

**NOVUS UK (MALACCA STRAIT) LIMITED**

**DIRECTORS' AND AUDITOR'S REPORTS AND ACCOUNTS**

**31 DECEMBER 1996**

**Registered Number 509336**



# NOVUS UK (MALACCA STRAIT) LIMITED

## Directors' Report

The Directors present their annual report and the audited accounts for the year ended 31 December 1996.

### **Business Review**

The principal activities of the Company remain unchanged and continue to comprise the exploration and production of hydrocarbons in areas of Indonesia granted by the Malacca Strait Production Sharing Contract.

### **Production**

The Malacca Strait PSC has been rejuvenated. The introduction in late 1995 of a new operator—Kondur Petroleum, a subsidiary of the Indonesian Bakrie Group—has meant a resumption of exploration, appraisal and development drilling programmes, the first such activity since 1993. Kondur have also been working the existing 15 fields to enhance production performance. Net production to the Company for 1996 was 2,728 bopd.

### **Results**

The results for the year are summarized below:

	<b>1996</b> <b>US\$'000</b>	<b>1995</b> <b>US\$'000</b>
<b>Turnover</b>	19,440	20,374
Profit on ordinary activities before taxation	2,393	1,895
Tax on profit on ordinary activities	(1,511)	(1,270)
<b>Profit for the year</b>	<b>882</b>	<b>625</b>

### **Dividends**

There were no dividends paid during the year.

The Directors, on 27 November 1996, declared an interim dividend of US\$ 158 per share amounting to US\$ 790,000 to be paid to Novus UK (Indonesian Holdings) Limited no later than 31 January 1997.

## NOVUS UK (MALACCA STRAIT) LIMITED

### Directors' Report (continued)

#### **Fixed Assets**

Changes in tangible fixed assets are shown in Note 9 to the accounts.

#### **Likely Future Developments**

There are no additional immediate developments that are likely to have a material impact on the operations of the Company although the Company is continually reviewing opportunities for growth and development. In the opinion of the Directors, further information on the evaluations may prejudice the interests of the Company if included in this report.

#### **Directors and their Interests**

The Directors who served during the year were:

Jim T. Hornabrook	appointed	18 May 1995
Keith J. Goodwin	appointed	3 August 1995
Robert C. Williams	appointed	18 May 1995

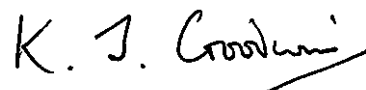
None of the Directors had any interest in the share capital of the Company at 31 December 1996 or at the date of signing this report.

Messrs. Williams and Hornabrook are directors of Novus Petroleum Limited, the ultimate parent company, and accordingly their and their families' interests in the ordinary shares of that company are disclosed in its accounts.

#### **Elective Regime**

In accordance with the resolution passed on 13 August 1996 the Company has dispensed with the requirement to hold general meetings after 1996, or to lay accounts before the Company in general meeting after 1995 pursuant to Sections 366A and 252 of the Companies Act 1985 (as amended) respectively and having satisfied the provisions of Section 386 of the Companies Act (as amended) a resolution to exempt the Company from the obligation to appoint auditors annually as otherwise required by Section 384 of the Act was also passed on that date.

By order of the Board



K. J. Goodwin  
Secretary  
34 South Molton Street  
LONDON W1Y 2BP

August 4, 1997

## **NOVUS UK (MALACCA STRAIT) LIMITED**

### **Statement of Directors' Responsibilities**

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. 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.

**NOVUS UK (MALACCA STRAIT) LIMITED**

**Profit and Loss Account**

**Year Ended 31 December 1996**

	<b>NOTES</b>	<b>1996 US\$'000</b>	<b>1995 US\$'000</b>
<b>Turnover</b>	3	19,440	20,374
<b>Cost of sales</b>	4	<u>(17,481)</u>	<u>(18,521)</u>
<b>Gross Profit</b>		1,959	1,853
<b>Dry hole costs</b>		0	0
<b>Operating Profit</b>		<u>1,959</u>	<u>1,853</u>
<b>Interest received</b>		434	42
<b>Profit on ordinary activities before taxation</b>	7	2,393	1,895
<b>Tax on profit on ordinary activities</b>	8	<u>(1,511)</u>	<u>(1,270)</u>
<b>Profit for the year</b>		<u><u>882</u></u>	<u><u>625</u></u>

All profits and losses included in the profit and loss account derive from activities of a continuing nature.

The Company has not recognized gains and losses other than the profit above and therefore no separate statement of total recognized gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above, and their historical cost equivalents.

The notes on pages 6 to 11 are an integral part of this profit and loss account.

# NOVUS UK (MALACCA STRAIT) LIMITED

## Balance Sheet

31 December 1996

	NOTES	1996 US\$'000	1995 US\$'000
<b>Fixed Assets</b>			
Tangible assets	9	<u>3,040</u>	<u>3,065</u>
<b>Current Assets</b>			
Debtors	10	<u>7,978</u>	<u>5,867</u>
<b>Current Liabilities</b>			
Creditors - amounts falling due within one year	11	(1,594)	(818)
Provisions	12	<u>(1,975)</u>	<u>(1,185)</u>
<b>Net Current Assets</b>		<u>4,409</u>	<u>3,864</u>
<b>Total Assets Less Current Liabilities</b>		7,449	6,929
Provisions for liabilities and charges.	13	<u>(1,355)</u>	<u>(927)</u>
		<u>6,094</u>	<u>6,002</u>
<b>Capital and Reserves</b>			
Called up share capital	14	8	8
Profit and loss account	17	<u>6,086</u>	<u>5,994</u>
		<u>6,094</u>	<u>6,002</u>

Approved by the Board of Directors  
on August 4, 1997 and signed on its behalf by

  
J.T. Hornabrook  
Director

The notes on pages 6 to 11 are an integral part of this Balance Sheet

## **NOVUS UK (MALACCA STRAIT) LIMITED**

### **Notes to the Accounts**

#### **1) Principal Accounting Policies**

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and with the preceding year is set out below.

##### **(a) Basis of preparation of accounts**

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

The Company has taken advantage of the exemption given in FRS 1 "Cash Flow Statements" not to prepare a cash flow statement as a consolidated cash flow statement, which includes the cash flows of the Company, has been prepared by the ultimate holding company.

##### **(b) Joint ventures**

The Company conducts the majority of its exploration, development and production activities in association with other companies. The accounts reflect those shares of costs which the Company has incurred under its various joint operating agreements. Revenues are recognized on a similar basis.

##### **(c) Oil and Gas expenditure**

The successful efforts method of accounting is followed for costs incurred in oil and gas exploration and production operations.

**Capitalization Policy** - Acquisition costs are capitalized when incurred. Exploration costs, including geological and geophysical costs and costs of carrying and retaining unproved properties, are charged to the profit and loss account as incurred. Exploratory drilling costs are capitalized initially; however, if it is determined that an exploratory well does not contain proved reserves, such capitalized costs are charged to expense, as dry hole costs, at that time. Development costs are capitalized. Costs incurred to operate and maintain wells and equipment and to lift oil and gas to the surface are generally expensed.

**Leasehold Impairment** - Costs of unproved properties which are determined to be impaired are charged to the profit and loss account in the current period.

**Depreciation, Depletion and Amortization** - The acquisition costs of proved properties are depleted by the unit-of-production method based on proved reserves. Other capitalized costs of proved properties are depreciated by the unit-of-production method based on proved developed reserves.

**Retirements** - Gains and losses on disposals of fixed assets are taken to the profit and loss account in the year in which they arise.

**Termination** - Costs incurred by the joint venture for exploration, development and production are generally recoverable from production of reserves under the terms of the Malacca Strait Production Sharing Contract. At the termination of the contract, possession of the equipment and facilities reverts to the Indonesian government. Therefore, no provision is made for dismantlement, restoration, abandonment or salvage values.

## NOVUS UK (MALACCA STRAIT) LIMITED

### Notes to the Accounts (continued)

#### (d) Deferred Taxation

Deferred tax is calculated by applying the liability method. Provisions are made when timing differences are expected to reverse in the foreseeable future.

#### 2) Related Party Transactions

Novus Finance Pty Limited maintains a cash account for the benefit of the Company and other subsidiaries of the Ultimate Holding Company. All costs related to and interest earned from this cash account have been transferred to the Company.

#### 3) Operating Revenue

Sales of crude oil are recorded on the entitlement method. Differences between actual production and entitlements result in a receivable when underproduction occurs and a payable when overproduction occurs.

Under the terms of the Malacca Strait Production Sharing Contract, the Company is required to sell certain amounts of crude to the government of Indonesia at prices provided for in the contract. The Company has recorded revenue from such sales based on latest realized prices from sales of crude to third parties. The resulting difference is treated as a royalty expense which is included in cost of sales.

#### 4) Cost of Sales

Cost of sales consisted of the following:

	1996 US\$'000	1995 US\$'000
Operating Costs	5,810	6,387
Royalty Expense	10,448	11,262
Depreciation, depletion and amortization	850	694
Other	373	178
	<u>17,481</u>	<u>18,521</u>

#### 5) Employee Information

The Company had no employees, other than directors, during 1996 and 1995. Certain services were provided by the Novus Management Services Pty Limited, a related company on behalf of Novus UK (Malacca Strait) Limited. A service charge of \$311,645 (A\$ 391,268) has been included in the accounts to reflect the services provided by this Company (1995 \$134,317).



## NOVUS UK (MALACCA STRAIT) LIMITED

### Notes to the Accounts (continued)

#### 6) Directors Remuneration

The Directors who served during the year ended 31 December 1996 received no fees or remuneration from the Company and were Directors or senior executives of the Novus Group of Companies.

#### 7) Profit on Ordinary Activities Before Taxation is Stated After Charging

	1996 US\$'000	1995 US\$'000
Auditors' remuneration	0	0

The audit fees of the Company are borne by a related company.

#### 8) Taxation

The components of the provision for income taxes were as follows:

	1996 US\$'000	1995 US\$'000
United Kingdom		
UK corporation tax	893	472
Less: Double tax relief	(745)	(462)
	148	10
Indonesia		
Under / (over) provision prior year	0	(707)
Current	935	1,040
Deferred	428	927
	1,511	1,270

Deferred taxation is calculated on temporary timing differences arising principally from differences between tax and accounting bases of properties, plant and equipment.

The effective rates for the 1996 and 1995 provisions vary from the Indonesian statutory rate due to differences between crude sales prices recorded and prices required to be used for Indonesian tax purposes, and United Kingdom sourced income taxed at 33 percent (33 percent in 1995).

An Indonesian / UK Branch Profit Tax rate of 10% has been assumed for 1996 ( 1995 20% ) resulting in a favourable tax expense of \$ 114,105 in 1996.

**NOVUS UK (MALACCA STRAIT) LIMITED**

**Notes to the Accounts (continued)**

**9) Fixed Assets - Tangible Assets**

	<b>1996 US\$'000</b>	<b>1995 US\$'000</b>
Properties, plant and equipment		
At 1 January	90,570	90,520
Additions	825	50
Dry hole costs	0	0
At 31 December	<u>91,395</u>	<u>90,570</u>
Accumulated depreciation, depletion and amortization		
At 1 January	87,505	86,811
Charged during the year	850	694
At 31 December	<u>88,355</u>	<u>87,505</u>
Net Book Value at 31 December	<u>3,040</u>	<u>3,065</u>

**10) Debtors - Amounts Falling Due Within One Year**

	<b>1996 US\$'000</b>	<b>1995 US\$'000</b>
Fellow subsidiary	7,023	4,364
Trade debtors	917	915
Taxation	0	377
Other	38	211
	<u>7,978</u>	<u>5,867</u>

**11) Creditors - Amounts Falling Due Within One Year**

	<b>1996 US\$'000</b>	<b>1995 US\$'000</b>
Parent	148	0
Taxation	224	10
Other	1,222	808
	<u>1,594</u>	<u>818</u>

**12) Provisions**

	<b>1996 US\$'000</b>	<b>1995 US\$'000</b>
Dividend	<u>1,975</u>	<u>1,185</u>

# NOVUS UK (MALACCA STRAIT) LIMITED

## Notes to the Accounts (continued)

### 13) Provisions for Liabilities and Charges

	Deferred Taxation (see below)	
	1996 US\$'000	1995 US\$'000
At 1 January	927	0
Transferred (to) from profit and loss account	428	927
At 31 December	1,355	927

Deferred taxation, all of which has been provided in the financial statements, is as follows:

	1996 US\$'000	1995 US\$'000
Tax effect of timing differences because of: excess of tax allowances over related expenses for financial reporting purposes	987	673
Deferred Branch Profit Tax Liability	368	254

### 14) Called Up Share Capital

	1996 US\$'000	1995 US\$'000
Authorized allotted and fully paid 5000 ordinary shares of £1 translated at the 31 December 1982 rate of exchange of US\$1.62/£1	8	8

### 15) Ultimate Holding Company

The Directors regard Novus Petroleum Limited of Sydney, Australia, a company incorporated in Australia, as the ultimate parent undertaking as of 31 December 1996 and whose principal place of business is at 321 Kent Street Sydney 2000, Australia. The consolidated accounts of the Group are available to the public and may be obtained from that address.

The company into which these results are first consolidated is Novus UK (Indonesian Holdings) Limited, a company incorporated in England and Wales.

### 16) Commitments

The Company conducts substantially all of its operations through memberships of a number of joint venture consortia. In the event of non-performance of obligations by another member, or members of such consortia, the Company would become subject to additional obligations. The Company does not anticipate non-performance by its joint venture partners.

# NOVUS UK (MALACCA STRAIT) LIMITED

## Notes to the Accounts (continued)

### 17) Profit and Loss Account

	1996 US\$'000	1995 US\$'000
Retained profits at the beginning of the year	5,994	18,390
Retained profit for the year	882	625
Dividends paid	0	(11,836)
Dividends provided	(790)	(1,185)
Retained profits at the end of the year	<u>6,086</u>	<u>5,994</u>

### 18) Reconciliation of Movements in Shareholder's Funds

	1996 US\$'000	1995 US\$'000
Opening shareholder's funds	6,002	18,398
Profit for the year	882	625
Dividends paid	0	(11,836)
Dividends provided	(790)	(1,185)
Closing shareholder's funds	<u>6,094</u>	<u>6,002</u>

### 19) Segment Results

During the financial year the Company operated only in Indonesia and in one industry which consisted of exploration, development and production of crude oil, natural gas and associated liquids.

## REPORT OF THE AUDITORS

to the members of Novus UK (Malacca Strait) Limited

We have audited the accounts on page 4 to 11, which have been prepared under the historical cost convention and the accounting policies set out on pages 6 to 7.

### Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young*

Ernst & Young  
Chartered Accountants  
Registered Auditor  
London

4 August 1997