) was recognised as dividend received from CIECO E&P (Faroe) Limited

IOEA, JOOG, ITCE, ENERGY, 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 of the Company are employees of ITOCHU Corporation.

Note 6. Directors and employees

During the year the average monthly number of employees in the Company was 16 (2013: 17)

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

	2014	2013
	£000	£000
Wages and salaries	2,521	2,737
Social security costs	96	82
Pension contributions	95	84
Total	2,712	2,903

Staff costs include remuneration in respect of directors as follows

	2014	2013
	£ 000	£ 000
Directors' emoluments (excluding pension contributions)	710	960

The emolument of the highest paid director was £378,000 (2013: £389,000).

None of the directors made contributions to either the defined benefit scheme or the defined contribution pension scheme during the year (2013 none)

Note 7. Interest receivable and similar income

	2014 £000	2013 £000
Bank interest receivable	153	124
Interest receivable from subsidiary	23	11
Dividend received and other interest receivable	39	2
Effect of foreign exchange rate changes	-	53
Total	215	190

Note 8. Interest payable and similar charges

	2014 £000	2013 £000
Finance charges	7	19
Unwinding of discount on decommissioning provision (note 16(b))	1,422	1,600
Effect of foreign exchange rate changes	116	-
Total	1,545	1,619

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

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

	2014 £000	2013 £000
Current tax:		
Corporation tax at 62% (2013 62%)	-	60
Corporation tax adjustment to prior year	(213)	1,591
Total current tax (credit)/ charge	(213)	1,651
Deferred tax		
Timing difference origination and reversal	(17,080)	2,506
Deferred tax adjustment to prior year	(318)	(1,520)
Total deferred tax (credit)/charge (note 16(a))	(17,398)	986
Tax (credit)/charge on (loss)/profit in the year	(17,611)	2,637

ii) Factors affecting the tax charge for the year

	2014 £000	2013 £000
(Loss)/profit on ordinary activities before tax	(18,178)	6,300
Corporation tax at the UK ring-fence rate of 62% (2013: 62%)	(11,270)	3,906
Effects of:		
Non-deductible expenses (non-taxable income)	2	30
Impact of unwinding of the decommissioning provision	881	992
Capital allowances in excess of depreciation	(55,242)	(39,603)
Tax losses not utilised	66,208	35,105
Timing difference in relation to capitalised interest	(682)	(291)
Timing difference in relation to decommissioning	(43)	34
Income taxed at lower rate	146	(113)
Prior period adjustment	(213)	1,591
Current tax (credit)/charge for the year	(213)	1,651

The rate of corporation tax charged on the Company of 62% (2013 62%) comprises the standard corporation tax rate of 30% (2013 30%) plus a 32% (2013 32%) supplementary charge in respect of ring-fenced trades in the North Sea The Company expects a reduction in the tax rates following a recent announcement that supplementary charge is to reduce to 20% for ring-fenced trades from 1 January 2015. The standard corporation tax rate has been revised to 21% (2013 23%) with effect from 1 April 2014 and will subsequently be reduced to 20% from 1 April 2015; however this does not apply to ring-fenced activities

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

iii) Factors that may affect the future tax charge

A deferred tax asset of £10,559,000 (2013 £13,174,000) 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

	Oil & gas interests £000
Balance as at 1 January 2014	16,529
Additions	334
Reclassification to tangible fixed assets (note 11)	(16,283)
Balance as at 31 December 2014	580
Balance as at 31 December 2013	16,529

The Company's exploration costs incurred during 2014 comprise £334,000 (2013 £4,456,000) incurred on exploration licences in the UKCS The reclassified costs of £16,283,000 in the above table relate to the Company's exploration interest. In accordance with the Company's accounting policies (see note 1 (iv) and (vii)), these costs were transferred to the pool of tangible fixed assets to be depreciated over future reserves of the pool as these exploration costs did not identify any commercial reserves

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Note 11. Tangible fixed assets

	Oil and Gas Assets	Short Leasehold	Fixtures and Fittings	Total
	£000	**£000**	**£000**	**£000**
Cost				
Balance as at 1 January 2014	318,905	275	203	319,383
Additions	105,363	6	32	105,401
Disposal	-	-	(16)	(16)
Change in decommissioning estimate (note 16(b))	(429)	-	-	(429)
Transfer from intangible fixed assets (note 10)	16,283	-	-	16,283
Balance as at 31 December 2014	440,122	281	219	440,622
Depletion and depreciation				
Balance as at 1 January 2014	204,461	121	124	204,706
Charge for the year	18,160	40	27	18,227
Disposal	-	-	(13)	(13)
Balance as at 31 December 2014	222,621	161	138	222,920
Net book value as at 31 December 2014	217,501	120	81	217,702
Net book value as at 31 December 2013	114,444	154	79	114,677

Included within oil and gas assets is cost balance for capitalised interest and ancillary costs of £7,037,000 (2013 £7,037,000), relating to the project loan for the Hudson field, and £3,242,000 (2013: £970,000), relating to term loans for development of the Western Isles project

A ceiling test was conducted at 31 December 2014 in accordance with accounting policy (ix) Oil & Gas assets of £16,737,000 (2013 £nil) related to past unsuccessful exploration costs have been impaired The ceiling test calculation uses cash flow projections with pre-tax discount rate of 10% (2013. 10%) Cash flows have been extrapolated using a 2 25% (2013. 2.25%) annual inflation rate.

The cost of oil and gas assets includes £59,132,000 (2013 £59,561,000) 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 Company manages the operations and monitors the performance of each of the Company's oil and gas fields so that optimum commercial recovery of reserves can be achieved and to maintain proper estimates of its remaining proven and probable reserves, which are used for some of the accounting estimates and reported in the 'Oil and gas reserve statistics'

Note 12. Stocks

	2014 £000	2013 £000
Material and supplies	44	47

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

Note 13. Debtors: amounts receivable within one year

	2014 £000	2013 £000
Trade debtors	-	1,804
Amounts due from parent company	38	829
Amounts due from fellow subsidiaries companies	15	2,324
Other debtors	31	95
Prepayments and accrued income	1,935	2,695
Oil underlift	119	1,514
Total	2,138	9,261

Note 14. Creditors: amounts falling due within one year

	2014 £000	2013 £000
Trade creditors	23	215
Amounts due to fellow subsidiary companies	913	514
Accruals and deferred income	23,055	28,153
Total	23,991	28,882

Note 15. Creditors: amounts falling due more than one year

	2014 £000	2013 £000
Bank Loan	55,700	18,200
Amounts due to fellow subsidiary companies	67,703	26,931
Accruals	31,020	-
Total	154,423	45,131

The Company has entered into a committed external borrowing facility to provide regular advances for development expenditure of the Western Isles project Under the terms of the facility, the drawdown will be repayable in full by 31 December 2017. Interest is payable on bank advances at a variable rate of LIBOR plus applicable margin on the principal amount During the year, £603,939 (2013: £262,298) of interest charges were incurred and capitalised.

The Company has entered into a committed floating rate term loan facility with ITOCHU Treasury Centre Europe Plc, drawn in relevant tranches to cover development expenditure of the Western Isles project. Under the terms of the facility, the drawdown will be repayable in full by 29 December 2017 Interest is payable on term loan at a variable rate of LIBOR plus applicable margin on the principal amount During the year, £599,330 (2013. £176,213) of interest charges were incurred and capitalised.

Note 16. Provision for liabilities

a. Provision for deferred corporation tax

i) Movement on deferred tax balance in the year

	2014 £000	2013 £000
Opening balance	(20,584)	(19,598)
Credit/(debit) to profit and loss account (note 9)	17,398	(986)
Closing balance	(3,186)	(20,584)

ii) Analysis of deferred corporation tax balance

	2014 £000	2013 £000
Accelerated capital allowances	(117,558)	(71,363)
Decommissioning provision	10,559	13,174
Losses not utilised	103,813	37,605
Undiscounted provision for deferred tax	(3,186)	(20,584)

b. Provision for decommissioning

	2014 £000	2013 £000
Opening balance	(28,264)	(20,481)
Additional provisions (note 11)	(4,310)	(6,332)
Unused amount reversed (note 11)	4,739	215
Unwinding of discounted amount (note 8)	(1,422)	(1,600)
Utilisation of provision	86	(66)
Closing balance	(29,171)	(28,264)

Provision has been made in accordance with accounting policy (vi), calculated as the present value of decommissioning costs expected to be incurred between 2015 and 2026. The discount rate used to calculate the present value of the decommissioning provision is 6% (2013 6%) The additional provision recognised in the year reflects management's best estimate of the Company's share of decommissioning obligations which primarily relates to Western Isles.

Note 16. Provision for liabilities (continued)

The amount of unused provision reversed in the year reflects decommissioning costs that were expected to be incurred in 2014 that have not been required Decommissioning expenditures expected to be incurred within one year amount to £238,000 (2013 £3,167,000)

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

c. Total provision for liabilities

	2014 £000	2013 £000
Total provision for liabilities	(32,357)	(48,848)

Note 17. Called up share capital

	2014 Number (in 000)	2013 Number (in 000)
a) Authorised:		
Ordinary shares of £1 each	50,000	50,000
b) Allotted, called up and fully paid:		
Ordinary shares of £1 each	24,526	24,526
	£000	**£000**
Nominal value of ordinary shares of £1 each	24,526	24,526

Note 18. Profit and loss account

	2014 £000	2013 £000
Profit and loss account at 1 January	23,628	19,965
(Loss)/profit for the year	(567)	3,663
Profit and loss at 31 December	23,061	23,628

Note 19. Reconciliation of movements in shareholders' funds

	2014 £000	2013 £000
Shareholders' funds at 1 January	48,154	44,491
(Loss)/profit for the year	(567)	3,663
Shareholders' funds at 31 December	47,587	48,154

Note 20. Cash flow statement

a) Gross cash flows

	2014 £000	2013 £000
Returns on investment and servicing of finance:		
Interest received	215	137
Interest paid	(7)	(19)
Net cash inflow	208	118

	2014 £000	2013 £000
Investing activities:		
Payments to acquire tangible fixed assets	(78,017)	(63,849)
Payments to acquire intangible fixed assets	(334)	(4,456)
Decommissioning expenditure	(86)	66
Net cash outflow	(78,437)	(68,239)

	2014 £000	2013 £000
Management of liquid resources:		
Net increase in time deposits	(7,386)	(8,311)
Net cash outflow	(7,386)	(8,311)

	2014 £000	2013 £000
Financing activities:		
Proceeds from borrowings	78,272	45,131
Net cash inflow	78,272	45,131

Note 20. Cash flow statement (continued)

b) Reconciliation of net cash inflow to operating (loss)/profit:

	2014 £000	2013 £000
Operating (loss)/profit	(16,848)	7,729
Depletion and impairment	18,160	3,393
Loss on sale of fixed assets	3	48
Depreciation	67	78
Trading exchange gain/(loss)	1,989	(760)
Decrease in stocks	3	32
Decrease in debtors	7,123	6,625
(Decrease)/increase in creditors	(3,031)	14,053
Net cash inflow from operating activities	7,466	31,198

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

	2014 £000	2013 £000
Increase/(decrease) in cash in the year	123	(55)
Cash inflow from liquid resources	7,386	8,311
Change in net funds resulting from cash flows	7,509	8,256
Translation difference	(116)	54
Movement in net funds in the year	7,393	8,310
Net funds at 1 January	30,501	22,191
Net funds at 31 December	37,894	30,501

d) Analysis of changes in net funds:

	At 1 January 2014 £000	Cash flows £000	Foreign Exchange £000	At 31 December 2014 £000
Cash in hand and at bank	14	123	(131)	6
Liquid resources	30,487	7,386	15	37,888
Total	30,501	7,509	(116)	37,894

Note 21. Capital commitments

As at 31 December 2014 the Company had committed to but not contracted capital expenditure of £84,790,000 (2013· £99,341,000).

Operating lease commitments are analysed as follows

Operating lease which expires in November 2025	**2014**	**2013**
	£000	**£000**
Office rental	156	194
	156	194

Note 22. Pension schemes

a) Defined contributions scheme

The Company participates in a defined contribution pension scheme operated by ITOCHU Europe PLC. The contributions for the year were £95,405 (2013 £83,625) There were no contributions outstanding or prepaid at the balance sheet date

b) 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 31 December 2012 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 (2013 £nil) The pension charge to the profit and loss account for the year in respect of this scheme was £nil (2013: £nil). There was no provision to spread the cost of contributions over employees working lives at the yearend (2013 none).

An actuarial valuation of the ITOCHU Corporate Pension Scheme as at 31 March 2014 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 31 December 2012. The main assumptions used by the actuary were

Note 22. Pension schemes (continued)

	2014	2013
Rate of ıncrease ın pensıonable salarıes	4 90%	4 95%
Rate of ıncrease of pensıons ın payment accrued before 6 Aprıl 1997	3 00%	3 00%
Dıscount rate	4 30%	4.30%
RPI ınflatıon assumptıon	3 40%	3 45%

In the opınıon of the dırectors, the Company ıs unable to separately ıdentıfy ıts share of the assets and lıabılıtıes of the scheme on a reasonable and consıstent basıs for FRS 17 purposes As at 31 March 2014, the net pensıon lıabılity relatıng to the whole scheme calculated ın accordance wıth FRS 17 ıs as follows

	2014		2013	
	Expected rate of return	£000	Expected rate of return	£000
Equıtıes	7.45%	2,449	7 05%	2,142
Bonds	3.85%	10,984	3 65%	10,662
Other	3.40%	401	3 45%	447
Total market value of assets		13,834		13,251
Present value of lıabılıties		(16,179)		(15,452)
Defıcıt ın the scheme		(2,345)		(2,201)

Under the valuatıon method used by FRS 17, the projected unıt method, the current servıce cost wıll ıncrease as the members of the scheme approach retırement.

The agreed rate of contrıbutıon to the scheme for 2012 ıs 52 1% of pensıonable salaries paıd. As none of the Company's current employees ıs a member of thıs scheme the Company does not antıcıpate makıng any contrıbutıons to the scheme ın 2015.

Note 23. Ultimate parent company and parent undertaking of largest group of which the Company is a member

The immediate and ultimate parent and controlling entity for which company financial statements are drawn up, and of which this company is a member, is ITOCHU Corporation, a company registered in Japan. Copies of these financial statements can be obtained from the registered office of CIECO Exploration and Production (UK) Limited

The smallest and largest group in which the results of the Company are consolidated is that of 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 Similarly, in December 2012, ITOCHU Corporation has given a confirmation to the Secretary of State for the Western Isles project.

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 Mmboe
Balance at 1 January 2014	11.958
Revisions to previous estimates	0.057
Production	(0 219)
Net proven and probable reserves as at 31 December 2014	11 796

Notes 1) Crude oil includes natural gas liquids, and

2) Mmboe means million barrels.