

Marubeni Oil & Gas (North Sea) Limited

Report and Financial Statements

31 December 2013

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Marubeni Oil & Gas (North Sea) Limited

Registered No. SC238015

Company information

Directors

G Nienow
H Toyota
S Sato

Secretary

H Toyota

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers

HSBC Bank PLC
8 Canada Square
London E14 5HQ

Registered Office

13 Queens Road
Aberdeen AB15 4YL

Strategic report

The directors present their strategic report for the year ended 31 December 2013.

Business review

The company is engaged in the production of oil and gas through its participation in 9 non-operated fields located in the United Kingdom North Sea. The principal assets of the company are: Bruce and Magnus.

The company signed a sale and purchase agreement in September 2012 for the disposal of the East Foinaven asset. The transaction was completed in August 2013 and resulted in a gain on sale of \$16,552,315.

The profit (loss) for the year, after taxation, is \$20,850,078 (2012: (\$3,540,884)).

During the year the company transitioned from UK GAAP to FRS 101 - Reduced Disclosure Framework and has taken advantage of the disclosure exemptions allowed under this standard. The company's parent undertaking, Marubeni North Sea Limited was notified of and did not object to the use of the EU-adopted IFRS disclosure exemptions. Refer to note 22 for details on the company's transition from UK GAAP to FRS 101.

The company's key financial and other performance indicators during the year were as follows:

	<i>2013</i>	<i>2012</i>	<i>Change</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>%</i>
Turnover	40,473	45,510	(11%)
Operating profit	24,403	12,837	90
Profit/(loss) for the year	20,850	(3,541)	(689%)

Turnover was lower due to lower production.

Operating profit and profit for the year were higher due to the asset sale.

Strategic report (continued)

Principal risks and uncertainties

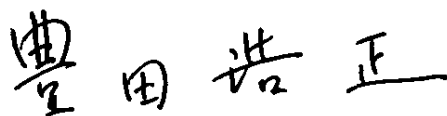
The United Kingdom North Sea is the core area for operations. The company is seeking to expand its business against the background of a highly competitive bidding market.

The company is exposed to fluctuations in commodity prices. The group uses derivative financial instruments to reduce its exposures to changes in commodity prices. Formal hedging relationships have been designated in accordance with the requirements of IAS 39 and cash flow hedge accounting is applied.

The company's revenue is earned primarily in US Dollars which is also its functional currency. The company is exposed to currency translation risk for costs incurred in currencies other than in US Dollars, primarily certain operating and administrative expenses denominated in UK Pounds Sterling.

Other uncertainties include decommissioning which is further explained in note 3 to the accounts.

By order of the board



H Toyota

Secretary

6 March 2014

Directors' report

Registered No. SC238015

The directors present their report and financial statements for the year ended 31 December 2013.

Directors of the Company

The current directors are listed on page 1.

There are no directors' interests requiring disclosure under the Companies Act 2006.

Results and dividends

The profit (loss) for the year, after taxation, is \$20,850,078 (2012: (\$3,540,884)). There were no dividends paid in the year (2012 : \$35,000,000).

Going concern

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

Future Developments

The company is seeking to expand its business against the background of a highly competitive bidding market.

It is the intention of the directors that the business of the company will continue for the foreseeable future.

Financial Instruments

The company finances its activities with a combination of loans and cash. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the company's operating activities. The company also enters into derivative transactions, principally oil price swaps. The purpose is to manage the commodity price risks arising from the company's operations.

- Use of derivatives

The company uses oil price swaps in order to provide greater certainty over future cash flows and minimise exposure to commodity price changes. Hedge accounting is used when certain criteria are met as explained in the accounting policies set out in note 2 to the accounts.

Directors' report (continued)

Events since the balance sheet date

There were no post balance sheet events for which disclosure is required.

Political contributions

The company made no political contributions during the year.

Disclosure of information to auditors

So far as each person who was a director at the date of approving the report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors

In accordance with s485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the company.

By order of the Board



H Toyota

Director

6 March 2014

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those 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 departures 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 that 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 the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of Marubeni Oil & Gas (North Sea) Limited

We have audited the financial statements of Marubeni Oil & Gas (North Sea) Limited for the year ended 31 December 2013 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity and the Balance Sheet, 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), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 set out on page 6, 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). These standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standard for Auditors.

Scope of the audit of 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 Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any material misstatements or uncertainties we consider the implications for our report.

Opinion on the 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 2013 and its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditor's report

to the members of Marubeni Oil & Gas (North Sea) Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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 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 company, 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.

Ernst & Young LLP

Paul Wallek (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

6 March 2014

Statement of comprehensive income

for the year ended 31 December 2013

	Notes	2013 \$	Restated 2012 \$
Turnover	4	40,472,709	45,509,796
Cost of sales		(29,435,638)	(29,351,336)
Gross profit		11,037,071	16,158,460
Administrative expenses		(3,152,713)	(3,032,290)
Other operating expenses		(33,506)	(289,263)
Profit on disposal	5	16,552,315	-
Operating profit	6	24,403,167	12,836,907
Interest receivable and similar income	8	4,701	644
Interest payable and similar charges	9	(2,970,224)	(2,815,661)
Profit on ordinary activities before taxation		21,437,644	10,021,890
Taxation	10	(587,566)	(13,562,774)
Profit/(loss) for the year		20,850,078	(3,540,884)
Other comprehensive income			
Items that can be reclassified to profit or loss:			
Cash flow hedges:			
• Losses arising during the year		(217,342)	(147,828)
		(217,342)	(147,828)
Tax on items relating to components of other comprehensive income		134,752	91,653
Other comprehensive income for the year, net of tax		(82,590)	(56,175)
Total comprehensive income for the year		20,767,488	(3,597,059)

Statement of changes in equity

for the year ended 31 December 2013

	<i>Called up share capital \$</i>	<i>Cash flow hedge reserve \$</i>	<i>Retained earnings \$</i>	<i>Total Equity \$</i>
At 1 January 2012	<u>35,922,300</u>	<u>39,559</u>	<u>38,046,682</u>	<u>74,008,541</u>
Loss for the year	-	-	(3,540,883)	(3,540,883)
Other comprehensive income	-	(56,175)	-	(56,175)
Total comprehensive income for the year	<u>-</u>	<u>(56,175)</u>	<u>(3,540,883)</u>	<u>(3,597,058)</u>
Dividends paid	-	-	(35,000,000)	(35,000,000)
At 31 December 2012	<u>35,922,300</u>	<u>(16,616)</u>	<u>(494,202)</u>	<u>35,411,482</u>
Profit for the year	-	-	20,850,078	20,850,078
Other comprehensive income	-	(82,590)	-	(82,590)
Total comprehensive income for the year	<u>-</u>	<u>(82,590)</u>	<u>20,850,078</u>	<u>20,767,490</u>
At 31 December 2013	<u>35,922,300</u>	<u>(99,206)</u>	<u>20,355,878</u>	<u>56,178,972</u>

Balance sheet

as at 31 December 2013

		2013	Restated 2012	Restated 01 January 2012
	Notes	\$	\$	\$
Fixed assets				
Tangible fixed assets	12	29,560,806	43,706,846	45,913,446
Investments	13	35,000,000	35,000,000	-
Deferred tax	10	14,363,704	8,629,296	10,849,649
		<u>78,924,510</u>	<u>87,336,142</u>	<u>56,763,095</u>
Current assets				
Debtors	14	8,411,646	11,301,253	40,381,416
Cash at bank		47,422,115	21,243,397	58,439,332
		<u>55,833,761</u>	<u>32,544,650</u>	<u>98,820,748</u>
Creditors: amounts falling due within one year	15	<u>19,610,891</u>	<u>21,600,173</u>	<u>22,532,208</u>
Net current assets		<u>36,222,870</u>	<u>10,944,477</u>	<u>76,288,540</u>
Total assets less current liabilities		115,147,380	98,280,619	133,051,635
Provisions for liabilities and charges	17	<u>58,968,408</u>	<u>62,869,137</u>	<u>59,043,094</u>
Net assets		<u>56,178,972</u>	<u>35,411,482</u>	<u>74,008,541</u>
Capital and reserves				
Called up share capital	18	35,922,300	35,922,300	35,922,300
Cash flow hedge reserve		(99,206)	(16,616)	39,559
Retained earnings		<u>20,355,878</u>	<u>(494,202)</u>	<u>38,046,682</u>
Total equity		<u>56,178,972</u>	<u>35,411,482</u>	<u>74,008,541</u>

Approved by the Board of Directors on and signed on their behalf by:



S Sato
Director
6 March 2014

Included within the Net Assets are the following assets and liabilities related to disposal groups classified as held for sale (see note 5)

	2013	Restated 2012
	\$	\$
Assets in disposal groups classified as held for sale	-	12,926,089
Liabilities in disposal groups classified as held for sale	<u>-</u>	<u>5,383,436</u>

Notes to the financial statements

as at 31 December 2013

1 Authorisation of financial statements and compliance with FRS 101

The financial statements of Marubeni Oil & Gas (North Sea) Limited (the "Company") for the year ended 31 December 2013 were authorised for issue by the board of directors on 6 March 2014 and the balance sheet was signed on the board's behalf by S Sato. The Company is incorporated and domiciled in Scotland.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in US Dollars.

The principal accounting policies adopted by the Company are set out in Note 2.

2 Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, in US Dollars, and in accordance with applicable UK accounting standards.

The directors consider it appropriate to prepare the accounts on a going concern basis, since the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company transitioned from UK GAAP to FRS 101 for all periods presented. There were no material adjustments on the adoption of FRS 101.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2013.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) the requirements of IFRS 7 *Financial Instruments: Disclosures*;
- b) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*
- c) the requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of:
 - (i) paragraph 79(a) (iv) of IAS 1 *Presentation of Financial Statements*;
 - (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
 - (iii) paragraph 118(e) of IAS 38 *Intangible Assets*;
- d) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 *Presentation of Financial Statements*;
- e) the requirements of IAS 7 *Statement of Cash Flows*;
- f) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- g) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*;
- h) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- i) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*.

Notes to the financial statements

as at 31 December 2013

2 Accounting policies (continued)

Oil and natural gas exploration, evaluation and development expenditure

Oil and natural gas exploration, evaluation and development expenditure is accounted for using the successful efforts method of accounting.

Pre-licence costs are expensed in the period in which they are incurred.

Exploration expenditure comprises all costs associated with the acquisition of new acreage, the drilling of exploratory wells and other costs incurred in evaluating the commercial viability of hydrocarbon deposits. These costs include directly attributable employee remuneration, materials and fuel used, rig costs and payments made to contractors.

Appraisal expenditure comprises costs incurred in the survey, exploration and appraisal of licence areas not yet under development or in production.

Once the legal right to explore has been acquired, exploration and appraisal expenditure is classified as an intangible fixed asset until a decision is reached concerning the commercial viability of the field to which it relates. Expenditure is then either written off to the profit and loss account, if no potentially commercial hydrocarbons are discovered, or transferred to oil and gas properties, if extractable hydrocarbons are found and, subject to further appraisal activity, it is probable that they can be commercially developed. The costs continue to be carried as intangible assets while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

General seismic and other expenditure not connected with a specific exploration licence is written off to the profit and loss account immediately. Exploration expenditure written off is classified within cost of sales.

Tangible fixed assets

Oil and gas properties and other tangible fixed assets are stated at cost, less accumulated depreciation/depletion and accumulated impairment losses.

Expenditure on oil and gas properties /production assets represents the Company's share of total expenditure on the exploration, appraisal and development of oil and gas fields which are currently in commercial production. This expenditure includes costs of capital assets, financing costs (where identifiable with specific developments), the initial estimate of the decommissioning obligation and, for qualifying assets (where relevant), plus for depreciation calculation purposes only, any anticipated future development expenditure and is stated at cost.

Oil and gas properties are depreciated/amortised by field on a unit-of-production basis, in the proportion of the actual production for the period to the total estimated remaining commercial reserves (proven and probable) for the field on an entitlement basis. The remaining commercial reserves in the reserves estimated at the end of the period plus the production during the period.

Other tangible fixed assets are generally depreciated on a straight-line basis over their estimated useful lives.

Notes to the financial statements

as at 31 December 2013

2 Accounting policies (continued)

Impairment of non-financial assets

The company assess at each reporting date whether there is an indication that an assets or cash generating untis ('CGUs') may be impaired. Management has assessed the CGU as being a field or inter-related group of fields, which is the lowest level for which cash inflows are largely independent of those of other assets. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of the asset's or CGU's fair value less costs of disposal and its value in use. To the extent that the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount.

The value in use is determined from estimated future net cash flows discounted to their present values using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset/CGU.

For all non-financial assets (other than goodwill) an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairments losses may no longer

Revenue

Revenue is recognised to the extent it is probable that the economic benefits will flow to the company and the revenue can be reliably measured.

The company's turnover is attributable to one continuing activity, the production of oil and natural gas.

Revenues from the production of oil and natural gas relating to properties in which the company has an interest with other producers are recognised when title passes to the customer and on the basis of the Company's working interests in those properties (the entitlement method).

Under/overlift balances represents the difference between production sold and the company's share of production in properties in which the Company has an interest with other producers. Adjustments in respect of under/overlift are recorded against cost of sales and working capital balances at market value.

Notes to the financial statements

as at 31 December 2013

2 Accounting policies (continued)

Income taxes

Current tax (for both corporate tax and petroleum revenue tax) is based on taxable profit for the period. Taxable profit differs from accounting profit because it excludes items of income or expenditure which are taxable or deductible in other periods and it excludes items of income or expenditure which are never taxable or deductible. The Company's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Current income tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in profit or loss.

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Notes to the financial statements

as at 31 December 2013

2 Accounting policies (continued)

Income taxes (continued)

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currencies

The Company's financial statements are presented in US Dollars, which is also the Company's functional currency.

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the average monthly exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

All exchange gains and losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of profit or loss for the period.

Provisions

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Decommissioning

The Company makes full provision for the future costs of decommissioning oil and gas production facilities on a discounted basis on the acquisition or installation of those facilities. The amount recognised is the present value of the estimated future expenditure determined in accordance with the local conditions and requirements.

Notes to the financial statements

as at 31 December 2013

2 Accounting policies (continued)

Provisions (continued)

Decommissioning (continued)

A corresponding tangible fixed asset of an amount equivalent to the provision is also created and recognised with the oil and gas properties. This is subsequently depreciated as part of the capital costs of the production and transportation facilities.

Changes in the estimated timing or cost of decommissioning are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to oil and gas assets.

Financial Instruments

1) Financial Assets

Cash at bank

Cash at bank in the balance sheet comprises cash at banks including any short term deposits..

2) Derivative financial instruments

The Company uses derivative financial instruments ("derivatives") to reduce certain of its exposures to changes in commodity prices. The Company considers that its derivative instruments are used solely to hedge price exposures on its underlying oil production. More specifically, for commodity price contracts, the derivative instrument must be in respect of expected production volumes for the relevant period and the contract must reduce the Company's exposure to the risk of commodity price movements.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Gains or losses arising from changes in the fair value of derivatives that are not designated as effective hedging instruments are recognized in profit or loss for the year.

Notes to the financial statements

as at 31 December 2013

2 Accounting policies (continued)

Financial Instruments (continued)

2) Derivative financial instruments (continued)

Cash flow hedges

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. The Company's oil price swaps are classified as cash flow hedges.

Hedge relationships are formally designated and documented at inception, together with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged item. Such hedges are expected at inception to be highly effective in achieving offsetting changes in fair value or cash flows.

For hedges meeting the criteria for hedge accounting as cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised within other comprehensive income, while the ineffective portion is recognised in the profit and loss account as other operating expenses. Amounts taken to other comprehensive income are transferred to the profit and loss account when the hedged transaction affects profit or loss. The gain or loss relating to the effective portion of oil swaps hedging commodity prices is recognised in the profit and loss account within interest payable and similar charges.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the profit and loss account. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Fair values

The fair value of financial instruments that are traded in active markets at the reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Notes to the financial statements

as at 31 December 2013

2 Accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

3 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 10.

Notes to the financial statements

as at 31 December 2013

3 Judgements and key sources of estimation uncertainty (continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of information uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year, are described below.

Exploration and evaluation expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on how the resources are classified. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

Units of production (UOP) depreciation of oil and gas assets

Oil and gas properties are depreciated using the UOP method over total proved developed and undeveloped hydrocarbon reserves. The life of each asset, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure.

Decommissioning costs

Decommissioning costs will be incurred by the Company at the end of the operating life of some of the Company's facilities and properties. The Company makes full provision for the future costs of decommissioning oil and gas production facilities on a discounted basis on the acquisition or installation of those facilities. The provision has been estimated using cost estimates based on existing technology discounted to their present value using a discount rate of 5%. These costs are expected to be incurred over the next 25 years. The provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines. There is uncertainty regarding both the amount and timing of incurring these costs. The Company assesses its decommissioning provisions at each reporting date.

Recovery of deferred tax assets

Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations and judgements about the application of existing tax laws in the jurisdiction where the Company operates. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted.

Notes to the financial statements

as at 31 December 2013

4 Turnover

Turnover recognised in the profit and loss account is analysed as follows:

	2013	2012
	\$	\$
Sales of oil and natural gas	40,472,709	45,509,796
Turnover from continuing operations	<u>40,472,709</u>	<u>45,509,796</u>

All turnover was generated from continuing operations in the United Kingdom.

No revenue was derived from exchanges of goods or services (2012: \$nil).

5 Profit on disposal

	2013	2012
	\$	\$
Gain on disposal of tangible fixed assets	16,552,315	-
	<u>16,552,315</u>	<u>-</u>

The gain on disposal of tangible fixed assets relates to the sale of the company's interests in the East Foinaven field and West of Shetlands pipeline.

6 Operating profit

This is stated after charging:

	2013	2012
	\$	\$
Depreciation of oil and gas properties	8,023,386	8,996,628
Auditor's Remuneration – audit of financial statements	46,252	40,336
Net foreign currency exchange differences	270,152	289,263

Notes to the financial statements

as at 31 December 2013

7 Staff costs and directors' remuneration

There were no employees during the period (2012 : nil).

No remuneration was paid to the directors in respect of their services to the Company in 2013 (2012 : \$nil).

The directors G Nienow and H Toyota are senior executives of, and are remunerated by Marubeni North Sea Ltd and received no remuneration for services to this company. The director S Sato is a senior executive of, and is remunerated by Marubeni Corporation Tokyo and received no remuneration for services to this company.

8 Interest receivable and similar income

	2013	2012
	\$	\$
Bank interest receivable	142	644
Other interest receivable	4,559	-
Total interest income for financial assets measured at amortised cost	4,701	644
Ineffectiveness on derivatives used for hedging	-	-
Total Interest receivable and similar income	4,701	644

9 Interest payable and similar charges

	2013	2012
	\$	\$
Bank loans	22,633	-
Related parties loan interest and similar charges	96,442	39,165
Ineffectiveness on derivatives used for hedging	-	-
Interest on other financial liabilities	8,062	14,494
Total interest expense	127,137	53,659
Unwinding of discount on decommissioning provisions	2,843,087	2,762,002
Total interest payable and similar costs	2,970,224	2,815,661

Notes to the financial statements

as at 31 December 2013

10 Tax

(a) Tax on profit on ordinary activities

The total tax (credit)/charge is made up as

	2013	2012
	\$	\$
Current tax:		
UK corporation tax	1,526,074	3,066,259
Supplementary charge	1,735,301	3,665,536
Petroleum revenue tax (PRT)	4,782,013	4,278,839
Group relief	(3,153,887)	(6,336,936)
Group relief payment	3,153,887	6,336,936
Current income tax charge	8,043,388	11,010,634
Adjustments in respect of prior periods	-	1,000
Total current income tax	8,043,388	11,011,634
Deferred tax:		
Origination and reversal of temporary differences	(5,599,656)	(2,663,691)
Adjustments in respect of change in effective tax relief on decommissioning expenditure	-	4,911,339
Deferred petroleum revenue tax (PRT)	(1,856,166)	303,492
Total deferred tax	(7,455,822)	2,551,140
Total tax (credit)/charge expense in profit or loss	587,566	13,562,774

Notes to the financial statements

as at 31 December 2013

10 Tax (continued)

(b) Tax relating to items charged or credited to other comprehensive income

	2013	2012
	\$	\$
Deferred tax:		
Net loss on revaluation of cash flow hedges	134,752	91,653
Total deferred tax	134,752	91,653
Tax expense in other comprehensive income	134,752	91,653

(c) Reconciliation of the total tax charge

The tax assessed on the profit on ordinary activities for the year is lower than effective combined corporation tax rate of 62% (2012 : 62%) comprising the standard rate of corporation tax in the UK of 30% and the supplementary corporation tax rate of 32%. The differences are reconciled below:

	2013	2012
	\$	\$
Profit on ordinary activities before tax	21,437,644	10,021,890
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 62% (2012 : 62 %)	13,291,339	6,213,572
Expenses not deductible for tax purposes	107,771	(14,936)
Petroleum revenue tax (PRT)	1,111,822	1,741,357
Restriction of relief on decommissioning costs	613,062	710,442
Disposal of asset	(14,536,428)	-
Tax underprovided in previous years	-	1,000
Change in tax rate	-	4,911,339
Total tax (credit)/charge reported in profit or loss	587,566	13,562,774

(d) Factors that may affect future tax charges

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances at about the same level as in the current year.

The Government has reduced the rate of tax relief from 32% to 20% that may be obtained against the supplementary charge for decommissioning costs.

As a result, there was a one-off increased charge to deferred tax of \$4,911,339 in the 2012 year.

Notes to the financial statements

as at 31 December 2013

10 Tax (continued)

(c) Deferred Tax

The deferred tax included in the balance sheet is as follows:

	2013	2012
	\$	\$
Deferred tax asset		
Decommissioning provision	(28,960,586)	(29,500,184)
Other temporary differences	(1,395,346)	(2,546,169)
Derivative financial instruments	(161,862)	(27,110)
	<u>(30,517,794)</u>	<u>(32,073,463)</u>
Deferred tax liability		
Accelerated capital allowances	16,154,090	23,444,167
Petroleum revenue tax (PRT)	2,250,258	4,106,424
	<u>18,404,348</u>	<u>27,550,591</u>
Disclosed on the balance sheet		
Deferred tax asset	(14,363,704)	(8,629,296)
Deferred tax liability	2,250,258	4,106,424
	<u>(12,113,446)</u>	<u>(4,522,872)</u>

11 Dividends

	2013	2012
	\$	\$
Dividends declared and paid	<u>-</u>	<u>35,000,000</u>

Notes to the financial statements

as at 31 December 2013

12 Tangible fixed assets

	<i>Oil and gas properties</i>	<i>Fixtures and fittings</i>	<i>Total</i>
	\$	\$	\$
Cost:			
At 1 January 2013	259,667,873	-	259,667,873
Additions	3,870,379	-	3,870,379
Change in decommissioning provision	2,519,127	-	2,519,127
Disposals	(36,590,636)	-	(36,590,636)
At 31 December 2013	<u>229,466,743</u>	<u>-</u>	<u>229,466,743</u>
Depreciation and impairment:			
At 1 January 2013	215,961,026	-	215,961,026
Charge for the year	8,023,386	-	8,023,386
Disposals	(24,078,475)	-	(24,078,475)
At 31 December 2013	<u>199,905,937</u>	<u>-</u>	<u>199,905,937</u>
Net book value:			
At 31 December 2013	<u>29,560,806</u>	<u>-</u>	<u>29,560,806</u>
At 1 January 2013	<u>43,706,846</u>	<u>-</u>	<u>43,706,846</u>

Impairment

Included within the charge for the year is \$nil (2012 : \$nil) in respect of impairment.

13 Investments

Subsidiary undertakings

	<i>Total</i>
	\$
Cost:	
At 1 January 2013	35,000,000
Investments	-
At 31 December 2013	<u>35,000,000</u>

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:

Subsidiary undertakings

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
Marubeni Oil & Gas UK Limited	UK	99.99%	Exploration and production of oil and gas

Holdings are represented by ordinary shares only.

Notes to the financial statements

as at 31 December 2013

14 Debtors

	2013	2012
	\$	\$
Trade debtors	164,996	119,795
Underlift	5,154,253	5,257,330
Prepayments and accrued income	2,670,830	3,509,316
Other debtors	421,567	2,334,905
Derivative financial instruments (note 16)	-	79,907
	<u>8,411,646</u>	<u>11,301,253</u>

15 Creditors: amounts falling due within one year

	2013	2012
	\$	\$
Trade Creditors	34,457	103,999
Overlift	2,329,654	1,619,171
Corporation tax	80,919	395,867
Amounts due to fellow subsidiary	3,989,304	7,691,653
Other taxes and social security costs	858,299	-
Other creditors	1,932,358	570,955
Accruals and deferred income	10,124,832	11,094,895
Derivative financial instruments (note 16)	261,068	123,633
	<u>19,610,891</u>	<u>21,600,173</u>

16 Derivative financial instruments

	2013	2012
	\$	\$
<i>Financial assets</i>		
Cash flow hedges - oil price swap:		
Current portion	<u>-</u>	<u>79,907</u>
<i>Financial liabilities</i>		
Cash flow hedges - oil price swap:		
Current portion	<u>261,068</u>	<u>123,633</u>

Notes to the financial statements

as at 31 December 2013

17 Provisions for liabilities and charges

	<i>Decommissioning</i> \$	<i>Deferred tax</i> (note 10) \$	<i>Total</i> \$
At 1 January 2013			
Current	237,655	-	237,655
Non-current	58,762,713	4,106,424	62,869,137
Arising during the year			
Utilised	(895,733)	(1,856,166)	(2,751,899)
Unwinding of discount	2,843,087	-	2,843,087
Revision of estimate	2,519,127	-	2,519,127
Disposal	(5,545,677)	-	(5,545,677)
At 31 December 2013	57,921,172	2,250,258	60,171,430
Analysed as:			
Current	1,203,022	-	1,203,022
Non-current	56,718,150	2,250,258	58,968,408
	57,921,172	2,250,258	60,171,430

18 Share capital

<i>Authorised</i>	<i>2013</i> <i>No.</i>	<i>2013</i> \$	<i>2012</i> <i>No.</i>	<i>2012</i> \$
Ordinary shares of £1 each	600,000	1,073,000	600,000	1,073,000
Redeemable ordinary shares of \$1 each	35,000,000	35,000,000	35,000,000	35,000,000
		<u>36,073,000</u>		<u>36,073,000</u>
<i>Allotted, called-up and fully paid</i>	<i>2013</i> <i>No.</i>	<i>2013</i> \$	<i>2012</i> <i>No.</i>	<i>2012</i> \$
Ordinary shares of £1 each	575,000	922,300	575,000	922,300
Redeemable ordinary shares of \$1 each	35,000,000	35,000,000	35,000,000	35,000,000
		<u>35,922,300</u>		<u>35,922,300</u>

The redeemable ordinary shares have the following key terms:

- redemption of the redeemable ordinary shares is at the option of the shareholder
- no premium is payable upon redemption
- there is no fixed redemption date.

19 Capital commitments

Amounts contracted for but not provided in the financial statements amounted to \$14,108,000 (2012 : \$8,175,000).

20 Related Party Transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries that are part of the Marubeni Corporation group.

There were no other related party transactions in the year.

Notes to the financial statements

as at 31 December 2013

21 Ultimate parent undertaking

The ultimate parent undertaking of the Company for which financial statements are drawn up, and of which the company is a member, is Marubeni Corporation, a company registered in Japan. Copies of Marubeni Corporation's financial statements can be obtained from the Marubeni Oil & Gas (North Sea) Limited registered office.

22 Transition to FRS 101

For all periods up to and including the year ended 31 December 2012, the Company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2013, are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2012 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2012, the Company's date of transition to FRS101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 January 2012 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2012.

On transition to FRS 101, the company has applied the requirements of paragraphs 6-33 of IFRS 1 "First time adoption of International Financial Reporting Standards". The Company has not applied any of the elections available under IFRS 1 as they were not directly applicable to the Company.

Notes to the financial statements

as at 31 December 2013

22 Transition to FRS 101 (continued)

Reconciliation of equity as at 1 January 2012	UK GAAP	FRS101	
		Re-classification/ Re-measurements	FRS 101
Notes	\$	\$	\$
Fixed assets			
Tangible fixed assets	45,913,446	-	45,913,446
Deferred taxes	11,908,759	(1,059,110)	10,849,649
	<u>57,822,205</u>	<u>(1,059,110)</u>	<u>56,763,095</u>
Current assets			
Debtors	40,234,396	147,020	40,381,416
Cash at bank	58,439,332	-	58,439,332
	<u>98,673,728</u>	<u>147,020</u>	<u>98,820,748</u>
Creditors: amounts falling due within one year	22,424,747	107,461	22,532,208
Net current assets	<u>76,248,981</u>	<u>39,559</u>	<u>76,288,540</u>
Total assets less current liabilities	134,071,186	(1,019,551)	133,051,635
Creditors: amounts falling due after more than one year	-	-	-
Provisions for liabilities	55,240,048	3,803,046	59,043,094
Net assets	<u>78,831,138</u>	<u>(4,822,597)</u>	<u>74,008,541</u>
Capital and reserves			
Called up share capital	35,922,300	-	35,922,300
Cash flow hedge reserve	-	39,559	39,559
Profit and loss account	42,908,838	(4,862,156)	38,046,682
Total equity attributable to owners of the parent	<u>78,831,138</u>	<u>(4,822,597)</u>	<u>74,008,541</u>

Notes to the financial statements

as at 31 December 2013

22 Transition to FRS 101 (continued)

Reconciliation of equity as at 31 December 2012	UK GAAP	FRS101	
		Re-classification/ Re-measurements	FRS 101
Notes	\$	\$	\$
Fixed assets			
Tangible fixed assets	43,706,846	-	43,706,846
Investments	35,000,000	-	35,000,000
Deferred taxes	10,098,906	(1,469,610)	8,629,296
	<u>88,805,752</u>	<u>(1,469,610)</u>	<u>87,336,142</u>
Current assets			
Debtors	11,221,346	79,907	11,301,253
Cash at bank	21,243,397	-	21,243,397
	<u>32,464,743</u>	<u>79,907</u>	<u>32,544,650</u>
Creditors: amounts falling due within one year	21,476,540	123,633	21,600,173
Net current assets	<u>10,988,203</u>	<u>(43,726)</u>	<u>10,944,477</u>
Total assets less current liabilities	99,793,955	(1,513,336)	98,280,619
Creditors: amounts falling due after more than one year	-	-	-
Provisions for liabilities	58,967,831	3,901,306	62,869,137
Net assets	<u>40,826,124</u>	<u>(5,414,642)</u>	<u>35,411,482</u>
Capital and reserves			
Called up share capital	35,922,300	-	35,922,300
Cash flow hedge reserve	-	(16,616)	(16,616)
Profit and loss account	4,903,824	(5,398,026)	(494,202)
Total equity attributable to owners of the parent	<u>40,826,124</u>	<u>(5,414,642)</u>	<u>35,411,482</u>

Restatement of equity from UK GAAP to FRS 101

1. Derivative financial instruments

The fair value of oil price swaps is recognised under FRS 101, and was not recognised under UK GAAP. The contracts have been designated as at the date of transition to FRS 101 as hedging instrument in cash flow hedges of expected future sales for which the group has firm commitments that are highly probable. The corresponding adjustment has been recognised as a separate component of equity, in the cash flow hedge reserve.