Company Registration No. 07652477

Mitsui E&P UK Limited
Annual Report and Financial Statements
for the Year ended 31 December 2018

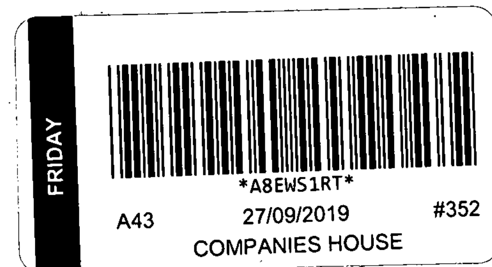


Table of Contents:

Officers and Professional Advisers	3
Strategic Report	4
Directors' Report	9
Statement of Directors' Responsibilities	11
Independent Auditor's Report to the Members of Mitsui E&P UK Limited	12
Statement of Profit and Loss	17
Statement of Comprehensive Income	18
Statement of Financial Position	19
Statement of Changes in Equity	20
Statement of Cash Flows	21
Notes to the Financial Statements	22

Officers and Professional Advisers

DIRECTORS
Kenichiro Yamaguchi
Haruaki Moritani
Naoki Ishii
Yasutomo Fujii
Osamu Kobayashi
Takayuki Ogawa

REGISTERED OFFICE
8th and 9th Floors
1 St. Martin's Le Grand
London EC1A 4AS
United Kingdom

AUDITOR
Deloitte LLP
Hill House
1 Little Street
London EC4A 3TR
United Kingdom

COMPANY SECRETARY
Vistra (formerly Jordans) Trust Company Limited
First floor, Templeback
10 Temple Back
Bristol BS1 6FL
United Kingdom

BANKERS
Deutsche Bank AG London
6 Bishopsgate
London
EC2N 4DA
United Kingdom

Strategic Report

Principal activities

The principal activities of Mitsui E&P UK Limited (the Company) are the exploration, production and sale of hydrocarbons in the European and Sub-Sahara African region, directly or through subsidiaries. The Company is also dedicated to seeking new investment opportunities in the region.

The Company was originally established on 31 May 2011 to hold an investment in Mitsui E&P Poland sp. z o.o.

On 7 December 2012, the Company acquired participating interests in the Alba and Britannia fields in the UK North Sea. The Alba and Britannia fields mainly produce crude oil, natural gas and condensates.

On 7 March 2013, the Company established a new wholly-owned subsidiary in Italy, Mitsui E&P Italia A S.r.l., which acquired the capital of Total E&P Energia Italia S.r.l. on 21 June 2013. The Company was subsequently re-named Mitsui E&P Italia B S.r.l. and owns a 25% participating interest in the Tempa Rossa onshore oil field. The field is expected to reach First Oil within 2019, subject to the permission from the local authorities.

Mitsui E&P Poland sp. z o.o. was liquidated on 23 December 2015, after relinquishing its exploration licences.

On 15 April 2015, the Company was awarded a 42.86% interest in UK Licence P2185, 22/19e in the Central North Sea as a result of the 28th UK Licensing Round. The other partner and licence operator is Eni UK Limited with 57.14%. This licence was relinquished in January 2018.

On 9 November 2015, the Company executed a farm in agreement with JX Nippon Exploration & Production (UK) Ltd to acquire a 10% interest in Licence P1620, Block 22/19c in the Central North Sea. On 11 December 2015, the Company executed a farm in agreement with Eni UK Ltd to acquire a 10% interest in the same licence. On 16 and 23 June 2016 respectively, the Company completed the farm in agreements with JX Nippon and Eni UK Limited. The licencees on Block 22/19c are now Eni (Operator) with 40%, JX Nippon with 25%, Mitsui E&P UK Limited with 20% and Serica with 15%.

In addition, on 23 May 2018 the Oil & Gas Authority (OGA) offered for award to the Company two blocks (split) south of Rowallan, as a result of a joint bid with Eni UK and Serica Energy within the 30th Licencing Round. The resulting licence P2385 for blocks 22/24g and 22/25f was executed by the Company on 10 September 2018 and started from 1 October 2018.

In the first quarter of 2019, Mitsui participated in the drilling of the Central North Sea Rowallan prospect within Block 22/19c. The well was plugged and abandoned in May 2019 after finding no hydrocarbon resources.

As a consequence, the Block 22/19c licence, P1620, in which Mitsui acquired its interest in 2016, was allowed to expire in June 2019 due to the lack of any prospective exploration. Furthermore, the Rowallan South acreage awarded in 2018 as licence P2385, covering Blocks 22/24g and 22/25f, will be relinquished by the end of September 2019.

On 12 September 2018 the Company executed a Sale and Purchase Agreement for the sale of the interest in Britannia to Zennor North Sea Limited, with effective date 1 January 2018. The sale was completed on 4 July 2019.

Business review and Key Performance Indicators (KPIs)

The Company recorded a profit after tax of USD 18,849,000 for the year ended 31 December 2018 (31 December 2017: profit of USD 31,621,000).

Following the sale of Britannia which completed post period end, the Company is presenting the statement of profit and loss separately between continuing and discontinued operations (Britannia), re-stating also the comparative figures.

The revenues generated by continuing operations for the year 2018 amount to USD 55,472,000 (2017: USD 21,070,000). The operating profit for the year from continuing operations is USD 10,776,000 (2017: USD 9,273,000).

The overall net operating cash flow of the Company for the year is USD 56,713,000 (2017: USD 8,306,000), which has been partly used to fund the capital and operating expenditure related to the assets. Any surplus cash is deposited through the cash management facilities of the Group. The Company had no financial debt throughout the year. Note 26 shows the cash flow deriving from discontinued operations.

The main non-financial Key Performance Indicators monitored by the business relate to production performance, safety and environmental impact of the operations.

During 2018, Alba performed below expectations with actual average daily oil production of 11.8 kboed (2017: 13.7 kboed). This was primarily due to the technical difficulties and delays encountered during the execution of the 2018 infill drilling campaign.

Britannia performed above expectations in the year, with a total daily rate of liquids and gas production of 25.7 kboed (2017: 24.2 kboed).

In 2018, two reportable events occurred on Alba (2017: 2) and six on Britannia (2017: 4). All the incidents relate to minor oil and chemical releases and permitted discharge notifications to the authority. There are no impacts on the financial statements of the Company.

The profit for the year from discontinued operations is USD 14,881,000 (2017: USD 19,883,000). The 2018 profit includes the effect of the re-measurement of the carrying

amount of the Britannia asset, with the reversal of prior years' impairment for USD 17,860,000, after taking account of depreciation, net of cost to sell (see note 26). The attributable tax expense is USD 6,571,000.

Following the cessation of future profits from Britannia, also the amount of deferred tax asset on the losses carried forward and future decommissioning expenditure has been re-assessed. The result is a write down of the deferred tax asset for USD 20,180,000, as per note 26.

Future developments

The objectives of the Company are to maximise value from their remaining UK asset (Alba) and the expansion of its reserves and production base in Europe and Sub-Saharan Africa. The Company pursues new ventures in the region relating to exploration acreage or discovered resources.

Principal risks and risk management policies

The directors of the Company confirm that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten the business model, future performance, solvency or liquidity.

Principal risk	Causes	Potential impact	Assessment of change in risk year-on-year	Mitigation of risk
Sustained low oil price environment	Global supply and demand balances, shift towards alternative energy sources as a result of climate changes	Portfolio sub-optimised resulting in long term business strategy being unsustainable	Whilst oil price has shown a slight improvement in the last year, there is still a continued risk that the oil prices might fall back to previous low.	Oversight from parent company over capital allocation process and overall strategy
Insufficient liquidity and funding capacity	Oil price downturn, sub-optimal portfolio	Inability to fund capital investments or new projects	Following the downsizing of portfolio within the Company, it is possible that this risk will become more	In house financing available via Mitsui & Co. Financial Services (Europe) PLC.

			significant in the coming years.	
Failure to manage oil price risk	Global supply and demand balances, shift towards alternative energy sources as a result of climate changes	Reduced cash flows	Whilst oil price has shown a slight improvement in the last year, there is still a continued risk that the oil prices might fall back to previous low.	Hedging activities including commodity swaps

Financial risk management

The business conducted by the Company is exposed to commodity price, credit, liquidity, operational, interest rate and currency risks. The Company regards the monitoring and controlling of risk as a fundamental part of the management process and therefore has set up a monitoring and reporting framework.

Commodity price risk is the potential adverse change in income arising from movements and volatility in commodity prices. The Company is in the business of selling crude oil and gas for which there is an active market. An adverse change in the market price of crude oil and gas would result in an adverse impact to the performance of the Company.

Credit risk is the risk of loss resulting from counterparty default arising on any credit exposures. The Company manages its credit risk by applying a strict credit approval process, with different levels of management each with a different credit approval limit. Each counterparty is appraised annually and the credit limit and ratings are updated if required.

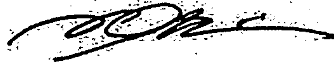
Liquidity risk is the risk that the Company would be unable to meet its obligations as they fall due owing to insufficient financial resources. The Group manages liquidity risk by maintaining adequate cash reserves and banking facilities and by continually monitoring forecast and actual cash flows.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems. This risk is inherent in every business and the Company manages this risk by having clearly documented processes and controls.

Interest rate risk represents the sensitivity of the Company to changes in interest rates.

Please refer to Note 20 for more information.

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



Naoki Ishii

Director

26 September 2019

Directors' Report

The directors of Mitsui E&P UK Limited (the Company) present their annual report and the audited financial statements for the year ended 31 December 2018.

In respect of information relating to future developments and use of financial instruments, the Directors have chosen, in accordance with s414, to set out in the company's strategic report the information required by Schedule 7 of the Accounting Regulations to be contained in the Directors' report.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company has no outstanding interest-bearing debt and can resort to substantial overdraft facilities, unutilised at the end of the period. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Political contributions

No political donations were made by the Company during the year (2017: $nil).

Dividends

The directors did not propose any dividend during the year ended 31 December 2018 and until the date of approval of these Financial Statements (2017: $nil).

Directors

The directors who held office throughout the year and up to the date of signing, except as noted, were as follows:

DIRECTORS
Kenichiro Yamaguchi (appointed 1 April 2018)
Haruaki Moritani
Naoki Ishii
Yasutomo Fujii (appointed 1 July 2018)
Osamu Kobayashi (appointed 1 July 2018)
Takayuki Ogawa (appointed 27 February 2019)
Chisumi Tanaka (resigned 27 February 2019)

Hirotaka Hamamoto (appointed 26 March 2018, resigned 1 July 2018)
Tatsuhiko Matsuura (resigned 1 July 2018)
Toru Matsui (resigned 1 April 2018)
Koji Asanuma (resigned 26 March 2018)

Events after the reporting period

On 31 March 2019, the Company declared the Rowallan well unsuccessful, when the drilling operations reached the target depth and found no significant hydrocarbons. The spud date was 30 December 2018, and there are no accounting implications for the financial year ending 31 December 2018. The well cost is written off during the course of the financial year ending 31 December 2019, according to the Successful Effort Method applied by the Company.

On 4 July 2019, the Company completed the sale of its 8.97% unitised working interest in Britannia. An agreement for the Sale & Purchase of the interest was executed on 12 September 2018 with Zennor North Sea Ltd. The Effective Date of the Agreement is 1 January 2018.

Auditor

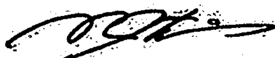
Each of the directors of the Company holding office at the date of approval of this report confirms that:

- so far as each of the directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

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

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



Naoki Ishii

Director

26 September 2019

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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.

Independent auditor's report to the members of Mitsui E&P UK Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Mitsui E&P UK Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of profit and loss;
- the statement of comprehensive income and loss;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows;
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and 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 Financial Reporting Council's (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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

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.

Jon Thomson, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

26 September 2019

Statement of Profit and Loss

	Notes	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017* USD 000
Continuing operations			
Revenue	4	55,472	21,070
Cost of sales	5	(40,165)	(8,048)
Gross Profit		**15,307**	**13,022**
General and Administrative expenses	6,7,8	(3,244)	(3,749)
Impairment charge on PP&E	9	(1,287)	0
Operating Profit		**10,776**	**9,273**
Net foreign exchange (loss)/gain		(694)	1,207
Finance costs	10	(2,596)	(6,287)
Other non-operating income	11	210	4,862
Profit before tax		**7,696**	**9,055**
Tax (expense)/income	12	(3,728)	2,683
Profit for the year from continuing operations		**3,968**	**11,738**
Discontinued operations			
Profit for the year from discontinued operations	26	14,881	19,883
Profit for the year		**18,849**	**31,621**

*: The comparative figures for the year-ended 31 December 2017 have been represented per the requirements of IFRS 5 as the Company has a discontinued operation.

Statement of Comprehensive Income

	Notes	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Profit for the year		**18,849**	**31,621**
Items that may be reclassified subsequently to profit or loss:			
Cash Flow Hedges:			
Gain/(Loss) arising during the year		0	(2,602)
Less: reclassification adjustments for gain/(loss) included in profit or loss	23	2,610	(8)
Gross income/(loss)		2,610	(2,610)
Income tax relating to items that may be reclassified subsequently to profit or loss	23	(1,044)	1,044
Other comprehensive income for the year net of tax		**1,566**	**(1,566)**
Total comprehensive income for the year		**20,415**	**30,056**

Statement of Financial Position

	Notes	As at 31 December 2018 USD 000	As at 31 December 2017 USD 000
Non-current assets			
Property, plant and equipment	13	4,494	27,465
Intangible assets	14	0	25
Investment in subsidiaries	15	535,157	445,157
Deferred tax asset	12	18,539	50,062
Other non-current assets	16	7,515	8,559
		565,705	531,268
Current assets			
Inventory		1,536	414
Derivative asset	20	0	53
Trade and other receivables	17	1,036	23,635
Cash and cash equivalents	18	56,713	8,306
		59,285	32,408
Assets classified as held for sale	26	37,348	0
Total assets		**662,338**	**563,676**
Current liabilities			
Trade and other payables	19	(9,406)	(6,634)
Derivative liabilities	20	0	(7,138)
		(9,406)	(13,772)
Liabilities directly associated with assets classified as held for sale	26	(24,002)	0
Non-current liabilities			
Decommissioning and other provisions	21	(132,199)	(154,703)
Derivative liabilities	20	0	(8,882)
		(132,199)	(163,585)
Total liabilities		**(165,606)**	**(177,357)**
Net assets		**496,732**	**386,318**
Capital and reserves			
Called up Share capital	22	659,240	569,240
Cash flow hedging reserve	23	0	(1,566)
Retained earnings		(162,508)	(181,357)
Total equity		**496,732**	**386,318**

The financial statements of Mitsui E&P UK Limited (registered number: 07652477) were approved by the Board of Directors and authorised for issue on 26 September 2019.

Naoki Ishii

Director

26 September 2019

Statement of Changes in Equity

		Share capital USD 000	Retained earnings USD 000	Cash Flow Hedging Reserve USD 000	Total USD 000
At 31 December 2016		524,240	(212,978)	0	311,262
Issue of share capital		45,000			45,000
Profit for the year			31,621		31,621
Other Comprehensive Income for the year				(1,566)	(1,566)
Total comprehensive income for the year			31,621	(1,566)	30,056
At 31 December 2017		569,240	(181,357)	(1,566)	386,318
At 31 December 2017		569,240	(181,357)	(1,566)	386,317
Issue of share capital	22	90,000			90,000
Profit for the year			18,849		18,849
Other Comprehensive Income for the year				1,566	1,566
Total comprehensive income for the year			18,849	1,566	20,415
At 31 December 2018		659,240	(162,508)	0	496,732

Statement of Cash Flows

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Operating activities		
Profit for the year	18,849	31,621
Income tax expense/(income) recognised in Profit or Loss	30,479	(12,026)
Finance costs recognised in profit or loss	2,936	6,860
Net foreign exchange loss/(gain)	694	(1,207)
Depreciation & amortisation of non-current assets	13,576	12,998
Impairment of non-current assets	1,287	0
Decrease in provisions	(738)	(5,650)
Net (gain)/loss on derivatives	(6,139)	3,458
Gain on measurement to FV	(17,859)	0
Movements in working capital:		
(Increase) in inventory	(2,111)	(221)
Decrease/(Increase) in trade and other receivables	18,153	(10,626)
Increase in trade and other payables	3,339	1,300
Cash generated from operations	62,467	26,508
Net interest received/(paid)	393	(651)
Net cash from operating activities	**62,860**	**25,856**
Investing activities		
Investment in Subsidiaries	(90,000)	(45,000)
Payments for property, plant and equipment	(14,037)	(4,331)
Disposal of Assets	0	21
Net cash used in investing activities	**(104,037)**	**(49,310)**
Financing activities		
Proceeds on issue of shares	90,000	45,000
Repayments of borrowings	0	(76,000)
Net cash from/(used in) financing activities	**90,000**	**(31,000)**
Increase/(decrease) in cash and cash equivalents	**48,823**	**(54,453)**
Cash and cash equivalents at the beginning of the period	8,306	62,482
Exchange difference on cash and cash equivalents	(416)	277
Cash and cash equivalents at the end of the period	**56,713**	**8,306**

Notes to the Financial Statements

1. General information

Mitsui E&P UK Limited (the Company) was incorporated in the United Kingdom on 31 May 2011 as a private company limited by shares, and is registered in England and Wales. The address of the Company's registered office is shown on page 3. Its ultimate parent company is Mitsui & Co. Ltd., incorporated in Japan.

The principal activities of the Company are the exploration and production of hydrocarbons in Europe and Sub-Saharan Africa.

These financial statements are presented in United States Dollars (USD) and rounded to the nearest USD thousand.

2. Adoption of new and revised Standards

IFRS 9 Financial Instruments

The Company applied IFRS 9 from 1 January 2017 as an early adopter. The Company elected not to restate comparatives on initial application of IFRS 9. The Company performed an assessment of the impact of adopting IFRS 9 based on the financial instruments and hedging relationships as at the date of initial application of IFRS 9.

Based on the Company's assessment, there was no impact on the classification and measurement of the following financial assets held by the Company: investments in subsidiaries, trade and other receivables.

There was no change in the accounting for any financial liabilities.

IFRS 15 Revenue from Contracts with Customers

In the current year, the Company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016), which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Company's financial statements are described below.

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction*

Contracts and the related Interpretations. The Company has adopted the modified retrospective approach without restatement of comparatives.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Company's accounting policies for its revenue streams are disclosed in note 4 below. Apart from providing more extensive disclosures for the Company's revenue transactions, the application of IFRS 15 has not had an impact on the financial position and/or financial performance of the Company.

The Company recognises revenue from the following major sources: sale of oil, gas and condensates extracted from our offshore fields. The impact of adopting IFRS 15 is not material to the financial statements.

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (the Board) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions	The amendment has no impact on the Company.
IAS 40 (amendments) Transfers of Investment Property	The amendment has no impact on the Company.
Annual Improvements to IFRS Standards 2014 - 2016 Cycle Amendments to IAS 28 Investments in Associates and Joint Ventures	The Company has adopted the amendments to IAS 28 included in the Annual Improvements to IFRS Standards 2014–2016 Cycle for the first time in the current year. The amendments clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.
IFRIC 22 Foreign Currency Transactions and Advance Consideration	IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue). The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation

requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and (in some cases) had not yet been adopted by the EU:

IFRS 16	Leases
IFRS 17	Insurance Contracts
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRS Standards 2015 - 2017 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRIC 23	Uncertainty over Income Tax Treatments

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below.

General impact of application of IFRS 16 Leases

IFRS 16, which was endorsed by the EU on 9 November 2017, provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it

becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Company will be 1 January 2019.

The Company will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- the right to obtain substantially all of the economic benefits from the use of an identified asset; and
- the right to direct the use of that asset.

The Company will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Company.

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Company will:

1. (a) recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
2. (b) recognise depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss; and
3. (c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2018, the Company does not have any non-cancellable operating lease commitments.

Finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Company will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis as at 31 December 2018 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed that the Company does not have finance leases.

Impact on Lessor Accounting

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

The Company is not a lessor in any operating or financial lease at the initial application date of 1 January 2019.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle *Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs*

The *Annual Improvements* include amendments to four Standards.

IAS 12 *Income Taxes*

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 *Borrowing Costs*

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 3 *Business Combinations*

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including re-measuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 *Joint Arrangements*

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not re-measure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

3. Significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

Basis of accounting

The financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting polices below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

These financial statements are for the year ended 31 December 2018. The comparative financial information included in the financial statements is for the year ended 31 December 2017.

The financial statements have been prepared on a going concern basis for the reasons outlined in the Directors' report.

The Company is able to take advantage of the exemption clauses within the Companies Act 2006 s401 and therefore has not prepared consolidated accounts in the current financial period.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Exploration, development and production assets

Exploration, appraisal and development costs are accounted for under the successful efforts policy and in accordance with IFRS 6, as noted below.

Pre-licence costs and geological and geophysical costs that do not directly relate to an exploratory well are written off as incurred. The costs directly associated with exploration drilling are capitalised as an intangible asset until the drilling of the well is completed and the results have been evaluated. If commercial quantities of hydrocarbons are discovered, the relevant expenditure is transferred to property, plant and equipment when development is sanctioned.

All field development costs are capitalised as property, plant and equipment. Property, plant and equipment related to production activities are depreciated in accordance with the Company's depreciation, depletion and amortisation accounting policy.

Depreciation, depletion and amortisation

All capitalised expenditure carried within each field is depreciated from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of reserves at the end of the period plus the production in the period on a field-by-field basis. Mineral rights are amortised using proved developed and undeveloped reserves, whereas field development costs are depreciated using proved developed reserves only. Changes in the estimates of reserves or future field development costs are dealt with prospectively.

Where there has been a change in economic conditions that indicates a possible impairment, the recoverability of the carrying amount relating to that field is assessed by comparison with the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs. Any impairment identified is charged to the income statement as additional depreciation, depletion and amortisation. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement, net of any amortisation that would have been charged since the impairment.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost, less accumulated depreciation and any recognised impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, initial estimate of the decommissioning obligation, and where applicable financing costs. The property, plant and equipment other than production assets are depreciated over their estimated useful life on a straight-line basis.

The following estimated useful lives are used in the calculation of depreciation:

- Buildings and structures 8-15 years; and
- Office furniture and equipment 2.5 -25 years

Residual values, useful lives and methods of depreciation are reviewed at each reporting period, and adjusted prospectively if appropriate.

Carrying value of property, plant and equipment

The Company performs impairment tests on the property, plant and equipment assets at least annually with reference to indicators in IAS 36, which involve judgements and estimates about methodology and key assumptions.

This methodological note should be read in conjunction with notes 10 and 13 where figures about prior year Impairment and PP&E respectively are disclosed.

Methodology

The recoverable amount of oil or gas fields, which have finite lives, can be approximated using production profiles and proved/probable reserves data produced by reservoir engineers and energy pricing forecasts. This is the basis for our valuation of the Britannia and Alba fields.

In our recoverable amount valuations, we have included all the following cash flows relating to each CGU:

- ► Revenues from field operations;
- ► Expenses from field operations;
- ► PRT, corporation tax and supplementary corporation tax;
- ► Decommissioning expenditure;
- ► Cash inflows from crystallisation of the underlifting position at 31 December 2018; and
- ► Benefit of tax losses attributed to the CGU at 31 December 2018.

Key assumptions

Key assumptions in the impairment models relate to:

- ► Oil prices;
- ► Gas prices;
- ► Inflation estimates;
- ► Exchange rates; and
- ► Discount rate.

We have briefly summarised the key parameters used in our analysis below.

Pricing assumptions

We based our view on short and long-term Brent oil and NBP gas prices, using historic and projected oil and gas price data, together with market research from brokers, oil companies and other recognised bodies as at the balance sheet date.

We consider the market forward curves the best indicator of price in the short term. In the medium and long term, illiquidity and other pricing factors limit the appropriateness

of futures prices. As such, we have concluded an estimated price based on in-house expert industry knowledge and the other sources above.

Reserves estimates

Reserves are estimated on a proved and probable basis using standard recognised evaluation techniques. The estimate is reviewed externally at least annually by independent consultants.

Capex assumptions

The Capex included in our impairment calculations is predominantly maintenance capex and is not as such enhancement capex and therefore should be included in any VIU calculation.

Inflation assumptions

Our impairment calculations are on a real basis. Where future pricing and broker estimates were forecast on a nominal basis, we have converted it to real values using UK CPI assumptions sourced from Oxford Economics as at December 2018 in line with the prior year approach.

Exchange rate assumptions

We applied the actual USD/GBP exchange rate from the European Central Bank as at 31 December 2018 and assumed that the rate remains constant for the forecast period.

Discount rate

We have considered a real Weighted Average Cost of Capital (WACC) range of between 5.5% and 6.5% (equal to a nominal rounded WACC range of between 7.5% to 8.5%) to value the Britannia and Alba reserves, based on a rounded midpoint cost of equity of 8.5% and a post-tax cost of debt of 3.6%.

We based our recoverable amount calculations on post-tax cash flows and a post-tax discount rate. Having considered the WACC together with the risks specific to the Britannia and Alba fields, we used a real post-tax discount rate of 6% (2017: 7%).

Implied pre-tax discount rates are as follows:

Alba	8.3%
Britannia	8.3%

The pre-tax discount rate was calculated through iteration – that is, by first running discounted cash flow calculations using post-tax cash flows and a post-tax discount rate,

and then by iteration determining what the pre-tax discount rate would need to be to cause value in use determined using pre-tax cash flows and a pre-tax discount rate to equal the value in use determined by the post-tax discounted cash flow calculation.

Decommissioning costs

The costs of decommissioning are reviewed annually and are estimated by reference to operators, where applicable, and internal engineers. Provision for environmental clean-up and remediation costs is based on current legal and constructive requirements, technology and price levels.

Sensitivity analysis

We have performed sensitivity analyses on the VIU of Alba and Britannia based on two main assumptions:

- Oil price; and
- Discount rate.

A movement of $10/bbl of the Brent oil reference price used in the valuation, across all years, would have an impact of approximately $40m on the combined recoverable amount of both fields.

A movement of 1% of the post-tax discount rate used in the valuation would have an impact of approximately $4m on the combined recoverable amount of both fields.

Inventories

Inventories, other than oil product, are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Net realisable value is determined by reference to prices existing at the balance sheet date.

Oil product is stated at net realisable value and changes in net realisable value are recognised in the income statement.

Financial Instruments

Financial assets

Under IFRS 9 the classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. There are three principal classification categories for financial assets that are debt instruments: (i) amortised cost, (ii) fair value through other comprehensive income (FVTOCI) and (iii) fair value through profit or loss (FVTPL).

Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with original maturities of three months or less at the date acquired. The carrying amounts of cash in hand and cash at bank approximate their fair values.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables The impairment model under IFRS 9 reflects *expected* credit losses, as opposed to only *incurred* credit losses under IAS 39. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date.

The new impairment model applies to the Company's financial assets that are debt instruments measured at amortised costs or FVTOCI as well as the Company's finance lease receivables, contract assets and issued financial guarantee contracts.

The Company applies the simplified approach to recognise lifetime expected credit losses for its trade receivables, finance lease receivables and contracts assets as required or permitted by IFRS 9.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL. The Group chooses not to disclose the effective interest rate for debt instruments that are classified as at fair value through profit or loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate and commodity price risk, including foreign exchange forward contracts and commodity swaps. Further details of derivative financial instruments are disclosed in note 20.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Own use contracts with non-closely related embedded derivatives are accounted for as if they were derivative instruments and therefore measured at FVTPL.

Hedge accounting

The Company designates certain hedging instruments, which include derivatives in respect of foreign currency risk and commodity price risk, as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management

objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 23 sets out details of the fair values of the derivative instruments used for hedging purposes.

Movements in the hedging reserve in equity are detailed in note 23.

Cash flow hedges

The effective portion of changes in the fair value of foreign currency forward contracts and commodity swaps that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

(

Provisions, Contingent Liabilities and Contingent Assets

Decommissioning costs are provided at the present value of the expected future cost, against the carrying amount of that particular asset. The cash flows are discounted at the risk free rate, while the provision reflects the uncertainty in the cost estimates by using a probabilistic approach. The unwinding of the discount is expensed as incurred and recognised in the income statement as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes resulting from adjustments to the cost estimate, from the foreign exchange conversion, or from the discount rate applied are added to or deducted from the cost of the asset. If the carrying amount of the asset is nil, any further decrease of the liability is released through the profit and loss statement.

In selecting an appropriate risk-free rate, we normally have regard to the yield to maturity on long-term government bonds. In this context, we have used the yield on 10 year bonds to approximate the maturity profile of Alba and Britannia.
As such, we have concluded on an adjusted risk free rate range of 2.0% to 2.5%. This is based upon the spot yield of UK Government 10 year bonds as at 31 December 2018 plus a Quantitative Easing premium. The sensitivity of the Company's total decommissioning provision to a change in the real discount rate of 1% is approximately USD 20 million at the reporting date.

Revenue

Sales revenue represents the sales value, net of VAT and overriding royalties, of the Company's share in the year. Revenue is recognised when goods are delivered and the title has passed.

Over/underlifting

Lifting or offtake arrangements for oil and other products produced in certain of the Company's jointly owned operations are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative production less stock is 'underlifting' or 'overlifting'. Underlifting and overlifting are valued at market value and included within debtors and creditors respectively. Movements during an accounting period are adjusted through cost of sales such that gross profit is recognised on an entitlements basis.

The effects of changes in foreign exchange rates

The Company uses US Dollar (USD) as its functional and presentation currency. Transactions denominated in foreign currencies are translated into USD at the exchange rates at the dates of the transactions. Monetary assets and liabilities

denominated in foreign currencies are translated at the closing rate at the date of the statement of financial position. The translation differences are recognised as unrealised exchange gains and losses in the income statement.

Taxation

Current and deferred tax, including UK corporation tax and overseas corporation tax, are provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred corporation tax is recognised on all temporary differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying temporary differences can be deducted. Deferred tax is measured on a non-discounted basis.

Deferred tax is provided on temporary differences arising on acquisitions that are categorised as Business Combinations. Deferred tax is recognised at acquisition as part of the assessment of the fair value of assets and liabilities acquired. Any deferred tax is charged or credited in the income statement as the underlying temporary difference is reversed.

Petroleum Revenue Tax (PRT) is treated as an income tax and deferred PRT is accounted for under the temporary difference method.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

The Company applied IFRS 5 (Non-current assets held for sale and discontinued operations) as of the 31 December 2018 reporting date, in relation to the divestment of Britannia. The company considered that, as of the reporting date, the sale was highly likely to complete within 12 months, which in fact occurred before the approval of the financial statements on 4 July 2018.

There are no other critical judgements, apart from those involving estimates (see below) that management has made in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

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

Decommissioning liability

There is uncertainty around the cost of decommissioning as cost estimates can vary in response to many factors, including from changes to market rates for goods and services, to the relevant legal requirements, the emergence of new technology or experience at other assets. The expected timing, work scope, amount of expenditure and risk weighting may also change. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. The estimated decommissioning costs are reviewed annually by an internal expert and the results of this review are then assessed alongside estimates from operators. Provision for environmental clean-up and remediation costs is based on current legal and contractual requirements, technology and price levels. Another key source of estimation uncertainty is the risk-free rate used for discounting the provision to present value. We have used the yield on 10 year bonds to approximate the maturity profile of Alba and Britannia.

As such, we have concluded on an adjusted risk free rate range of 2.0% to 2.5%. This is based upon the spot yield of UK Government 10 year bonds as at 31 December 2018 plus a Quantitative Easing premium. The sensitivity of the Company's total decommissioning provision to a change in the real discount rate of 1% is approximately USD 20 million at the reporting date.

Recoverability of deferred tax assets

Deferred tax assets are recognised for tax losses and expected decommissioning costs to the extent that it is probable that taxable profits will be available against which the losses and expected costs can be utilised.

In determining the amount of deferred tax assets that may be recognised, the Company relies on the same assumptions and estimates of profitability used to support the carrying value of assets for Impairment testing under IAS 36 (as described above).

A judgement is then made as to whether it is more likely than not for the Company to be able to recover the deferred tax assets in accordance with IAS 12.

4. Revenue

Revenue from continuing operations recognised in the income statement consists of the following:

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Revenue from sale of oil and gas	55,472	21,070
Total Revenue	55,472	21,070

Revenue in 2018 have increased due to the sale of two cargos of Alba crude oil, compared to only one lifting in 2017.

The company's revenues from continuing operations consist of the sale of Alba crude oil to the Group's trading arm (see note 23 on Related Parties), generally on delivery ex ship terms. Payment terms are generally 30 days from the bill of lading date.

5. Cost of Sales

Cost of sales includes the following:

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Cost of production	(16,952)	(17,632)
Depreciation, depletion and amortisation	(3,454)	(2,329)
(Over lifting)/ under lifting	(18,568)	12,960
Other costs	(1,191)	(1,047)
Total cost of sales	(40,165)	(8,048)

The main change relates to under/over lifting and is due to the fact that the Company had two liftings of Alba crude in 2018 and only one in 2017.

6. General and administrative expenses

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Staff costs	(1,697)	(2,146)
Allowance for doubtful debt	(114)	57
Other Costs	(1,920)	(2,238)
Services rendered to related parties	487	578
Total general and administrative expenses	(3,244)	(3,749)

The average number of employees (including executive directors) during the year was 9 (2017: 12).

Their aggregate remuneration comprised:

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Wages and salaries	1,487	1,932
Social security costs	127	130
Other pension costs	83	84
Total Staff Costs	1,697	2,146

Staff costs decreased due to lower headcount.

The company has a defined contribution retirement benefit scheme for all qualifying employees, through an affiliate within the Group. The scheme is a Group Personal Pension (GPP). The assets of the schemes are held separately from those of the company in funds under the management of a pension provider.

The total cost charged to income of USD 83,000 (2017: USD 84,000) represents contributions payable to these schemes by the company at rates specified in the rules of the schemes. As at 31 December 2018, no contributions due in respect of the current reporting period had not been paid over to the schemes (2017: nil).

7. Directors' remuneration

The aggregate remuneration of the directors for the years 2018 and 2017 is as follows:

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Short-term employee benefits	300	532
Post-employment benefits	7	13
Other long-term benefits	0	0
Termination benefits	0	0
Share-based payment	0	0
Total remuneration	307	545
Highest paid Director	215	387

The average number of directors paid by the Company during the year was 1 (2017: 2).

8. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Fees payable to the company's auditor and their associates for the audit of the company's annual accounts	92	96
Fees payable to the company's auditor and their associates for other services to the group	68	79
	160	175

In 2018, amounts payable to Deloitte LLP by the Company in respect of non-audit services were $nil (2017: $nil).

9. Impairment charge

There is an impairment charge in the current year for USD 1,287,000 (2017: nil) relating to the Alba field and in particular to the remaining cost, after depreciation, of one well drilled during the year, which was suspended after severe technical difficulties.

The fair value of Britannia was assessed in accordance with IFRS 5 *Asset held for sale,* as shown in note 26.

The Recoverable Amount of the Alba individual CGUs was valued using the higher of the fair value less costs to sell (FVLCS) and value in use (VIU) methods and a mid-point real discount rate of 6%. The method which resulted in a higher amount, and thus is the Recoverable Amount, was the VIU method, the results of which are shown in the table below. The occurrence of any future impairment, or impairment reversal, in the carrying value of these assets is sensitive to any significant changes in the key assumptions used. Any asset for which an impairment loss has been recognised in prior periods is assessed to see whether there is any sustainable indicator that an impairment loss recognised in prior periods may no longer exist or may have decreased. An impairment loss is reversed only if there has been a change in the estimates used to determine the asset's initial recoverable amount, and is not reversed just because of the passage of time. There have not been substantial revisions in the long term economic and market assumptions therefore the Company concluded Impairment reversal is not required at year end 2018. In making this assessment, the Company notes that there are a wide range of oil, gas, discount rate and other assumptions used within the assessment with a range of recoverable amounts which support the Company's assessment. Further detail about impairment assumptions and methodology is provided in note 3.

CGU	Recoverable amount 31 December 2018 USD 000	Carrying amount 31 December 2018 USD 000	Headroom 31 December 2018 USD 000
Alba Field	37,974	0	37,974
Britannia Field	80,484	29,336	51,148
	118,458	29,336	89,122

10. Finance costs

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Interest on bank deposits/loans	393	(651)
Accretion of decommissioning liability	(2,989)	(5,636)
Total finance costs	(2,596)	(6,287)

The Company does not have any interest charges during the year, having fully re-paid the loan in 2018. Interest income is earned on cash and term deposits within the Group's cash management system. The accretion on decommissioning has decreased mainly due to a lower discount rate used.

11. Other non-operating income

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Movement in decommissioning provision	738	8,203
Others	(528)	(3,341)
Total Other non-operating income	210	4,862

The release of the decommissioning provision through the profit or loss statement in both years relates to Alba and is mostly due to the foreign exchange revaluation performed quarterly. The initial recognition of a provision for misallocation of petroleum products explains the higher charge in Others last year.

12. Taxation

(a) Tax charged in the income statement

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Current income tax:		
UK petroleum revenue tax - current year	0	0
UK petroleum revenue tax - prior year	0	0
Total current income tax credit/(charge)	0	0

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Deferred income tax:		
UK petroleum revenue tax	0	(1,450)
UK corporation tax on continuing operations	(3,728)	4,133
Total deferred tax	(3,728)	2,683
Tax (charge) / credit in the income statement	(3,728)	2,683

(b) Reconciliation of the total tax result in the income statement

The tax result in the income statement for the year is higher than the standard rate of corporation tax in the UK of 40%. The differences are reconciled below:

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Profit before tax from continuing operations	7,695	9,055
Expected tax (charge) / credit at UK ring fence rate of corporation tax of 40% (2017: 40%)	(3,078)	(3,622)
Tax effect of non-deductible expenses	(309)	(131)
Impairment not deductible	515	0
Petroleum revenue tax	0	870
Ring fence expenditure supplement	0	3,331
Deferred tax not recognised	(856)	3,685
Total tax (charge)/credit on continuing operations	(3,728)	4,133

(c) Deferred tax

The deferred tax included in the statement of financial position is as follows:

	Accelerated tax depreciation USD 000	Tax losses USD 000	Decommissioning USD 000	Others USD 000	PRT USD 000	Total USD 000
At 1 January 2017	(12,069)	36,386	11,225	0	1,450	36,992
(Charge)/credit to income statement	1,537	(886)	12,825	0	(1,450)	12,026
Credit to Other Comprehensive Income				1,044		1,044
At 31 December 2017	(10,532)	35,500	24,050	1,044	0	50,062
(Charge)/credit to income statement	(3,000)	(11,504)	(15,975)	0		(30,479)
Charge to Other Comprehensive Income				(1,044)		(1,044)
At 31 December 2018	(13,532)	23,996	8,075	0	0	18,538

	Accelerated tax depreciation USD 000	Tax losses USD 000	Decommissioning USD 000	Others USD 000	PRT USD 000	Total USD 000
Deferred tax liabilities	(13,532)	0	0	0	0	(13,532)
Deferred tax assets	0	23,996	8,075	0	0	32,071
Total	(13,532)	23,996	8,075	0	0	18,539

Deferred tax balances have been measured at the rate of corporation tax substantively enacted at the balance sheet date of 40% (2017: 40%). At 31 December 2018, the Company's unrecognised deferred tax asset was $48.7 million (2017: $37.2m), representing future decommissioning liabilities for which there is no certainty of tax recovery.

13. Property, plant and equipment

	Field development costs USD 000	Mineral rights USD 000	Work in progress USD 000	Office Equipment USD 000	Total USD 000
Cost:					
At 1 January 2017	181,019	293,408	92	149	474,668
Transfer/Revisions	0	6,835	0	0	6,835
Additions/(Disposals)	4,247		1,040	0	5,287
At 31 December 2017	185,266	300,243	1,132	149	486,790
Transfer/Revisions	(5,198)	(5,215)	0	0	(10,413)
Additions/(Disposals)	10,394	0	3,362	0	13,756
Reclassified as held for sale	(90,429)	(165,521)	0	0	(255,950)
At 31 December 2018	100,033	129,507	4,494	149	234,183
Depreciation and impairment:					
At 1 January 2017	(165,164)	(279,089)	0	(139)	(444,392)
Depreciation for the period	(936)	(1,394)	0	(10)	(2,340)
Reclassified as held for sale	(7,388)	(5,205)	0	0	(12,593)
At 31 December 2017	(173,488)	(285,688)	0	(149)	(459,326)
Depreciation for the period	(2,887)	(567)	0	0	(3,454)
Impairment	(1,287)	0	0	0	(1,287)
Reclassified as held for sale	77,629	156,749	0	0	234,378
At 31 December 2018	(100,033)	(129,507)	0	(149)	(229,688)
Net book value at 31 December 2017	11,777	14,555	1,132	0	27,465
Net book value at 31 December 2018	0	0	4,494	0	4,494

Transfers relate to changes in estimates and forex revaluation of the Asset Retirement Cost for Alba and Britannia.

Work in progress additions relate to Rowallan well costs in 22/19c, capitalised according to the Successful Effort Method. The drilling started on 30 December 2018 and reached the prospective reservoir section at the end of March 2019. The well was declared unsuccessful shortly after and written off in 2019 financial statements.

14. Intangible assets

	Licence Software USD 000
Cost:	
At 1 January 2017	434
Additions/(disposals)	(63)
At 31 December 2017	371
Additions/(disposals)	0
At 31 December 2018	371
Amortisation and impairment:	
At 1 January 2017	(319)
Amortisation	(27)
At 31 December 2017	(346)
Amortisation	(25)
At 31 December 2018	(371)
Net book value at 31 December 2017	25
Net book value at 31 December 2018	0

All the software capitalised by the Company has been fully amortised by the end of 2018.

15. Investment in Subsidiaries

Details of the Company's investments at the end of the reporting period are as follows:

Name of subsidiary	Principal activity	Ownership	Registered address
Mitsui E&P Italia A S.r.l	Exploration and production of oil and gas in Italy	100% of ordinary shares	Piazza del Liberty, n. 2 20121, Milano, Italy
Mitsui E&P Italia B S.r.l	Exploration and production of oil and gas in Italy	Indirectly holding 100% of ordinary shares	Piazza del Liberty, n. 2 20121, Milano, Italy

	Mitsui E&P Italia A S.r.l USD 000
Cost:	
At 1 January 2017	400,157
Additions	45,000
At 31 December 2017	445,157
Additions	90,000
At 31 December 2018	535,157

During the year, USD 90,000,000 have been contributed to the subsidiary's reserve account in order to sustain the company's obligations until the production from Tempa Rossa will start. The contribution has been entirely funded through share capital increase of the Company by the existing shareholders (see note 22).

The company accounts for investments in its subsidiaries at cost, in accordance with IAS 27.

16. Other non-current assets

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Loans to employees	4	0
Other receivables	7,511	8,559
	7,515	8,559

Other receivables mainly relate to the balance of petroleum products under-lifting. They are measured at present value, discounted for the time value of money and the credit risk of the debtors.

17. Trade and other receivables

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Trade receivables	97	15,806
Allowance for doubtful debts	(182)	(73)
	(85)	15,733
Prepayments	1,074	1,928
Accruals	0	2,224
Other receivables	47	3,750
	1,036	23,635

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Trade receivables mainly relate to petroleum products under-lifting and have decreased mainly due to change in the timing of lifting.

The average credit period taken on sales of goods is 14 days. No interest is charged on receivables.

Before accepting any new customer, the Company uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a quarter. The allowance for doubtful debts is calculated based on those credit scores every quarter in arrears. The Company does not hold any collateral or other credit enhancements over any of its trade receivables nor does it have a legal right of offset against any amounts owed by the Company to the counterparty.

The Company has no trade receivables that are past due date at the reporting date.

In determining the recoverability of a trade receivable the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

18. Cash and cash equivalents

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Cash at bank and in hand	56,713	8,306
	56,713	8,306

The increase in cash comes solely from revenue from Alba and Britannia.

19. Trade and other payables

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Trade payables	(5,061)	(3,250)
Accruals	(2,072)	(2,355)
Amounts owed to Parent undertakings	(301)	(546)
Amounts owed to Affiliates	(127)	(95)
Other payables	(1,844)	(388)
	(9,405)	(6,634)

Trade and other payables are slightly higher than prior year due to the working capital connected to the drilling operations of Rowallan. Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 23 days.

The directors consider that the carrying amount of trade payables approximates to their fair value.

20. Borrowings and other financial instruments

Interest rate risk

Interest rate risk represents the sensitivity to changes in interest rates. Following the repayment of the loan, the Company does not have significant interest rate risk.

Liquidity risk

The Company finances its operations through a combination of operating cash flow and overdraft facilities from a dedicated affiliate.

Liquidity risk is the risk that the Company will be unable to meet its obligations as they fall due owing to insufficient financial resources. The Company manages liquidity risk by maintaining adequate reserves, overdraft facilities and continually monitoring actual and forecast cash flows.

The maturity profile of the Company's recognised financial liabilities is given in the table below.

Capital risk management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the periods ended 31 December 2018.

The Company's capital structure at 31 December 2018 consists only of equity attributable to the equity holders of the parent, comprising share capital, reserves and retained earnings.

The Company is not subject to any 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 bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 2.

Categories of financial instruments

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Financial assets		
Cash and cash equivalents	56,713	8,306
Loan and receivables		
Trade and other receivables	1,036	23,635
FVTPL financial assets		
Other financial assets (derivatives)	0	53
Total	57,749	31,994
Financial liabilities		
Borrowings and payables		
Borrowings	0	0
Trade and other payables	(9,405)	(6,634)
FVTPL financial liabilities		
Other financial liabilities (derivatives)	0	(5,891)
Total	(9,405)	(12,525)

The fair value of the financial assets and liabilities are estimated at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Derivative financial instruments

	Current		Non-current	
	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Derivative Financial Assets				
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Foreign currency forward contracts	0	53	0	0
Derivative Financial Liabilities				
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Commodity swaps	0	(3,228)	0	0
Held for trading derivatives that are not designated in hedge accounting relationships:				
Commodity Swaps	0	(2,663)	0	0
Gas Contracts	0	(1,247)	0	(8,882)
	0	(7,138)	0	(8,882)

Financial risk management objectives

The Company monitors and manages the financial risks relating to the operations through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and price risk), credit risk and liquidity.

The Company seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Company reports monthly to the Group's risk management function, which monitors risks and policies implemented to mitigate risk exposures.

Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and commodity price (see below). The Company enters into a variety of derivative financial instruments to manage its exposure foreign currency risk and commodity price, including:

- forward foreign exchange contracts to hedge the exchange rate risk (see below);
- commodity swaps to mitigate the commodity price risk (see below).

There has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

Foreign currency risk

Foreign currency risk represents the risk to the Company of changes to the currency rate relative to the US Dollar.

The Company's functional and presentational currency is denominated in US Dollars. As a result, the value of the Company's non-dollar revenues and costs can be affected significantly by movements in exchange rates in general.

Management has a policy whereby the Company will hedge any risk related to foreign currency exposure with forward exchange contracts.

The types of financial instrument used for trading purposes must be approved in advance by management, which also sets down limits both in terms of capital invested and market price risk taken on for this trading activity.

There are no outstanding material amounts of financial assets and liabilities in foreign currencies at 31 December 2018.

Commodity Price Risk

The Company does not have derivative instruments whose fair value is dependent on the underlying commodity prices at the end of the financial year. Commodity price risk is the potential adverse change in income arising from movements and volatility in commodity prices. The Company is in the business of selling crude oil and gas for which there is an active market. An adverse change in the market price of crude oil and gas would result in an adverse impact to the performance of the Company.

Gas contracts

There are several long term gas sale agreements which were initially signed in 1997 and relate to the Britannia asset. All of them have been moved to liabilities directly associated with assets classified as held for sale at the reporting date (note 26).

The other financial assets/liabilities are derivatives that are measured at fair value. They are classified as Level 2 fair value measurements, as defined by IFRS 7, being those derived from inputs other than quoted prices that are observable for the assets or liability.

There were no transfers between categories throughout the periods presented. The carrying value of all other financial assets and liabilities closely approximate their fair value.

21. Decommissioning and other provisions

	Decomissioning USD 000	Other Provisions USD 000	Total USD 000
At 1 January 2017	(149,286)	0	(149,286)
Accretion	(6,209)	0	(6,209)
Utilisation of Decommissioning provision	14	0	14
Forex revaluation	(14,812)	0	(14,812)
Change in estimates	18,142	0	18,142
Misallocation Provision		(2,552)	(2,552)
At 31 December 2017	(152,151)	(2,552)	(154,703)
Accretion	(3,778)	0	(3,778)
Utilisation of Decommissioning provision	0	0	0
Forex revaluation	8,200	0	8,200
Change in estimates	3,398	0	3,398
Reclassified as liability associated with asset held for sale	14,684	0	14,684
At 31 December 2018	(129,646)	(2,552)	(132,199)

The provisions balance primarily relates to Mitsui's contractual and legal obligations for the decommissioning and environmental restoration of the Alba and Britannia fields. Management currently anticipate decommissioning of the fields to begin in 2026. However, the decommissioning start date may change depending on the dynamics of the market and the performance of the fields. Please refer to note 3 for a discussion of the key sources of estimation uncertainty associated with the decommissioning provision.

Change in estimates of the decommissioning provision in the year relate to updates in the assumptions regarding the discount rate. Other provisions relate to a potential misallocation of condensates produced by Britannia.

22. Called up share capital

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Called up, allotted and fully paid 659,240 ordinary shares of USD 1,000 each (31 December 2017: 569,240 ordinary shares of USD 1,000 each)	659,240	569,240
	659,240	569,240

During the year, the Company issued additional 90,000 ordinary shares of USD 1,000 each. The purpose of obtaining additional funds from shareholders was to increase our investment in the wholly owned subsidiary Mitsui E&P Italia A S.r.l.

23. Cash flow hedging reserves

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Balance at 1 January 2018	(1,566)	0
Gain/(loss) recognised on cash flow hedges:		
Foreign currency forward contracts	0	62
Commodity swaps	0	(2,663)
Income tax related to gains/(losses) recognised in other comprehensive income:		
Foreign currency forward contracts	0	(25)
Commodity swaps	0	1,065
Reclassification to profit or loss:		
Foreign currency forward contracts	(54)	(8)
Commodity swaps	2,663	0
Income tax related to gains/(losses) reclassified to profit or loss:		
Foreign currency forward contracts	22	3
Commodity swaps	(1,065)	0
Balance at 31 December 2018	0	(1,566)

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Gains and losses reclassified from the hedging and translation reserves into profit or loss during the year are included in the following line items in the income statement:

- Foreign currency forward contracts: cost of sales;
- Commodity swaps: revenue;
- Income tax: tax.

24. Parent and controlling party

The Company's ultimate parent undertaking and parent of the largest and smallest group in which the Company's results are consolidated is Mitsui & Co., Ltd, a company incorporated in Japan.

Copies of the group financial statements are available from:

Mitsui & Co., Ltd.

Investor Relations Div.

Nippon Life Marunouchi Garden Tower

1-3 Marunouchi 1-Chome

Chiyoda-ku

Tokyo 100-8631, Japan

25. Related parties transactions

Please refer to Note 7 for key management personnel's remuneration.

During the year, the Company entered into the following trading transactions with related parties.

Statement of Profit or Loss

Statement of profit or Loss Related parties	Sale of goods USD 000	Sale of services USD 000	Purchase of services USD 000	Financial transactions USD 000
Parent undertaking				
At 31 December 2017	0	0	(834)	0
At 31 December 2018	0	0	(673)	0
Affiliates				
At 31 December 2017	21,070	578	(290)	(652)
At 31 December 2018	55,472	465	(335)	393

Statement of financial position

Related parties	Amounts owed by related parties USD 000	Amounts owed to related parties USD 000
Parent undertaking		
At 31 December 2017	12	546
At 31 December 2018	0	301
Affiliates		
At 31 December 2017	8,381	97
At 31 December 2018	56,726	125
Loans to related parties		
At 31 December 2017	5	0
At 31 December 2018	4	0

Mitsui E&P UK Limited regularly makes arrangements with Mitsui & Co., Energy Trading Singapore PTE Ltd, an affiliate, for the commercialisation of Alba oil production.

Sales of services relate mainly to services rendered to subsidiaries of the Company.

Purchase of services relates to services supplied by affiliate companies Mitsui & Co., Europe Plc. and Mitsui Oil Exploration Co. Ltd.

26. Asset held for sale

On 12 September 2018, the Company executed a Sale and Purchase Agreement to divest the unitised interest in Britannia field to Zennor North Sea Limited. These operations, which are expected to be sold within 12 months, have been classified as a disposal group held for sale and presented separately in the balance sheet. The proceeds of disposal are expected to exceed the book value of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations as held for sale. On the contrary, the past impairment on the asset has been reversed, in accordance with IFRS 5, following the comparison to the fair value of the disposal group.

The results of the discontinued operations, which have been included in the income statement, were as follows:

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Revenue	41,701	30,775
Expenses	(16,497)	(20,235)
Profit before tax	25,204	10,540
Attributable tax (expense)/income	(20,180)	9,343
Gain on the measurement to fair value less cost to sell	16,428	0
Attributable tax expense	(6,571)	0
Net profit attributable to discontinued operations	14,881	19,883

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	As at 31 December 2018 USD 000
Property, plant and equipment	29,336
Other non-current assets	1,607
Inventories	990
Trade and other Receivables	5,415
Total assets classified as held for sale	37,348
Trade and other payables	(2,100)
Derivative liabilities	(7,218)
Decomissioning liability	(14,684)
Total liabilities associated with assets classified as held for sale	(24,002)
Net assets held for sale	13,346

Statement of cash flows for discontinued operations

	For the year ended 31 December 2018 USD 000	For the year ended 31 December 2017 USD 000
Operating activities		
Profit for the year	14,881	19,883
Income tax expense/(income) recognised in Profit or Loss	26,752	(9,343)
Depreciation & amortisation of non-current assets	10,097	10,632
Impairment of non-current assets	(17,859)	0
Net (gain)/loss on derivatives	(2,911)	230
Movements in working capital:		
(Increase) in inventory	(336)	(276)
Decrease/(Increase) in trade and other receivables	28	1,430
Increase in trade and other payables	400	155
Cash generated from operations	31,052	22,711
Net cash from operating activities	**31,052**	**22,711**
Investing activities		
Payments for property, plant and equipment	(1,023)	(1,351)
Net cash used in investing activities	**(1,023)**	**(1,351)**
Increase/(decrease) in cash and cash equivalents	**30,028**	**21,360**

27. Events after the reporting period

On 31 March 2019, the Company declared the Rowallan well unsuccessful, after the drilling operations reached the target depth and found no significant hydrocarbons.

Completion of the sale of the Company's interest in Britannia occurred on 4 July 2019. The asset was classified as a disposal group held for sale under IFRS 5 at the reporting date.