Company Registration No. 06451712

MCX Dunlin (UK) Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2017

MCX Dunlin (UK) Limited

CONTENTS

MCX Dunlin (UK) Limited
OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

H Hayashi
J Nishizawa
T Matsushita
T Nishigaki
M Kawamata
J Mukai

SECRETARY

F Ichishima

REGISTERED OFFICE

Mid City Place
71 High Holborn
London
WC1V 6BA
United Kingdom

STATUTORY AUDITOR

Deloitte LLP
Statutory Auditor
London
EC4A 3BZ
United Kingdom

BANKER

The Bank of Tokyo-Mitsubishi UFJ Ltd,
Ropemaker Place
25 Ropemaker Place
London
EC2Y 9AN
United Kingdom

The Directors submit their annual report and the financial statements of MCX Dunlin (UK) Limited, (the "Company") for the year ended 31 December 2017.

PRINCIPAL ACTIVITY AND FUTURE DECOMMISSIONING

The principal activity of the Company is the decommissioning of the assets in Dunlin Cluster (specifically the Dunlin and Dunlin South West oil fields) over the coming years. The expected completion date of the decommissioning activities is around the year end of 2024.

GOING CONCERN

The Company is involved in the decommissioning of the Dunlin and Dunlin South West oil fields. Capital and operational finance is provided by the Company's ultimate parent company, Mitsubishi Corporation, and will continue to be provided for the foreseeable future. The majority of the Company's liabilities are trade and other payables, including amounts due to Group undertakings and the obligation for the abandonment of facilities and wells in relation to the above oil fields. As outlined in the review of the business section of the strategic report on page 4, the decommissioning of the Company's interest in the Dunlin and Dunlin South West oil fields commenced during 2015. The Company requires its ultimate parent company to fund its decommissioning activities through the whole project life.

The Company has received a letter of support from its ultimate parent company confirming that it will provide sufficient capital and operational funding to the Company for a period of at least twelve months from the date of this report, to enable the Company to meet all of its obligations.

FINANCIAL RISK MANAGEMENT

The Company's principal financial assets are other receivables, including amounts due from group undertakings and bank balances and it is exposed to the following risks: liquidity risk, credit risk, and foreign currency risk. The policy for managing these risks is outlined below.

Liquidity risk

The Company is exposed to liquidity risk as it is reliant on funding from its ultimate parent company. The Company maintains good relationships with its funding lender company which has high credit rating and its cash requirements are anticipated via the budgetary process.

Credit risk

The Company is mainly exposed to credit risk from its trade and other receivables and bank balances. The primary receivables both throughout the year and at 31 December 2017 are due from a number of fellow Group undertakings, thereby reducing the Company's credit risk exposure. An allowance for impairment is made where there is an identified loss event which, based on previous experience is evidence of a reduction in the recoverability of the cash flows. Management considers the above measures to be sufficient to control the credit risk exposure.

Foreign currency risk

The Company is exposed to foreign currency risk. The functional currency of the Company is sterling, which is the majority of the decommissioning-related cash flows. Foreign currency risk is reduced by holding money in the currency that invoices are received in. The Directors believe that foreign currency risk is at an acceptable level and that the cost of hedging would outweigh the benefits.

MCX Dunlin (UK) Limited
DIRECTORS' REPORT
For the year ended 31 December 2017

DIRECTORS

The following Directors have held office since 1 January 2017 unless otherwise stated:

J Mukai	
M Kawamata	
T Nishigaki	
E Shiozaki	(resigned 1 April 2017)
Y Uchimura	(resigned 1 April 2017)
H Hayashi	(appointed 1 April 2017)
T Matsushita	(appointed 1 April 2017)
J Nishizawa	(appointed 1 April 2017)

There are no qualifying indemnities in place in respect of the Directors.

DIVIDENDS
During the year the company has not paid or proposed any dividends (2016: nil).

RELATED PARTY TRANSACTIONS

Details of related party transactions are given in note 21 to the financial statements.

AUDITOR

The Directors have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as Directors, in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Deloitte LLP has expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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

T Matsushita
Director
2 May 2018

The Directors present their strategic report for the year ended 31 December 2017.

REVIEW OF THE BUSINESS AND FUTURE DECOMMISSIONING

The last couple of years were a difficult period for the Company and the Company's Joint Venture partners, Fairfield Betula Limited ("FBL") and Fairfield Fagus Limited ("FFL") due to reduction in production and the oil price collapse. On 24 March 2015, the Company's ultimate parent undertaking, Mitsubishi Corporation, and FEL made the decision to cease production and to instigate decommissioning activities in relation to the Company's interest in the Dunlin cluster of fields. The expected completion date of the decommissioning activities is around the year end of 2024.

On 20 October 2015, FEL announced that it was unable to meet its obligation to fund the Dunlin and Osprey Joint Venture cash calls, and the obligation to pay 100% of the decommissioning costs of the Dunlin cluster was imposed upon the Company. This event also triggered the Company to claim relief under the Decommissioning Relief Deed ("DRD"), which is legislation enacted by the UK Government in 2013 permitting companies whose JV partners couldn't meet their decommissioning obligations to claim some part of this 'Imposition Expenditure' from Her Majesty's Treasury. The Company has held several detailed discussions with HMT during the course of this process.

The gross estimate for the full decommissioning costs was re-estimated during the year to be £939m, increasing by £150m from the previous estimate of £789m. The main activities conducted in 2017 were the plugging and abandoning of the Dunlin platform wells and the Osprey and Merlin subsea wells. The majority of the cost increase from the previous estimate is due to the revision of the plugging and abandoning schedule based on actual performance records. Based on the current schedule, the plugging and abandoning program will continue until 2021 for the Dunlin platform wells and 2019 for the subsea wells. The Decommissioning Programme for the removal of the subsea infrastructure was submitted to the government authority BEIS in December and expect to be approved shortly.

Decommissioning costs will be funded by (in decreasing order of magnitude): the DRD (£400m), the Group's own cash (£352m), the cashed-in letter of credit which FBL and FFL had in place with HSBC Ltd (£154m), and the PRT that will be reimbursed by the Dunlin cluster's '2nd tier owners' (Shell, Exxon, OMV and Statoil) (£33m).

All the figures quoted above are in relation to MCX Dunlin Limited and MCX Osprey Limited combined as the two companies have been negotiating together and are bound by all the same agreements. Whereas in these financial statements are included only MCX Dunlin's share of the above amounts.

PRINCIPAL RISKS AND UNCERTAINTIES

Critical to the Company's achievement of its objectives is effective risk management. The Company faces risk from a number of areas, all of which are prevalent throughout the industry and are shown below:

Environmental risk
The Company again works closely with the Operator of its oil fields to ensure that there is minimal risk of damage to the environment occurring during the decommissioning operations. In this regard the Company is heavily dependent upon the performance of its Operator; hence communication with them is key.

Operational risk
The success of the Company is dependent upon the successful operational capability on decommissioning activity. The Company works closely with the Operator of the oil fields in which it has an interest to ensure that decommissioning activity is executed sustainably.

MCX Dunlin (UK) Limited
STRATEGIC REPORT
For the year ended 31 December 2017

Given the straightforward nature of the business as at 31 December 2017, the company's directors are of the opinion that analysis using Key Performance Indicators is not necessary for an understanding of the development, performance or position of the Company.

T Matsushita
Director
2 May 2018

MCX Dunlin (UK) Limited

DIRECTORS' RESPONSIBILITIES STATEMENT

For the year ended 31 December 2017

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of MCX Dunlin (UK) Limited (the 'Company') which comprise:

- the income statement;
- the statement of changes in equity;
- the statement of financial position;
- the statement of cash flows;
- accounting policies; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly

stated in our report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

J Thomson.

Jonathan Thomson FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

2 May 2018

MCX Dunlin (UK) Limited

INCOME STATEMENT

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Revenue	1	422	-
Cost of sales	4	(431)	-
GROSS LOSS		(9)	-
Administrative expenses	3	(2,987)	(3,121)
OPERATING LOSS		(2,996)	(3,121)
Finance costs	6	(1,374)	(550)
Finance income	7	212	1,302
Exchange rate gains	2	201	13,902
Other expenditure	8	(144,311)	(74,835)
Other income	9	89,573	71,576
(LOSS) / PROFIT BEFORE TAX	2	(58,695)	8,274
Tax	10	-	(25,495)
LOSS FOR THE YEAR		(58,695)	(17,221)

All results in the current and prior financial periods derive from continuing operations and are attributable to the equity holders of the parent Company.

No separate statement of comprehensive income has been presented as no such gains or losses arose in the current or prior financial year.

MCX Dunlin (UK) Limited

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017 Company Number: 06451712

	Share capital £'000	Accumulated losses £'000	Total equity £'000
At 1 January 2016	28,709	(254,686)	(225,977)
Loss for the year	-	(17,221)	(17,221)
Total recognised income and expense	-	(17,221)	(17,221)
Issue of share capital (note 15)	136,604	-	136,604
At 31 December 2016	165,313	(271,907)	(106,594)
Loss for the year	-	(58,695)	(58,695)
Total recognised income and expense	-	(58,695)	(58,695)
Issue of share capital (note 15)	107,000	-	107,000
At 31 December 2017	272,313	(330,602)	(58,289)

MCX Dunlin (UK) Limited
STATEMENT OF FINANCIAL POSITION
As at 31 December 2017 Company Number: 06451712

	Notes	2017 £'000	2016 £'000
ASSETS			
NON-CURRENT ASSETS			
Government grants	19	358,276	311,576
TOTAL NON-CURRENT ASSETS		358,276	311,576
CURRENT ASSETS			
Trade and other receivables	11	156,479	14,572
Other assets	18	498	498
Current taxation asset	9	1,667	1,667
Cash and cash equivalents	12	27,332	105,221
TOTAL CURRENT ASSETS		185,976	121,958
TOTAL ASSETS		544,252	433,534
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	15	272,313	165,313
Accumulated losses	16	(330,602)	(271,907)
TOTAL EQUITY		(58,289)	(106,594)
NON-CURRENT LIABILITIES			
Provisions	14	467,302	428,190
TOTAL NON-CURRENT LIABILITIES		467,302	428,190
CURRENT LIABILITIES			
Trade and other payables	13	4,920	2,053
Provisions	14	130,319	109,885
TOTAL CURRENT LIABILITIES		135,239	111,938
TOTAL LIABILITIES		602,541	540,128
TOTAL EQUITY AND LIABILITIES		544,252	433,534

The financial statements were approved by the board of Directors and authorised for issue on 2 May 2018. They were signed on its behalf by:

T Matsushita
Director

MCX Dunlin (UK) Limited
STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
OPERATING ACTIVITIES:			
Net cash (outflow) / inflow from operations	17	(185,092)	37,847
Net cash (outflow) / inflow from operating activities		(185,092)	37,847
INVESTING ACTIVITIES:			
Purchase of development assets		-	-
Net cash inflow from investing activities		-	-
FINANCING ACTIVITIES			
Repayment of borrowings		-	(102,946)
Issue of share capital		107,000	136,604
Loan receivable		-	29,210
Interest receivable		212	1,302
Interest paid		(9)	(136)
Net cash generated from financing activities		106,991	62,732
Net (decrease)/ increase in cash and cash equivalents		(77,889)	101,881
Cash and cash equivalents at beginning of year	12	105,221	3,340
Cash and cash equivalents at end of year	12	27,332	105,221

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and prior year.

GENERAL INFORMATION

MCX Dunlin (UK) Limited is a public Company limited by shares incorporated in the United Kingdom, under the Companies Act 2006 and registered in England and Wales. The address of the registered office is given on page 1.

The nature of the Company's operations and its principal activities are set out in the directors' report.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRS adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis.

GOING CONCERN

Although there is considerable economic uncertainty at the present time, after taking account of the risks set out in the directors' report on pages 2 and 3 and the strategic report on page 4, and considering the Company is being managed through the support of its parent company, 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 annual report and financial statements.

Capital and operational finance is provided by the Company's ultimate parent Company for which the Company has received a letter of support from its ultimate parent Company.

ADOPTION OF NEW AND AMENDED STANDARDS

The following relevant new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2017, but had no significant impact on the Company:

Standard	Key requirements	Effective date
Amendment to IFRS 12, 'Disclosure of interests in Other Entities'	Amendments resulting from Annual Improvements 2014–2016 Cycle (clarifying scope)	1 January 2017
Amendments to IAS 7 'Statement of Cash Flows'	Amendments as result of the Disclosure initiative	1 January 2017
Amendments to IAS 12 'Income Taxes'	Amendments regarding the recognition of deferred tax assets for unrealised losses	1 January 2017

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following standards and amendments to existing standards have been published and are mandatory from the financial year on or after the effective dates shown below but are not currently relevant to the Company (although they may affect the accounting for future transactions and events).

Standard	Key requirements	Effective date
Amendment to IFRS 1 'First-time Adoption of International Financial Reporting Standards'	Amendments resulting from Annual Improvements 2014–2016 Cycle (removing short-term exemptions)	1 January 2018
Amendment to IFRS 2 'Share-based Payment'	Amendments to clarify the classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4 'Insurance Contracts'	Amendments regarding the interaction of IFRS 4 and IFRS 9. An entity choosing to apply the overlay approach retrospectively to qualifying financial assets does so when it first applies IFRS 9. An entity choosing to apply the deferral approach does so for annual periods beginning on or after 1 January 2018.	1 January 2018
Amendments to IFRS 9 'Financial Instruments'	Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition.	1 January 2018
Amendments to IFRS 15 'Revenue from Contracts with Customers'	Clarifications to IFRS 15	1 January 2018
Amendments to IAS 28 'Investments in Associates and Joint Ventures'	Amendments resulting from Annual Improvements 2014–2016 Cycle (clarifying certain fair value measurements)	1 January 2018
Amendments to IAS 40 'Investment Property'	Amendments to clarify transfers or property to, or from, investment property	1 January 2018

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company when the relevant standards and interpretations come into effect.

FOREIGN EXCHANGE

The functional currency of the Company is sterling. Transactions denominated in foreign currencies are translated into the functional currency at the rates ruling at date of invoice. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated at the rates ruling at that date. Translation differences are dealt with in the statement of comprehensive income.

FINANCE INCOME

All finance incomes are recognised in the income statement over the term of the instrument using an effective rate of interest.

FINANCE COSTS

All finance costs are recognised in the income statement over the term of the instrument using an effective rate of interest.

DECOMMISSIONING

Liabilities for decommissioning costs are recognised when the Company has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located and when a reliable estimate of that liability can be made. An obligation for decommissioning may also crystallise during the period of operation of a facility through a change in legislation or through a decision to terminate operations. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created and depreciated in line with the Company's depletion and amortisation policy. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding item of property, plant and equipment. The decommissioning provision movement is included within other expenditure and the unwinding of the discount is included within finance costs in the income statement.

GOVERNMENT GRANTS

The Company claimed recompense under the Decommissioning Relief Deed ("DRD"), a legislation enacted by the UK Government in 2013 permitting companies whose JV partners forfeit on their decommissioning obligations to claim some part of this 'Imposition Expenditure' from Her Majesty's Treasury (HMT). This compensation is treated as a Government grant and therefore has been recognised as an asset on the statement of financial position (split appropriately between current and non-current) and other income in the income statement.

TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the statement of financial position date. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Petroleum Revenue Tax (PRT) is treated as an income tax and deferred PRT is accounted for under the temporary difference method. Current UK PRT is charged as a tax expense on chargeable field profits included in the statement of comprehensive income and is deductible for UK corporation tax.

FINANCIAL INSTRUMENTS

Trade and other receivables

Trade and other receivables are measured at their initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired. Trade and other receivables are disclosed within these financial statements as loans and receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances in current accounts and cash on hand.

Trade and other payables

Trade and other payables are initially measured at their fair value and are subsequently measured at their amortised cost using the effective interest rate method; this method allocates interest expense over the relevant period by applying the 'effective interest rate' to the carrying amount of the liability. Trade and other payables are disclosed within these financial statements as other financial liabilities.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Financial liabilities are classified as other financial liabilities.

MANAGEMENT ESTIMATION AND CRITICAL ACCOUNTING JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. In the process of applying the Company's accounting policies, management has made the following judgements that may have a significant effect on the amounts recognised in the financial statements.

Management estimation
Valuation of decommissioning costs – note 14

Decommissioning costs have been estimated by the Operator of the assets in Dunlin Cluster. Assumptions, based on the current economic environment have been made, which management believe are a reasonable basis on which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions.

Income incidental to decommissioning

Future economic benefits are likely to arise as a result of the sale of recyclable material which is released in future periods from the Dunlin infrastructure as a result of decommissioning. This recyclable material is likely to include machinery and equipment on the platform topside, as well as scrap metal and other parts. Given the early stages of decommissioning activity, there is currently no clarity as to the future nature and value of items that will be found to be recyclable. Consequently, as there is no reliable estimate of these future cash flows as at 31 December 2017, management consider the fair value of these assets to be £nil and no associated asset has been recognised in the financial statements.

Critical accounting judgement
Recoverability of government grants – note 19

A significant part of the decommissioning obligation will be reimbursed by the UK government under provisions made in the Decommissioning Relief Deed and it is considered a government grant under IAS 20. The Directors' review of the recoverability of the amounts has been performed and they concluded that it is recognised here at their full value, inflated and discounted to mirror the related liability. The amount is expected to be received over the course of the decommissioning operation.

1. REVENUE

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Oil sales	422	-

2. (LOSS) / INCOME BEFORE TAX

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
The loss before tax for the year has been arrived at after charging / (crediting):		
Net foreign exchange gains	201	13,902
Auditor's remuneration (see below)	(65)	(85)

Amounts payable to Deloitte LLP and its related entities, in respect of both audit and non-audit services are set out below:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Fees payable to the auditor for the statutory audit of the Company financial statements	(65)	(85)
	(65)	(85)

3. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Travel and entertainment	(9)	(6)
Legal and professional	(1,530)	(1,884)
Service fee payable to fellow group undertaking	(1,442)	(1,225)
Sundry expenses	(6)	(6)
	(2,987)	(3,121)

4 COST OF SALES

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Carrying value of oil sold	(431)	-
	(431)	-

5 STAFF COSTS

The average monthly number of employees, (including executive Directors) during the year was:

	Year ended 31 December 2017 No.	Year ended 31 December 2016 No.
Management	6	5

Directors' emoluments in the year were £nil (2016: £nil).

6 FINANCE COSTS

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Borrowing costs	(9)	(136)
Unwinding of discount on decommissioning provision	(3,855)	(1,665)
Unwinding of discount on Government Grants	2,490	1,251
	(1,374)	(550)

7 FINANCE INCOME

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Interest received	212	1,302
	212	1,302

8 OTHER EXPENDITURE

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Decommissioning provision movement	(143,968)	(75,867)
Operating expenditures	(343)	1,032
	(144,311)	(74,835)

The decommissioning provision movement of £144m relates to the increase in the estimate of the gross costs – see note 14 for more detail.

9 OTHER INCOME

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
PRT OMV	-	630
Release of Inventory	586	539
Tariff Income	4,709	3,239
Government Grants	84,278	67,168
	89,573	71,576

Government grants amount of £84m and relate to DRD – see note 19 for more detail. Tariff income relates to contributions towards the Dunlin facility running costs, paid to Fairfield Betula Limited by users of the Dunlin Cormorant Pipeline. These amounts are reimbursed to MCX by Fairfield Betula Limited.

10 TAXATION

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Current tax:		
Group tax relief receivable	-	(6,496)
Adjustments in respect of previous periods	-	(1,508)
Deferred tax:		
Adjustments in respect of previous periods	-	33,499
	-	33,499
Total tax (credit) / charge	-	25,495

Factors affecting tax (credit) / charge for the period	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
The tax assessed for the period is lower than the combined UK ring fence corporation tax and supplementary charge rate of 40% (2016: 40%), as explained below:		
(Loss)/ Profit before taxation	(58,695)	8,274
(Loss)/ Profit before taxation multiplied by the combined UK ring fence corporation tax and supplementary charge rate of 40% (2016: 40%)	(23,478)	(3,310)
Effects of:		
Non-deductible expenses	40,696	21,386
Non-taxable income	(33,711)	(26,867)
Deferred tax assets not recognised	16,493	8,791
Prior year adjustment	-	25,495
Tax charge for the year	-	25,495

Deferred tax assets in respect of deductible temporary differences, including unused tax losses and credits are recognised to the extent that it is probable that taxable profits will be available against which such deductible temporary differences can be utilised.

At the statement of financial position date, the Company has unused petroleum revenue tax losses of £nil (2016: £nil) available for offset against future profits. A deferred tax asset of £nil (2016: £nil) has been recognised in respect of these losses, but the Company has the current taxation asset of £1,667k (2016: £1,667k) in relation to PRT refunds in prior years.

The Company also has losses carried forward of £161,786k (2016: £120,427k) and a decommissioning provision of £179,635k (2016: £161,772k) available for offset against future ring fence corporation tax profits. A deferred tax asset of £nil (2016: £nil) has been recognised in respect of these losses for ring fence corporation tax and supplementary charge purposes.

11 TRADE AND OTHER RECEIVABLES

	2017 £'000	2016 £'000
Trade receivable	-	109
Prepayments	97	17
Due from Group companies	150,081	12,292
Other receivables	6,227	1,958
VAT recoverable	74	196
	156,479	14,572

The Company does not make sales regularly and therefore has no need to implement a specific credit scoring policy with regards to assessing the credit quality of potential new customers. The Company also therefore has no specific policy for providing against overdue invoices.

There are no balances within either trade or other receivables that are past their due settlement date and no impairment has been deemed necessary during the year. The Directors believe that the carrying value of trade and other receivables approximates to their fair value.

The amount of trade and other receivables denominated in currencies other than sterling are shown in note 20 to these financial statements.

12 CASH

	2017 £'000	2016 £'000
Cash and cash equivalents	27,332	105,221

The Directors consider that the carrying amount of cash and cash equivalents approximates their fair value. All of the Company's cash and cash equivalents at 31 December 2017 are in sterling.

13 TRADE AND OTHER PAYABLES

	2017 £'000	2016 £'000
Amounts due to Group companies	251	514
Account payables	21	-
Payables for decommissioning cost	4,511	1,146
Accruals	137	393
	4,920	2,053

The Directors consider that the carrying amounts of trade and other payables are approximate to their fair values. The amount of trade and other payables denominated in currencies other than sterling are shown in note 20 to these financial statements.

The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices during the year.

14 PROVISIONS

	2017 £'000	2016 £'000
At 1 January	538,075	547,019
Changes in estimates	143,968	75,835
Cost incurred	(88,277)	(86,444)
Unwinding of discount	3,855	1,665
At 31 December	597,621	538,075

The decommissioning provision represents the present value of decommissioning costs relating to the Company's oil interests in the North Sea, which are expected to be incurred up until the end of 2024 (2016: up until the end of 2022).

Decommissioning costs have been estimated by the Operator of the assets in Dunlin Cluster. Assumptions, based on the current economic environment have been made, which management believe are a reasonable basis on which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. As a result of this review during 2017 the decommissioning provision estimate was increased by £143,968k (2016: increased by £75,835k). Actual decommissioning costs however, will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time.

Due to distinct cash flows being anticipated in each of the 8 years of decommissioning, a corresponding risk free discount rate has been used for each year, ranging from 0.322% for 2017's cash flows, to 1.001% for 2024's cash flows.

15 SHARE CAPITAL

	2017 £'000	2016 £'000
Authorised:		
Number of ordinary shares at $1,000 each	202,500	202,500
Number of ordinary shares at £1,000 each	135,000	28,000

	2017 £'000	2016 £'000
Allotted, issued and paid:		
At 31 December	272,313	165,313

16 ACCUMULATED LOSSES

	2017 £'000	2016 £'000
At 1 January	(271,907)	(254,686)
Loss for the year	(58,695)	(17,221)
At 31 December	(330,602)	(271,907)

17 NOTES TO THE STATEMENT OF CASHFLOWS

	2017 £'000	2016 £'000
(Loss) / income for the year before tax	(58,695)	8,274
Adjustments for:		
Finance income	(212)	(1,302)
Finance cost	1,374	550
Operating cash flows before movements in working capital	(57,533)	7,522
(Increase) / decrease in trade and other receivables	(188,606)	42,643
Increase / (decrease) in trade and other payables	2,866	(1,709)
Increase / (decrease) in provision movement	58,181	(10,609)
Net cash (outflow) / inflow from operations	(185,092)	37,847

18 OTHER ASSETS

	2017 £'000	2016 £'000
Decommissioning Deposit for Brent System	498	498
	498	498

19 GOVERNMENT GRANTS

	2017 £'000	2016 £'000
At 1 January	311,576	248,400
Changes in estimates	84,278	67,167
Refund received	(40,068)	(5,242)
Unwinding of discount	2,490	1,251
At 31 December	358,276	311,576

As explained in the strategic review on page 4, a significant part of the decommissioning obligation will be reimbursed by the UK government under provisions made in the Decommissioning Relief Deed. These amounts are considered a government grant under IAS 20 and are recognised here at their full value, inflated and discounted to mirror the related liability. These amounts are expected to be received over the course of the decommissioning operation.

20 FINANCIAL INSTRUMENTS

The Company is exposed to the risks that arise from its use of financial instruments. This note describes the objectives, policies and processes of the Company for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders. The Company is funded by its ultimate parent undertaking through a mixture of equity and debt financing.

The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued capital and retained profits.

The Company has no externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies section of these financial statements.

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- Trade and other receivables;
- Trade and other payables; and
- Cash and cash equivalents.

Categories of financial instruments

At 31 December 2017, the Company held the following financial assets:

Loans and receivables	2017 £'000	2016 £'000
Cash and cash equivalents	27,332	105,221
Trade and other receivables	6,398	2,280
Due from fellow Group companies	150,081	12,292
Other assets	498	498
	184,309	120,291

At 31 December 2017, the Company held the following financial liabilities:

Other financial liabilities held at amortised cost	2017 £'000	2016 £'000
Amounts due to Group companies	251	514
Account payables	21	-
Payables for decommissioning cost	4,511	1,146
Accruals	137	393
	4,920	2,053

Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Foreign currency risk management

As highlighted earlier in these financial statements, the functional currency of the Company is sterling because the Company's costs being denominated in sterling. The Company also has foreign currency denominated assets and liabilities. Exposures to exchange rate fluctuations therefore arise. The Company pays for invoices denominated in a foreign currency in the same currency as the invoice. The Company therefore does suffer from a level of foreign currency risk.

This risk is reduced by holding money in the currency that invoices are received in. The Directors currently believe that foreign currency risk is at an acceptable level.

The Company does not enter into any derivative financial instruments to manage its exposure to foreign currency risk.

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at 31 December 2017 is as follows:

US$	Assets 2017 £'000	Liabilities 2017 £'000
Cash at bank	-	-
Trade and other receivables	-	-
Amounts due from Group undertakings	-	-
Loan receivable	-	-
Other assets	-	-
Trade and other payables	-	-
Amounts due to Group undertakings	-	-
Accruals	-	-
	-	-

Japanese Yen	Assets 2017 £'000	Liabilities 2017 £'000
Cash at bank	-	-
Trade and other receivables	-	-
Amounts due from Group undertakings	-	-
Loan receivable	-	-
Other assets	-	-
Trade and other payables	-	-
Amounts due to Group undertakings	-	-
Accruals	-	33
	-	33

US$	Assets 2016 £'000	Liabilities 2016 £'000
Cash at bank	-	-
Trade and other receivables	-	-
Amounts due from Group undertakings	-	-
Loan receivable	-	-
Other assets	-	-
Trade and other payables	-	-
Amounts due to Group undertakings	-	-
Accruals	-	29
	-	29

Japanese Yen	Assets 2016 £'000	Liabilities 2016 £'000
Cash at bank	-	-
Trade and other receivables	-	-
Amounts due from Group undertakings	-	-
Loan receivable	-	-
Other assets	-	-
Trade and other payables	-	-
Amounts due to Group undertakings	-	-
Accruals	-	27
	-	27

The following table details the Company's sensitivity to a 10% increase and decrease in the Japanese Yen against Sterling. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The table below shows the effect of a 10% weakening and strengthening of the Japanese Yen against Sterling.

2017	US$ impact strengthening £'000	US$ impact weakening £'000
Assets	-	-
Liabilities	-	-
	-	-

2017	Japanese Yen impact strengthening £'000	Japanese Yen impact weakening £'000
Assets	-	-
Liabilities	3	(4)
	3	(4)

2016	US$ impact strengthening £'000	US$ impact weakening £'000
Assets	-	-
Liabilities	3	(3)
	3	(3)

2016	Japanese Yen impact strengthening £'000	Japanese Yen impact weakening £'000
Assets	-	-
Liabilities	3	(3)
	3	(3)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk arises principally from the Company's cash balances and trade and other receivables. The Company gives careful consideration to which organisations it uses for its banking services in order to minimise credit risk. The Company's only customer is a fellow Group undertaking and subsidiary of this Company's ultimate parent undertaking. The Company therefore has no need to implement a specific credit scoring policy with regards to assessing the credit quality of potential new customers.

The concentration of the Company's credit risk is considered by counterparty, geography and currency. The Company has a significant concentration of cash held on deposit with one large bank in the United Kingdom. At 31 December 2017, the concentration of credit risk held with that bank was £27,332k (2016: £105,221k). Of this amount, £27,332k (2016: £105,221k) is denominated in sterling.

The Company has a significant amount of debt due to it by numerous fellow Group undertakings, the details of which are outlined in the table below:

	2017 £'000	2016 £'000
MCX Osprey (UK) Ltd	3	5
Princes Ltd	6,686	9,039
Colt Car Company Ltd	3,248	3,248
MC Finance & Consulting Asia Pte Ltd	140,062	-
Fairfield Betula Ltd	80	-
	150,079	12,292

There are no other significant concentrations of credit risk at the statement of financial position date.

At 31 December 2017, the Company held no collateral as security against any financial asset. No financial assets were past their due date and there were no problems with the credit quality of any financial asset in either year.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Management considers the above measures to be sufficient to control the credit risk exposure.

Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the board of Directors. The board manages liquidity risk by regularly reviewing the Company's gearing levels, cash flow projections and associated headroom and ensuring that excess banking facilities are available for future use. The Company maintains good relationships with its bank, which has a high credit rating and its cash requirements are anticipated via the budgetary process. At 31 December 2017, the Company had £27,332k (2016: £105,221k) of cash reserves.

During the year in order to manage its financial obligations, the Company increased its capital by £107,000k from a parent company. The Company continued to be managed through the support of its parent company.

Maturity of financial assets and liabilities

All of the Company's financial liabilities and its financial assets in the period to 31 December 2017 are either payable or receivable within one year.

21 RELATED PARTY TRANSACTIONS

During the period, the Company had transactions with a number of related parties, the details of which are contained in the following table:

Name	Nature of transactions	Total value of transactions		Net amount due to/(from) MCX Dunlin (UK) Ltd	
		2017 £'000	2016 £'000	2017 £'000	2016 £'000
MCX Osprey (UK) Ltd	Operating costs recharge	12	9	(3)	35
Mitsubishi Corporation Exploration Co., Ltd	Operating cost recharge	(185)	(234)	33	27
Mitsubishi Corporation International (Europe) Plc	Service fee /Legal fee	(1,258)	(992)	218	446
Colt Car Company Ltd	Group relief	-	3,248	(3,248)	(3,248)
Princes Ltd	Group relief	-	3,248	(6,686)	(9,039)
Fairfield Energy Ltd	Finance income	-	1,058	-	-
Fairfield Betula Ltd	Inventory	5,295	3,778	(80)	(109)
MC Finance & Consulting Asia Pte Ltd	Loan/interest	212	-	(140,062)	-

None of the Directors or key management personnel were paid any remuneration by the Company during the period. They were all remunerated through another Group Company.

22 ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The Company's immediate and ultimate parent undertaking is Mitsubishi Corporation, incorporated and registered in Japan, which is the parent undertaking of both the smallest and largest Group to consolidate these financial statements. Copies of the Mitsubishi Corporation consolidated financial statements can be obtained from 2-3 Marunouchi 2-Chome, Chiyoda-ku, Tokyo, 100-0005, Japan.

23 FUTURE CAPITAL COMMITMENTS

The Company does not have any future capital commitments as all decommissioning work carried out by operator on an ongoing service agreement basis.

24 POST BALANCE SHEET EVENTS

On 23 February 2018 the Company's capital was increased by £51m by the equity injection of the Company's ultimate parent Company.