

Annual Report and
Financial Statements for the Year Ended 31 December 2017
for
Iranian Oil Company (U. K.) Limited

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Iranian Oil Company (U. K.) Limited

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for the Year Ended 31 December 2017**

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Iranian Oil Company (U. K.) Limited

**Company Information
for the Year Ended 31 December 2017**

DIRECTORS:

J Damanpak
S M Mohaddes
H Akbary
M Asgharnia

SECRETARY:

J Damanpak

REGISTERED OFFICE:

NIOC House
6th Floor
4 Victoria Street
London
SW1H 0NE

REGISTERED NUMBER:

01019769 (England and Wales)

Iranian Oil Company (U. K.) Limited

(Registered number 01019769)

Strategic Report for the Year Ended 31 December 2017

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

PRINCIPAL ACTIVITY

Iranian Oil Company (U.K.) Limited ("IOC"), registered in the UK, is a wholly owned subsidiary of Naftiran Intertrade Co. (NICO) Limited, a company registered in Labuan, Malaysia

The principal activity of the company is the participation in joint operations to exploit the petroleum prospects of Block 3/29a, a production block, and as sole operator to develop Blocks 15/13a and 15/13b, 2 development blocks, in the United Kingdom Continental Shelf ("UKCS"), under licence from the Department for Business, Energy and Industrial Strategy.

REVIEW OF BUSINESS

In March 2018 the licence which covers both development blocks was extended until 30 September 2021 and for the producing block was extended until one year after the cessation of production. As part of the licence extension process, Block 15/13a was divided into 2 smaller blocks, namely Block 15/13a (Hooman Field) and Block 15/13b (Pardis Field) and the remainder of the block was relinquished.

In May 2018 the United States of America began to re-impose the sanctions that were lifted in 2016. The European Union has not stated any intentions to re-impose the sanctions again. The potential impact of US sanctions is being reviewed by the company and mitigation measures are being taken.

The profit for the company for the year ended 31 December 2017 was £3.7 million (2016: loss of £126.0 million). On 31 December 2017 the total assets of the company were £172.5 million (2016: £184.7 million) and the net liabilities were £145.5 million (2016: £383.3 million).

In January 2017 the company refinanced its debt with the immediate parent company Naftiran Intertrade Co. (NICO) Limited. As a result of this refinancing, \$289m (£234m) of accrued interest was waived. This waiver has been treated as a capital contribution from the parent. The remaining amount outstanding was refinanced in two parts:

- (i) Nine zero coupon bonds with an issue value of \$164m (£121m) and a face value of \$200m (£148m)
- (ii) A zero interest loan of £100m. The loan was extinguished in exchange for shares in April 2018.

Strategy

The company's objective is to continue investing in the North Sea, through its joint operations on Block 3/29a; by additional capital expenditure where merited; and through development of Blocks 15/13a and 15/13b. There are six elements to the company's strategy:

- 1 Maximum outsourcing by use of external consultants where possible to reduce costs and increase efficiency
- 2 Increase Block 3/29 production
- 3 Cost reduction
- 4 Provide secure financial resources to Blocks 15/13a and 15/13b for investment in increasing operational capacity
- 5 Building deep and long-term supplier relationships

Iranian Oil Company (U. K.) Limited
(Registered number 01019769)

**Strategic Report (*continued*)
for the Year Ended 31 December 2017**

Key Performance Indicators

The key financial and other performance indicators ("KPI") during the year were as follows:

KPI	Planned	Actual	Variance
Production	11.2mboe/d	11.5mboe/d	0.3mboe/d
Capex	£1.0million	£3.3million	£2.3million

The directors of the company are of the view that the overall KPI performance for the year was satisfactory. The variance in planned capex to actual is due to an unbudgeted well workover being carried out in August 2017 at a total cost of £4.2 million (IOC share £2.1 million). This has resulted in an increase in production compared with budget

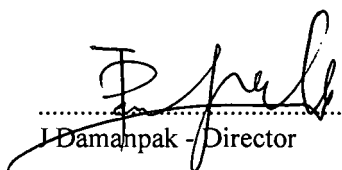
PRINCIPAL RISKS AND UNCERTAINTIES

Estimates of Hydrocarbon reserves depend on many factors and assumptions that are based on conditions in existence as of the dates of estimates. Recoverability of reserves may be affected by matters such as reservoir problems, facility issues, production shutdowns, commercial considerations and any other restrictions on production. Any material changes in those conditions or other factors affecting those assumptions could impact the quantity and value of the natural oil and gas reserves.

The financial statements disclose all of the matters of which we are aware that are relevant to the company's ability to continue as a going concern, including all significant conditions and events, mitigating factors and the company's plan. The company also has the intent and ability to take actions necessary to continue as a going concern.

Although EU sanctions are ended, the company continues to experience issues with banking services for field operational transactions.

ON BEHALF OF THE BOARD:


.....
J Damanpak - Director

Date: 25.09.2018.....

Iranian Oil Company (U. K.) Limited
(Registered number 01019769)

Directors' Report
for the Year Ended 31 December 2017

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

DIRECTORS

The directors shown below have held office during the period from 1 January 2017 to the date of this report, unless stated below.

J Damanpak (appointed on 27/06/2018)

S M Mohaddes

S M Hedayatzadeh Razavi (resigned on 11/12/2017)

H Akbary (appointed on 16/08/2017)

M Asgharnia (appointed on 16/08/2017)

DIVIDENDS

The directors do not recommend the payment of a dividend (2016: nil).

FUTURE DEVELOPMENTS

The company will continue to assess the development plan for Blocks 15/13a and 15/13b.

GOING CONCERN

The parent company, Naftiran Intertrade Co. (NICO) Limited, has undertaken in writing to continue to finance the company's operations, to allow it to meet its obligation as they fall due for at least twelve months from the date of approval of these financial statements.

EVENTS SINCE THE BALANCE SHEET DATE

In March 2018 the licence which covers all blocks was extended as detailed on page 3 in the Strategic Report.

In April 2018, 100 million £1 shares were issued to NICO which were used to extinguish the £100m interest-free loan held at 31/12/2017.

In May 2018, the US Government announced the re-introduction of Sanctions against Iran.

In 2017 it was agreed between BP and Serica to sell BP's 50% share in the Rhum field to Serica. This deal is expected to complete in late 2018.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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

AUDITORS

In accordance with s.485 of the Companies Act 2006, the auditors, Ernst & Young, were appointed during 2017 and will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:



J Damanpak - Director

Date: 25/09/2018

Iranian Oil Company (U. K.) Limited
Statement of Directors' responsibilities in respect to the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements under IFRSs as adopted by the European Union.

Company law requires 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 those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether the company's financial statements have been prepared in accordance with IFRSs as adopted by the European Union;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping 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 IRANIAN OIL COMPANY (U.K.) LIMITED

Opinion

We have audited the financial statements of Iranian Oil Company (U.K.) Limited for the year ended 31 December 2017 which comprise the Statement of Profit or Loss, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IRANIAN OIL COMPANY (U.K.) LIMITED (continued)

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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IRANIAN OIL COMPANY (U.K.) LIMITED (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Kevin Weston (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen

Date: 25/9/2018

Iranian Oil Company (U. K.) Limited
Statement of Profit or Loss for the Year Ended 31 December 2017

	Notes	2017 £000	2016 £000
Revenue	3	89,233	36,468
Cost of sales	4	<u>(86,414)</u>	<u>(53,616)</u>
GROSS PROFIT/(LOSS)		2,819	(17,148)
Administrative expenses		<u>(1,014)</u>	<u>(809)</u>
OPERATING PROFIT/(LOSS)	7	1,805	(17,957)
Finance costs	6	(10,155)	(123,928)
Finance income	6	<u>11,224</u>	<u>14</u>
PROFIT/(LOSS) BEFORE TAX		2,874	(141,871)
Tax credit	8	<u>871</u>	<u>15,859</u>
PROFIT/(LOSS) FOR THE YEAR		<u>3,745</u>	<u>(126,012)</u>

Iranian Oil Company (U. K.) Limited

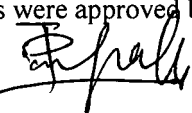
**Statement of Other Comprehensive Income
For the Year Ended 31 December 2017**

	2017 £000	2016 £000
PROFIT/ (LOSS) FOR THE YEAR	3,745	(126,012)
OTHER COMPREHENSIVE INCOME/ (LOSS), NET OF TAX	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u>3,745</u>	<u>(126,012)</u>

Iranian Oil Company (U. K.) Limited (Registered number: 01019769)

**Statement of Financial Position
31 December 2017**

	Notes	2017 £000	2016 £000
ASSETS			
NON-CURRENT ASSETS			
Exploration and evaluation assets	9	28,060	27,388
Development and production assets	9	91,349	125,844
Fixtures and Fittings	9	-	1
Restricted Cash	11	2,654	2,649
		<u>122,063</u>	<u>155,882</u>
CURRENT ASSETS			
Trade and other receivables	10	45,669	23,150
Cash and cash equivalents	11	4,747	5,662
		<u>50,416</u>	<u>28,812</u>
TOTAL ASSETS		<u>172,479</u>	<u>184,694</u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	12	-	-
Capital Contribution	15	234,115	-
Retained losses	13	(379,582)	(383,327)
TOTAL EQUITY		<u>(145,467)</u>	<u>(383,327)</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred tax liability	18	15,589	16,460
Provisions	17	35,417	48,291
		<u>51,006</u>	<u>64,751</u>
CURRENT LIABILITIES			
Trade and other payables	14	47,171	36,159
Financial liabilities - borrowings			
Interest-free loan	15	100,000	-
Interest bearing loans and borrowings	15	119,769	467,111
		<u>266,940</u>	<u>503,270</u>
TOTAL LIABILITIES		<u>317,946</u>	<u>568,021</u>
TOTAL EQUITY AND LIABILITIES		<u>172,479</u>	<u>184,694</u>

The financial statements were approved by the Board of Directors on 25.09.2018 and were signed on its behalf by: 

J Damanpak - Director

Iranian Oil Company (U. K.) Limited

**Statement of Changes in Equity
for the Year Ended 31 December 2017**

	Notes	Called up share capital £000	Capital Contribution £000	Retained losses £000	Total equity £000
Balance at 1 January 2016		-	-	(257,315)	(257,315)
Loss for the year		-		(126,012)	(126,012)
Other comprehensive income /(loss)		-	-	-	-
Total comprehensive loss for the year		-	-	(126,012)	(126,012)
Balance at 1 January 2017	12,13	-		(383,327)	(383,327)
Profit for the year		-	-	3,745	3,745
Other comprehensive income /(loss)		-	-	-	-
Total comprehensive income for the year		-	-	3,745	3,745
Capital contribution		-	234,115	-	234,115
Balance at 31 December 2017	12,13	-	234,115	(379,582)	(145,467)

Iranian Oil Company (U. K.) Limited

**Statement of Cash Flows
for the Year Ended 31 December 2017**

	Notes	2017 £000	2016 £000
Cash flows from operating activities			
Cash flows generated from operations	21	<u>(844)</u>	<u>35,942</u>
Net cash flows from operating activities		<u>(844)</u>	<u>35,942</u>
Cash flows from investing activities			
Purchase of tangible fixed assets		(70)	(35)
Interest received		<u>4</u>	<u>14</u>
Net cash used in investing activities		<u>(66)</u>	<u>(21)</u>
Cash flows from financing activities			
Payments of loans and borrowings	15	<u>-</u>	<u>(36,799)</u>
Net cash used in financing activities		<u>-</u>	<u>(36,799)</u>
Decrease in cash and cash equivalents		(910)	(878)
Cash and cash equivalents at beginning of year	22	8,311	9,189
Cash and cash equivalents at end of year	11, 22	<u><u>7,401</u></u>	<u><u>8,311</u></u>

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

1. GENERAL INFORMATION

The financial statements of the company for the year ended 31 December 2017 were authorised for issue by the Board of directors on ...25.09.2018..... and the Statement of Financial Position was signed on the Board's behalf by J Damanpak.

The company is a private company, limited by share capital, incorporated and domiciled in UK. The address of its registered office is:

NIOC House
4 Victoria Street
London SW1H 0NE

The principal place of business is:

9 Queens Road
Aberdeen AB15 4YL

2. ACCOUNTING POLICIES

Basis of preparation

The company's financial statements at 31 December 2017 have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as applied in accordance with Companies Act 2006. The financial statements have been prepared on historical cost basis, unless otherwise stated.

The company's earnings stream and expenditure are primarily denominated in Pound Sterling ("GBP"), and therefore the functional currency is GBP. The company's financial statements are prepared in GBP.

Going concern

The parent company, Naftiran Intertrade Co. (NICO) Limited, has undertaken in writing to continue to finance the company's operations, to allow it to meet its obligations as they fall due for at least twelve months from the date of approval of these financial statements. On this basis, and with regard to profit and cash flow forecasts, the Directors have concluded that the company will remain a going concern for at least 12 months from the date of approval of the financial statements and have therefore prepared the financial statements on the going concern basis.

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements – continued for the Year Ended 31 December 2017

2. ACCOUNTING POLICIES – continued

Impact of new standards and interpretations

The company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The IASB and IFRIC have issued the following standards and interpretations with an effective date after the commencement date of the accounting period for the financial statements:

Title	Effective date (annual periods beginning on or after)
IFRS 9 Financial Instruments (issued 2010 and 2014)	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
Clarifications to IFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and an associate or joint venture	Deferred
Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39	1 January 2018
Amendments to IFRS 7 and IFRS 9 Mandatory Effective Date and Transition Disclosures	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Annual improvements to IFRS 2014-2016 Cycle	1 January 2018
Amendments to IFRS 2 – Classification and Measurement of Share-Based Payment Transactions	1 January 2018
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019

The amendments as noted above are not believed to have a material impact on the financial statements of the company. The company will adopt these standards on the date at which they become effective.

Revenue recognition

Revenue represents the company's share of condensates and oil and gas production sold, and sales in respect of gas trading operations. Revenue is stated exclusive of value added tax and similar levies. Revenue is recognised when the amount can be reliably measured, it is probable the future economic benefits will flow to the company and the significant risks and rewards of ownership have passed to the buyer. Revenue is measured at the fair value of consideration received or receivable.

Under/Overlift

Lifting arrangements for oil and gas produced in the company's 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 is 'underlift' or 'overlift'. Underlift and overlift 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/(loss) is recognised on an entitlement basis.

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements – continued for the Year Ended 31 December 2017

2. ACCOUNTING POLICIES - continued

Finance income

Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Finance cost

Finance cost of debt instruments are allocated to periods over the term of the related instruments at a constant rate of the carrying amount.

Property, plant and equipment

All property, plant and equipment are shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of these assets.

Subsequent costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Oil and Gas assets

Exploration, appraisal and development expenditure is accounted for under the 'successful efforts' method. The successful efforts method means that only costs which relate directly to the discovery and development of specific oil and gas reserves are capitalised. Exploration and evaluation costs are capitalised within intangible assets. Development expenditure on producing assets is accounted for in accordance with IAS 16, 'Property, plant and equipment'. Costs incurred prior to obtaining legal rights to explore are expensed immediately to the statement of profit or loss.

All lease and licence acquisition costs, geological and geophysical costs and other direct costs of exploration, evaluation and development are capitalised as intangible assets or property plant and equipment according to their nature. Intangible assets comprise costs relating to the exploration and evaluation of properties which the directors consider to be unevaluated until reserves are appraised as commercial, at which time they are transferred to property plant and equipment following an impairment review and depreciated accordingly. Where properties are appraised to have no commercial value, the associated costs are treated as an impairment loss in the period in which the determination is made.

Depreciation, depletion and amortisation

Successful exploration and appraisal wells and field development costs are amortised from the commencement of production on the unit of production basis over estimated proved developed reserves.

The carrying value of fixed assets is reviewed for possible impairment whenever events or economic circumstances indicate a possible diminution in their revenue earning capacity.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Iranian Oil Company (U. K.) Limited

**Notes to the Financial Statements – continued
for the Year Ended 31 December 2017**

2. ACCOUNTING POLICIES - continued

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates. Differences arising on settlement or retranslation of monetary items are recognised in the statement of profit or loss.

Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Trade receivables

Trade receivables are carried at original invoice amount less provision for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms. The amount of the provision is recognised in the statement of profit or loss.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held at call with banks. Bank overdrafts are shown within current liabilities on the balance sheet.

Trade payables

Trade payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

2. ACCOUNTING POLICIES - continued

Financial assets

(i) Classification

The company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of financial assets at initial recognition. The company had only loans and receivables for the years presented in the financial statements.

• Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise "trade and other receivables" and "cash and Cash equivalents" in the statement of financial position.

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date which is the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from financial assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Loans and receivables are carried at amortised cost using the effective interest method.

(iii) Impairment of financial assets

The Company assesses at the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the profitability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements – continued for the Year Ended 31 December 2017

2. ACCOUNTING POLICIES - continued

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of profit or loss.

Financial liabilities

Interest-bearing loans, bank overdrafts and zero coupon rate bonds issues by the company are financial liabilities and initially recorded at the fair value of proceeds received and are subsequently stated at amortised cost. Finance charges, including premium payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the statement of profit or loss using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. The unwinding of the interest is included in interest expense.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. A financial liability is derecognised when the obligation is discharged or cancelled or expires.

Provisions

Provisions are recognised when the company has a present obligation as a result of past events, it is possible that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are measured at the present value of the expenditure required to settle the obligation.

Decommissioning provision

Provision for decommissioning in respect of production assets is recognised in full at the time of commencement of production. The amount recognised is the present value of the estimated future cost that will be incurred. A corresponding tangible fixed asset of an amount equal to the provision is also created and is included in development and production assets. This is subsequently depreciated as part of the capital costs of the related developed field. Changes to estimates of future expenditure are reflected prospectively by adjusting the value of the related provisions and associated fixed assets.

The discount rate is a pre-tax rate and reflects current market assessments of the time value of money and the risks specific to the decommissioning provision. The discount rate does not reflect risks for which future cash flows estimates have been adjusted.

The unwinding of discounts on provisions stated at present value is included within finance costs in the statement of profit or loss.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

**Notes to the Financial Statements – continued
for the Year Ended 31 December 2017**

2. ACCOUNTING POLICIES - continued

Taxation

Income tax expense represents the sum of tax currently payable and deferred tax. The current tax payable is based on the taxable profit for the year. Taxable profit differs from the profit reported in the statement of profit and loss due to items that are non-taxable or deductible in any period and also due to items that are taxable or deductible in a different period. The company's liability for current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax is charged and credited to the statement of profit or loss, except when it relates to items charged or credited directly to reserves, in which case the deferred tax is also dealt with within reserves.

Use of accounting estimates, judgements and assumptions

Financial statements in conformity with IFRS require the use of certain estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements as well as amounts included in the notes thereto. Estimates made are based on complex or subjective judgements, past experience and other assumptions deemed reasonable in consideration of the information available at the time.

The accounting policies and areas that require a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are in relation to the accounting for oil and gas activities, specifically in the determination of proved and proved developed reserves, impairment of oil and gas assets and decommissioning provision.

If such estimates and assumptions deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change. The effect could be material if claims for cost overruns on projects, claimed in accordance with the contract, are not agreed with or paid by counter-parties.

A summary of significant estimates are as follows.

A) Oil and Gas activities

i) Reserves

Reserves are estimates of the amount of product that can be economically and legally extracted from the company's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates.

**Notes to the Financial Statements – continued
for the Year Ended 31 December 2017**

2. ACCOUNTING POLICIES - continued

Estimating the quantity and / or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the company's financial results and financial position in a number of ways, including the following:

- asset carrying values may be affected due to changes in estimated future cash flows;
- depreciation, depletion and amortisation charged in the statement of profit and loss may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change;
- decommissioning, site restoration and environmental provisions may change where changes in estimating reserves affect expectations about the timing or cost of these activities;
- the carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

a) Proved oil and gas reserves

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, that is, prices and costs as at the date that the estimate is made.

Reservoirs are considered proved if economic productivity is supported by either actual production or conclusive formation tests. The area of a reservoir considered proved includes: (a) that portion delineated by drilling and defined by gas-oil or oil-water contacts, if any, or both, and; (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information of fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

Reserves can be produced economically through the application of improved recovery techniques (such as fluid injection) are generally only included in the proved classification if successful testing by a pilot project, or the operation of an installed programme in the reservoir, provides support for the engineering analysis on which the project or programme was based.

b) Proved developed oil and gas reserves

Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection, or other improved recovery techniques, for supplementing the natural forces and mechanisms of primary recovery will generally be included as proved developed reserves only after testing by a pilot project, or after the operation of an installed programme, has confirmed through production response that increased recovery will be achieved.

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements – continued for the Year Ended 31 December 2017

2. ACCOUNTING POLICIES - continued

c) Proved undeveloped reserves

All other proved reserves which do not meet the definition of proved developed reserves.

d) Probable and possible reserves

Probable reserves are those reserves which are not yet "proved", but are estimated to have better than 50% chance of being technically and economically producible. Possible reserves are those reserves which at present cannot be regarded as "probable", but which are estimated to have a significant but less than 50% chance of being technically and economically producible.

ii) Exploration and evaluation expenditure

The company's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under the policy, a judgment is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the statement of profit or loss.

iii) Development expenditure

Development activities commence after project sanctioning by the appropriate level of management, judgement is applied by management in determining when a project has reached a stage at which economically recoverable reserves exist such that development may be sanctioned. In exercising this judgement, management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure. Any such estimates and assumptions may change as new information becomes available. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the appropriate amount will be written off to the statement of profit or loss.

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements – continued for the Year Ended 31 December 2017

2. ACCOUNTING POLICIES - continued

B) Recoverability of oil and gas assets

In accordance with company's accounting policy, each asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of fair value less costs to sell or the value in use.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a risk adjusted pre-tax discount rate appropriate to the risks inherent in the asset. Future cash flow estimates are based on expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves (see 'reserve estimates' above), operating costs, decommissioning costs and future capital expenditure. This policy requires management to make these estimates and assumptions which are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all the carrying value of the assets may be impaired and the impairment would be charged against the statement of profit and loss.

C) Decommissioning provision

The company's accounting policy requires the recognition of provisions for the decommissioning of each site. The company assesses its decommissioning provision at each balance sheet date. The provision recognised represents management's best estimate of the present value of the future costs required. Significant estimates and assumptions are made in determining the amount of restoration and rehabilitation provisions. Those estimates and assumptions deal with uncertainties such as: changes to the relevant legal and regulatory framework, the magnitude of possible contamination and the timing, extent and costs of required restoration and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the statement of financial position by adjusting both the decommissioning asset and provision. Such changes give rise to a change in future depreciation and interest charges. For closed sites, changes to estimated costs are recognised immediately in the statement of profit and loss.

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements – continued for the Year Ended 31 December 2017

2. ACCOUNTING POLICIES - continued

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

Oil and gas properties are depreciated using the UOP method over total proved developed and undeveloped hydrocarbon reserves. This results in a depreciation or amortisation charge proportional to the depletion of the anticipated remaining production from the field.

The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation or amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates change.

3. REVENUE

	2017 £000	2016 £000
Natural gas	54,885	35,771
Natural gas liquids	1,450	652
Raw gas	1,322	45
Crude Oil	31,576	-
	<u>89,233</u>	<u>36,468</u>

4. COST OF SALES

	2017 £000	2016 £000
Operating expenses	47,087	48,012
Underlift adjustment	16,407	(10,265)
Depletion of development and drilling investment	22,920	15,869
	<u>86,414</u>	<u>53,616</u>

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements – continued for the Year Ended 31 December 2017

5. EMPLOYEES AND DIRECTORS

In addition to the directors, the company had 2 employees (2016 - 1).

The aggregate payroll costs of the employees and directors was:

	2017 £000	2016 £000
Wages and salaries	293	256
Social security costs	27	30
Other	28	39
	<u>348</u>	<u>325</u>

The directors' aggregate remuneration for the year was as follows:

	2017 £000	2016 £000
Wages and salaries	238	255
Social security costs	-	1
	<u>238</u>	<u>256</u>

The amounts with respect to the highest paid director are as follows:

	2017 £000	2016 £000
Wages and salaries	238	151
Social security costs	-	-
	<u>238</u>	<u>151</u>

Iranian Oil Company (U. K.) Limited**Notes to the Financial Statements – continued
for the Year Ended 31 December 2017****6. FINANCE INCOME /FINANCE COSTS**

	2017 £000	2016 £000
Finance income:		
Deposit account interest	4	7
Intercompany interest	-	7
Foreign exchange gain	11,220	-
	<u>11,224</u>	<u>14</u>
Finance costs:		
Intercompany interest	-	(9,835)
Redemption accretion on bonds	(8,838)	(35,276)
Unwinding of discount (note 17)	(1,317)	(4,380)
Foreign exchange loss	-	(74,437)
	<u>(10,155)</u>	<u>(123,928)</u>
Net finance income/(loss)	<u>1,069</u>	<u>(123,914)</u>

7. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging:

	2017 £000	2016 £000
Depletion - owned assets (note 9)	22,921	15,869
Auditors' remuneration	33	39
Operating lease - property	44	63
Operating lease - other	7	16

There were no non-audit services provided by the company's auditor.

Iranian Oil Company (U. K.) Limited

**Notes to the Financial Statements – continued
for the Year Ended 31 December 2017**

8. TAX CREDIT

Analysis of tax income

	2017 £000	2016 £000
Deferred tax liability		
Originating and reversal of temporary differences – current year	(832)	(7,254)
Originating and reversal of temporary differences – prior year	(39)	-
Effects of changes in tax rates on opening liability	-	(8,605)
	<hr/>	<hr/>
Total deferred tax liability	(871)	(15,859)
	<hr/>	<hr/>
Total tax credit	(871)	(15,859)

Reconciliation of tax credit:

	2017 £000	2016 £000
Profit/(Loss) before tax	<u>2,874</u>	<u>(141,871)</u>
Profit/(Loss) multiplied by the standard rate of corporation tax in the UK of 40% (2016 - 40%)	1,150	(56,748)
Effects of:		
Permanent Differences	(1,199)	-
Ring fence expenditure supplement	(619)	(524)
Items not deductible for tax purposes	-	47,812
Prior year adjustment deferred tax	(39)	2,204
Restriction of relief on decommissioning	(164)	-
Effect of changes in tax rate on opening deferred tax liability	-	(8,605)
Tax credit	<u>(871)</u>	<u>(15,859)</u>

The reconciliation of the tax credit has been based upon the UK ring fence corporation tax rate of 30% (2016: 30%) and the UK Supplementary charge which was 10% (2016: 10%), giving a combined rate of 40% .

Iranian Oil Company (U. K.) Limited

**Notes to the Financial Statements – continued
for the Year Ended 31 December 2017**

9. INTANGIBLE AND TANGIBLE ASSETS

	Tangible assets: Fixtures and fittings	Tangible assets: Development and Production assets	Intangible assets: Exploration and Evaluation assets	Total
	£000	£000	£000	£000
COST				
At 1 January 2017	25	228,979	27,387	256,391
Additions	-	2,617	673	3,290
Change in decommissioning provision (note 17)	-	(14,192)	-	(14,192)
At 31 December 2017	25	217,404	28,060	245,489
DEPLETION				
At 1 January 2017	24	103,135	-	103,159
Charge for year	1	22,920	-	22,921
At 31 December 2017	25	126,055	-	126,080
NET BOOK VALUE				
At 31 December 2017	-	91,349	28,060	119,409
At 31 December 2016	1	125,844	27,387	153,232

	Tangible assets: Fixtures and fittings	Tangible assets: Development and Production assets	Intangible assets: Exploration and Evaluation assets	Total
	£000	£000	£000	£000
COST				
At 1 January 2016	25	240,663	27,924	268,612
Additions	-	-	34	34
Adjustment from joint operation	-	(839)	(571)	(1,411)
Change in decommissioning provision (note 17)	-	(10,844)	-	(10,844)
At 31 December 2016	25	228,979	27,387	256,391
DEPLETION				
At 1 January 2016	23	87,265	-	87,289
Charge for year	-	15,869	-	15,869
At 31 December 2016	23	103,135	-	103,158
NET BOOK VALUE				
At 31 December 2016	1	125,844	27,387	153,232
At 31 December 2015	1	153,397	27,924	181,323

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements – continued for the Year Ended 31 December 2017

10. TRADE AND OTHER RECEIVABLES

	2017 £000	2016 £000
Current:		
Trade receivables	1,776	190
Amounts owed by group undertakings	9,979	3,078
Other receivables	32,263	1,716
VAT receivable	351	462
Prepayments	12	11
Underlift - oil	1,288	17,693
	<u>45,669</u>	<u>23,150</u>

Trade receivables are non-interest bearing. All receivables are fully performing and have no external credit rating. The amounts owed by group undertakings are repayable on demand and bear no interest.

11. CASH AND CASH EQUIVALENTS

	2017 £000	2016 £000
Cash in hand	8	8
Cash at banks	<u>7,393</u>	<u>8,303</u>
	<u>7,401</u>	<u>8,311</u>

The credit rating (Moody's) are as follows:

A1:	2,654	2,649
BA1:	-	5,654
BA3:	<u>4,739</u>	<u>-</u>
	<u>7,393</u>	<u>8,303</u>

Refer to note 22 for Cash and cash equivalents disclosed in the Statement of cash flows.

Of the £7.4m of cash at banks, £2.7m (2016: £2.6m) is identified as restricted cash. This restricted cash is classified as a non-current asset on the Statement of Financial Position.

12. CALLED UP SHARE CAPITAL

Authorised, issued and fully paid:

Number:	Class:	Nominal Value:	2017 £	2016 £
100	Ordinary	£1	<u>100</u>	<u>100</u>

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements – continued for the Year Ended 31 December 2017

13. RETAINED LOSSES

	Retained Losses £000
At 1 January 2017	(383,327)
Profit for the year	<u>3,745</u>
	<u>(379,582)</u>
	Retained Losses £000
At 1 January 2016	(257,315)
Loss for the year	<u>(126,012)</u>
	<u>(383,327)</u>

14. TRADE AND OTHER PAYABLES

	2017 £000	2016 £000
Trade payables	42,827	29,647
Amounts owed to group undertakings	2,093	2,055
Social security and other taxes	316	175
Accruals and deferred income	<u>1,935</u>	<u>4,282</u>
	<u>47,171</u>	<u>36,159</u>

Trade payables are non-interest bearing. The amounts owed to group undertakings are repayable on demand and bear no interest. For explanations of the company's liquidity risk management process, refer to note 23.

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements – continued for the Year Ended 31 December 2017

15. FINANCIAL LIABILITIES - BORROWINGS

	2017 £000	2016 £000
Bonds payable	119,769	365,346
Interest accrued	-	101,765
Interest-Free Loan	100,000	-
	<u>219,769</u>	<u>467,111</u>

As at the 31st December 2016, the company had £467 million of bonds and accrued interest outstanding with its parent – NICO.

The bonds have been refinanced on 1st January 2017. As part of the agreement, \$289m (£234m) of interest was waived. This waiver has been treated as a capital contribution from the parent. The remaining amount outstanding was refinanced in two parts:

- (i) Nine zero coupon bonds with an issue value of \$164m (£133m) and a face value of \$200m (£148m). The redemption dates are set out in the table below.
- (ii) A zero interest loan of £100m. Under the terms of the agreement, NICO is entitled to demand partial or full repayment at any time. For this reason, the loan has been disclosed as a current liability. The loan was extinguished in exchange for shares in April 2018.

NICO holds entitlement to all gas produced from the Rhum field as security for the bonds payable and the interest-free loan.

The bonds have been recognised as financial liabilities and valued at amortised cost which is computed using the effective interest rate method. The effective interest rate (compounded monthly) was 7% per annum at 31 December 2017 (2016: 11%).

As described above, the zero coupon bonds were issued with a value of \$164m (£133m). As at 31 December 2017 the carrying value of the bonds is £120m. The movement in the year is due to:

- Bond 1, with a redemption value of £10m, being settled by netting off against the trading intercompany account,
- Effective interest charges of £9m, and
- Foreign exchange losses of £12m given the face value of the bonds are USD denominated.

The 9 bonds have carrying values as follows:

Redemption Date	Bond	Face Value \$000	Redemption Value £000	Carrying Value £000
31.12.2017	No.1	13,825	10,220	-
30.06.2018	No.2	25,000	18,480	14,289
31.12.2018	No.3	27,000	19,959	16,267
30.06.2019	No.4	27,000	19,959	16,836
31.12.2019	No.5	36,000	26,611	24,078
30.06.2020	No.6	18,000	13,306	11,615
31.12.2020	No.7	25,000	18,480	17,196
30.06.2021	No.8	14,000	10,349	9,667
31.12.2021	No.9	13,750	10,164	9,820
Total		199,575	147,528	119,769

The bonds are repayable on demand. Therefore, the fair value approximates the carrying value on the bonds.

Iranian Oil Company (U. K.) Limited**Notes to the Financial Statements – continued
for the Year Ended 31 December 2017****16. LEASING AGREEMENTS**

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2017 £000	2016 £000
Within one year	19	19
Between one and five years	7	-
	<u>26</u>	<u>19</u>

17. PROVISIONS

	2017 £000	2016 £000
Decommissioning provision	<u>35,416</u>	<u>48,291</u>
Analysed as follows:		
Non-current	<u>35,416</u>	<u>48,291</u>
Balance at 1 January	48,291	54,755
Unwinding of discount (note 6)	1,317	4,380
Revision to decommissioning cost estimate (note 9)	<u>(14,192)</u>	<u>(10,844)</u>
Balance at 31 December	<u>35,416</u>	<u>48,291</u>

The decommissioning provision relates to the development and production assets. The cost is expected to be incurred over the next 6 years. The provision has been estimated using existing technology at current prices, escalated at 2% (2016: 2%) and discounted at 3% (nominal) (2016: 3%).

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements – continued for the Year Ended 31 December 2017

18. DEFERRED TAX LIABILITY

Deferred tax is calculated in full on temporary differences using a combined rate of corporation tax and supplementary charge in the UK of 40% (2016: 40%) in respect of accumulated tax losses, accelerated capital allowances and other temporary differences.

	2017 £000	2016 £000
Balance at 1 January	16,460	32,319
Credited to statement of profit or loss	(871)	(15,859)
Balance at 31 December	<u>15,589</u>	<u>16,460</u>

	2017 £000	2016 £000
Accelerated capital allowances	47,742	61,274
Other temporary differences	(14,330)	(19,317)
Tax losses	<u>(17,823)</u>	<u>(25,497)</u>
	<u>15,589</u>	<u>16,460</u>

All deferred tax liabilities have been provided and therefore no unprovided balances are to be disclosed.

19. ULTIMATE PARENT COMPANY

The company's immediate parent is Naftiran Intertrade Company Limited. The company is a 100% subsidiary of Naftiran Intertrade Company Limited. The ultimate parent is National Iranian Oil Company.

The most senior parent entity producing publicly available financial statements is National Iranian Oil Company. These financial statements are available upon request from Naftiran Intertrade Company Limited:

Unit 3A-25, U0350, 3rd Floor
Labuan Times Square
Jalan Merdeka
87007
Federal Territory of Labuan
Malaysia

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements – continued for the Year Ended 31 December 2017

20. RELATED PARTY DISCLOSURES

For the directors' remuneration, refer to note 5. In addition to the directors' remuneration, the following transactions were carried out with related parties and occurred in the normal course of the business:

	2017 £000	2016 £000
Related Party		
NICO SARL, a fellow subsidiary		
a) Management fee	135	141
Naftiran Intertrade Company Limited, parent company		
a) Finance expense accrued on bonds	8,838	45,110
b) Sale of gas	54,885	33,125
c) Interest waived (see note 15)	(234,114)	-

Balances at 31 December

Amount due to Naftiran Intertrade Company SARL	Current	2,093	2,055
Amount due from Naftiran Intertrade Company Limited	Current	9,979	3,073
Amount due to Naftiran Intertrade Company Limited	Current	219,769	467,111

21. RECONCILIATION OF LOSS BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	2017 £000	2016 £000
Profit/(Loss) before tax	2,874	(141,871)
Depletion charges	22,921	15,869
Fixed assets adjustment from joint operations	-	1,411
Finance costs	10,155	123,928
Finance income	(11,224)	(14)
	24,726	(676)
(Increase)/decrease in trade and other receivables	(22,917)	18,881
Increase in trade and other payables	10,574	17,737
Decrease in current borrowings	(13,227)	-
Net cash flows from operating activities	(844)	35,942

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements – continued for the Year Ended 31 December 2017

22. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Statement of Cash Flows in respect of cash and cash equivalents are in respect of these Statement of Financial Position amounts:

Year ended 31 December 2017

	31.12.17 £000	1.1.17 £000
Cash and cash equivalents	<u>7,401</u>	<u>8,311</u>

Year ended 31 December 2016

	31.12.16 £000	1.1.16 £000
Cash and cash equivalents	<u>8,311</u>	<u>9,189</u>

23. FINANCIAL RISK MANAGEMENT

A) Financial risk factors

The company's operations in the UK expose it to certain financial risks: a) market risk (including i) foreign exchange risk, ii) fair value interest rate risk & cash flow interest rate risk and iii) price risk), b) credit risk and c) liquidity risk. Risk management is carried out by the Directors and the senior management and seeks to minimise potential adverse effects on the company's financial performance.

a) Market risk

i) Foreign exchange risk

The company has foreign currency risk as the major business transactions are carried out in Pounds Sterling whereas its financial liabilities to the parent company are denominated in US Dollars. During the year, the company has not entered into any forward exchange contracts.

Sensitivity analysis

At 31 December 2017, if the GBP had strengthened by 10% against US Dollars with all other variables held constant, pre-tax loss for the year would have been £8 million lower (2016 - £47 million lower), mainly as a result of foreign exchange gains on translation of US Dollar - denominated financial liabilities.

ii) Cash flow and fair value interest rate risk

The company has financial liabilities (zero coupon bonds with the parent company - note 15).

Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. As such, all financial instruments with fixed interest rates that are carried at amortised cost, such as those held by the company, are not subject to interest rate risk as defined in IFRS 7.

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements – *continued* for the Year Ended 31 December 2017

23. FINANCIAL RISK MANAGEMENT (continued)

iii) Commodity price risk

The main commodity price risk arises in respect of the company's gas sales. During the year, the company has not entered into any derivative contracts in order to hedge commodity risk.

The sales of gas are mainly made to a related party at a fixed price and therefore are not materially subject to commodity price risk.

b) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and financial institutions only independently rated parties with a minimum rating of "C" are accepted. Sales are made to a related party and no indicators of impairment exist.

c) Liquidity risk

Liquidity risk relates to the need to maintain sufficient cash and cash equivalent and undrawn borrowing facilities for the company to continue to meet its cash and funding requirements as they fall due. At 31 December 2017, the company had net current liabilities of £214 million (2016: £472 million). The parent company has given assurances that funds will be made available to meet working capital commitments.

B) Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt. The company has retained losses for both 2017 and 2016 and therefore the gearing ratio is 100% for both years. The parent company, Naftiran Intertrade Co. (NICO) Limited, has undertaken in writing to continue to finance the company's operations, to allow it to meet its obligation as they fall due for at least twelve months from the date of approval of these financial statements

Iranian Oil Company (U. K.) Limited

Notes to the Financial Statements – continued for the Year Ended 31 December 2017

C) Fair value measurement

Financial assets

Loans and receivables

	2017 £000	2016 £000
Cash	7,401	8,311
Trade and other receivables (excluding prepayments)	45,657	23,139

Financial liabilities

Amortised cost

	2017 £000	2016 £000
Trade and other payables (excluding statutory liabilities)	46,855	35,984
Borrowings	219,769	467,111

There is no difference between the fair value and the carrying value due to the short term nature of the balances above.

24. EVENTS AFTER THE BALANCE DATE

In March 2018 the licence which covers all blocks was extended as detailed in the Strategic Report.

In April 2018, 100 million £1 shares were issued to NICO which was used to extinguish the £100m interest-free loan present as at 31/12/2017.

In May 2018, the US Government announced the re-introduction of Sanctions against Iran.

In June 2018, agreement was reached with three of the four Bruce partners regarding historical amounts due, totalling £31m currently recorded in creditors. As of the date of signing, BP, the operator has yet to sign, therefore this is a non-adjusting event.