

# SOCO UK Onshore Limited

Annual report and accounts  
for the year ended 31 December 1998

Registered number: 1021095



## Directors' report

For the year ended 31 December 1998

The Directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1998.

### Principal activity and business review

The principal activity of the company is that of petroleum exploration, development and production.

### Results and dividends

The company made a loss for the year of £948,000 (1997 – loss £4,908,000). No dividend is proposed for the year and the loss is transferred to reserves giving an accumulated deficit carried forward at 31 December 1998 of £11,497,000 (1997 £10,549,000).

### Directors and their interests

The Directors who served during the year and subsequently are as shown below:

T. D. Taylor

R. D. Cagle

C. B. Cagle

R.D. Barrett

R.T. McKie

No Director had any interest in the share capital of the company that requires disclosing under schedule vii of the Companies Act 1985.

Interests in ordinary shares in the parent company SOCO International plc at 31 December 1998 and 1997 are as follows:

	Number of ordinary shares	
	1998	1997
R. D. Cagle and C. B. Cagle (jointly held)	70,000	70,000
R.T. McKie	3,800	3,800

## Directors' report (continued)

### Statutory dispensation

The company has in force, under Section 379A of the Companies Act 1985, an election dispensing with the laying of financial statements and reports before the company in Annual General Meetings, the holding of Annual General Meetings and the obligation to appoint auditors annually.

### Directors' responsibilities

Company law requires the Directors to prepare financial statements 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 financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a 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 enable them to ensure that the financial statements 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.

### Year 2000

Management undertook an extensive review of the SOCO Group's exposure to the Y2K issue. No significant exposures were identified through this review, and the costs associated with the company's YK2 project are not material.

Swan House  
32/33 Old Bond St  
London  
W1X 3AD

By order of the Board,

C. Cagle  
Director



12 April 1999

## Auditors' report

### To the Shareholder of SOCO UK Onshore Limited:

We have audited the financial statements on pages 4 to 13 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

### Respective responsibilities of directors and auditors

As described on page 2 the Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, 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 as to whether the financial statements 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 financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Arthur Andersen

Chartered Accountants and Registered Auditors

1 Surrey Street

LONDON

WC2R 2PS

12 April 1999

## Profit and loss account

For the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
<b>Turnover</b>	1	4,871	7,584
Operating costs		(3,724)	(3,618)
Depletion and abandonment		(2,128)	(8,943)
<b>Gross loss</b>		(981)	(4,977)
Administration costs	2	(74)	(29)
<b>Operating loss</b>	3	(1,055)	(5,006)
Interest receivable	4	110	47
Gain on exchange		6	55
Interest payable and similar charges	5	(9)	(4)
<b>Loss on ordinary activities before taxation</b>		(948)	(4,908)
Taxation	7	-	-
<b>Retained loss for the year</b>	13	(948)	(4,908)

All gains and losses arising during the year have been recognised in the profit and loss account and derive from continuing operations of the company. Accordingly, no statement of total recognised gains and losses has been prepared.

The accompanying notes form an integral part of this profit and loss account.

# Balance sheet

31 December 1998

	Notes	1998 £'000	1997 £'000
<b>Fixed assets</b>			
Tangible assets	8	8,275	8,192
		<u>8,275</u>	<u>8,192</u>
<b>Current assets</b>			
Stocks		63	161
Debtors	9	1,896	3,849
Cash at bank and in hand		241	248
		<u>2,200</u>	<u>4,258</u>
<b>Creditors: Amounts falling due within one year</b>	10	(457)	(1,589)
<b>Net current assets</b>		<u>1,743</u>	<u>2,669</u>
<b>Total assets less current liabilities</b>		<u>10,018</u>	<u>10,861</u>
<b>Provisions for liabilities and charges</b>	11	(1,255)	(1,150)
<b>Net assets</b>		<u>8,763</u>	<u>9,711</u>
<b>Capital and reserves</b>			
Called-up share capital	13	4,357	4,357
Share premium account	13	14,900	14,900
Other reserves	13	1,003	1,003
Profit and loss account deficit	13	(11,497)	(10,549)
<b>Equity shareholder's funds</b>		<u>8,763</u>	<u>9,711</u>

Signed on behalf of the Board

  
C. B. Cagle  
Director

12 April 1999

The accompanying notes are an integral part of this balance sheet.

# Notes to financial statements

For the year ended 31 December 1998

## 1 Accounting policies

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

### a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. The company's ultimate parent undertaking is SOCO International plc registered in England. SOCO International plc has undertaken to provide continued financial support to SOCO UK Onshore Limited to enable it to fulfil its obligations. Accordingly, the accounts have been prepared on the going concern basis.

### b) Turnover

Turnover represents the company's share of oil and gas production recognised on an entitlement basis; and the net margin received for crude oil purchased from fields in the South of England and processed through the Holybourne facilities close to the Humbly Grove Oil Field.

### c) Cash flow statement

Under the provisions of Financial Reporting Standard No. 1 (Revised), the company has not prepared a cash flow statement because its ultimate parent company, SOCO International plc incorporated in England and Wales, has prepared consolidated accounts, which include the results of the company and which are publicly available (see note 14).

### d) Fixed assets

The company follows the full cost method of accounting for oil and gas assets. Under this method all expenditure in connection with the acquisition, exploration, appraisal and development of oil and gas assets, including interest payable and exchange differences incurred on borrowing in respect of development projects, is capitalised in one geographical cost pool, UK Onshore.

The costs of undeveloped acreage and exploration assets are excluded from the capitalised costs to be depleted, pending determination of the recoverable reserves attributable to such assets. Where exploration expenditure is being accumulated against a cost pool, the value of that cost pool is written down through the profit and loss account where it is considered that an impairment of the asset value has occurred.

Proceeds from the disposal of oil and gas assets are credited against capitalised costs. Any overall surplus arising in the cost pool is credited to the profit and loss account.

### e) Impairment test

Where there has been a change in economic conditions or in the expected use of an asset that indicates a possible impairment in the pool, management assesses the recoverability of the net book value of the pool by comparison to the discounted future net cash flows based on management's expectations of future oil prices and future costs. Any identified impairment is written off to the profit and loss account.

### f) Depletion and depreciation

Expenditure on oil and gas exploration and development is depleted on a unit of production basis, based on estimates of proven and probable reserves, applied to the sum of the total capitalised exploration and development costs in the pool, together with estimated future development costs.

## Notes to financial statements (continued)

### 1 Accounting policies (continued)

#### *f) Depletion and depreciation (continued)*

Other tangible fixed assets are stated at historical cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all other tangible fixed assets, other than freehold land, on a straight-line basis at rates calculated to write off the cost or valuation of each asset, less estimated residual value, over its expected useful life of between two and 10 years.

#### *g) Decommissioning*

Provision is made for the estimated cost of decommissioning and site restoration, calculated on a unit of production basis, representing the company's share of the estimated costs which may be incurred in the removal and decommissioning of facilities at the end of the producing life.

#### *h) Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the future, calculated at the rate at which it is anticipated that the timing differences will reverse.

#### *i) Foreign currencies*

Foreign currency transactions are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into sterling at the rate of exchange ruling at the balance sheet date. Exchange differences arising are taken to the profit and loss account except for those incurred on borrowings in respect of development projects which are capitalised as part of the cost of the assets.

#### *j) Pension scheme*

The company operates money purchase pension schemes. The pension cost charge represents contributions payable in the year in accordance with the rules of the schemes. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

### 2 Administration costs

	1998 £'000	1997 £'000
Gross costs	2,101	2,231
Costs applied to operated licences	(2,027)	(2,202)
	<u>74</u>	<u>29</u>



## Notes to financial statements (continued)

### 3 Operating loss

Operating loss is stated after charging:

	1998 £'000	1997 £'000
Audit fee	20	26
Depreciation of oil and gas assets	2,023	2,831
Depreciation of other fixed assets	24	38
Impairment provision	-	5,920
Staff costs (note 6a)	1,319	1,418
Decommissioning provision	105	192
Operating lease rental – land and buildings	11	17
	<hr/>	<hr/>

### 4 Interest receivable

	1998 £'000	1996 £'000
Bank interest receivable	110	47
	<hr/>	<hr/>

### 5 Interest payable and similar charges

	1998 £'000	1997 £'000
Bank interest and charges	9	4
	<hr/>	<hr/>

## Notes to financial statements (continued)

### 6 Staff costs

a) Staff costs for the year were as follows:

	1998 £'000	1997 £'000
Wages and salaries	1,117	1,179
Social security costs	106	119
Pension costs	96	120
	<u>1,319</u>	<u>1,418</u>

The average number of people employed by the company during the year was 34 (1997 – 44 ).

### b) Directors' remuneration

The remuneration of the Directors was as follows:

	1998 £'000	1997 £'000
Emoluments	142	151
Company contributions to money purchase pension schemes	20	22
	<u>162</u>	<u>173</u>

### c) Pensions

The number of Directors who were members of pension schemes was as follows:

	1998 Number	1997 Number
Money purchase schemes	<u>2</u>	<u>2</u>

### 7 Taxation

There is no liability to current taxation (1997 - £nil). It is estimated that taxation losses available for carry forward in the United Kingdom at 31 December 1998 are £9.6m (1997 - £7.5m). Accelerated Capital Allowances at 31 December 1998 are fully covered by losses carried forward, so no deferred tax is provided (1997 - £nil).

## Notes to financial statements (continued)

### 8 Tangible fixed assets

The movement in the year was as follows:

	UK Onshore licence costs £'000	Other fixed assets £'000	Total £'000
<b>Cost</b>			
At 1 January 1998	39,970	938	40,908
Additions	2,152	16	2,168
Disposals	(35)	(30)	(65)
At 31 December 1998	<u>42,087</u>	<u>924</u>	<u>43,011</u>
<b>Depreciation</b>			
At 1 January 1998	32,580	136	32,716
Charge for the year	2,023	24	2,047
Disposals	4	(27)	(27)
At 31 December 1998	<u>34,603</u>	<u>133</u>	<u>34,736</u>
<b>Net book value</b>			
At 31 December 1998	<u>7,484</u>	<u>791</u>	<u>8,275</u>
At 31 December 1997	<u>7,390</u>	<u>802</u>	<u>8,192</u>

Included within other fixed assets is an amount of £ 746,000 (1997 - £746,000) which relates to freehold land on which no depreciation has been charged in 1998 (1997 - £nil).

### 9 Debtors

The following are included in debtors:

	1998 £'000	1997 £'000
Amounts falling due within one year:		
Trade debtors	327	648
Other debtors	194	310
Prepayments and accrued income	296	567
Amounts owed by parent undertaking	1,079	2,324
	<u>1,896</u>	<u>3,849</u>

## Notes to financial statements (continued)

### 10 Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	1998 £'000	1997 £'000
Trade creditors	341	1,263
Other taxes and social security costs	39	39
Other creditors	-	205
Accruals	77	82
	<u>457</u>	<u>1,589</u>

### 11 Provision for liabilities and charges

	1998 £'000	1997 £'000
Decommissioning provision		
At 1 January	1,150	958
Charge for the year	105	192
At 31 December	<u>1,255</u>	<u>1,150</u>

### 12 Capital commitments and contingent liabilities

At 31 December the capital commitments of the company were:

	1998 £'000	1997 £'000
Oil and gas expenditure		
Contracted	<u>50</u>	<u>1,612</u>

## Notes to financial statements (continued)

### 13 Capital and reserves

#### a) Equity share capital

	1998 £'000	1997 £'000
<i>Authorised</i>		
87,144,893 ordinary shares of 5p each	4,357	4,357
1 deferred share of 45p	-	-
<i>Issued and fully paid</i>		
87,144,893 ordinary shares of 5p each	4,357	4,357
1 deferred share of 45p	-	-

#### b) Reconciliation of Shareholder's funds and movement on reserves

	Share capital £'000	Share premium account £'000	Other reserves £'000	Profit and loss account £'000	Total share- holders' funds £'000
At 1 January 1998	4,357	14,900	1,003	(10,549)	9,711
Loss for the year	-	-	-	(948)	(948)
At 31 December 1998	4,357	14,900	1,003	(11,497)	8,763

### 14 Ultimate parent company

The company is a wholly-owned subsidiary undertaking of SOCO International plc.

The largest and smallest group in which the results of the company are consolidated is that headed by SOCO International plc, registered in England, the principal place of business of which is at Swan House, 32/33 Old Bond Street, London W1X 3AD.

The consolidated accounts of this group are available to the public and may be obtained from the above address.

### 15 Related party transactions

Transactions with the Directors of the company are disclosed in the Directors' report.

## Reserve statistics (unaudited)

	mmbbls
<b>Net proven oil reserves</b>	
<b>Reserves as at 31 December 1997</b>	2.5
<b>Changes in the year</b>	
Revisions to previous estimates	(0.1)
Production	(0.6)
<b>Reserves as at 31 December 1998</b>	<u>1.8</u>
 <b>Net proven and probable oil reserves</b>	
<b>Reserves as at 31 December 1997</b>	3.3
<b>Changes in the year</b>	
Revisions to previous estimates	0.1
Production	(0.6)
<b>Reserves as at 31 December 1998</b>	<u>2.8</u>

Note: mmbbls denotes millions of barrels.