# Ithaca Oil and Gas Limited
(formerly Chevron North Sea Limited)

## Annual Report and Financial Statements
for the year ended 31 December 2019

Registered Number: 01546623

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## General Information

**Directors**
G Forbes
B Dunnett

**Company Secretary**
Pinsent Masons Secretarial Limited
1 Park Row
Leeds
LS1 5AB

**Independent Auditors**
Ernst & Young LLP
Blenheim House
Fountainhall Road
Aberdeen
AB15 4DT

**Bankers**
BNP Paribas
London Office
40 Harewood Avenue
London
NW1 6AA

**Solicitors**
Pinsent Masons
13 Queens Road
Aberdeen
AB15 4YL

**Registered Office**
C/O Pinsent Masons LLP
1 Park Row
Leeds
LS1 5AB

## Strategic Report for the year ended 31 December 2019

**Principal activities and review of the business**
The Company's principal activity during the year was appraisal and development of, and production from, North Sea oil and gas properties.

Ithaca Oil and Gas Limited ("the Company"), formerly Chevron North Sea Limited ("CNSL") is an oil and gas appraisal, development and production company active in the United Kingdom's Continental Shelf ("UKCS"). The goal of the Company, in the near term, is to maximise production from existing fields and achieve early production from the development of existing discoveries on licenses held by the Company, to originate and participate in exploration on licenses held by the Company that have the potential of making significant contributions to future production, and to consider other opportunities for growth as they are identified by the Company.

The success of the Company depends on the ability to deliver lower risk growth through the appraisal and development of UK undeveloped discoveries alongside a continued focus on strong performance of the Alba producing asset. The Company's directors are of the opinion that analysis using KPIs is appropriate for an understanding of the development and performance of the business.

CNSL completed the sale of Rosebank to Equinor in January 2019. The timing and value of future proceeds and related receivable from this transaction were based on management's best estimates of future events. Rosebank did not form part of the CNSL sale to Ithaca and so the cash proceeds received on completion of the sale and the remaining receivable balance were transferred to another Chevron entity in June 2019, prior to completion of the Ithaca transaction.

Ithaca's purchase of CNSL excluded certain assets, most notably Clair, a future Rosebank-related receivable and a branch of CNSL, "Chevron Global Technology". As part of a Chevron internal restructuring ahead of the PCOA, Clair's book value was transferred to Chevron Britain Ltd in June 2019. Due mainly to Clair's significant book value, there were insufficient Retained Earnings within CNSL to allow the transfer. A Loan Note arrangement was put in place for the value of £738 million, receivable by the Company. This reflects the book value of Clair and other excluded assets at the time (£891 million), plus a cash extraction to Chevron of £406 million in 2019, less a non-cash dividend of £559 million. The payable side of this Loan Note resides in Ithaca Energy UK Ltd.

The acquisition of CNSL by Ithaca Energy was completed on 8 November 2019 and CNSL was then renamed "Ithaca Oil and Gas Limited". The acquisition included working interests in ten offshore producing fields, including four operated fields and six non-operated fields.

Equity interests in nine of the Company's assets were transferred to other Ithaca entities, effective 17th December 2019 following Oil and Gas Authority (OGA) approval. These assets were transferred through a loan mechanism at fair market value, resulting in a realised gain on sale of £980.8 billion and an associated intercompany receivable balance. Alba remains within the Company along with the decommissioning obligations for Heather and Strathspey.

**Financial key performance indicators:**

| | Year ended 31 December | |
|---|---|---|
| | **2019** | **2018** |
| Production (mboe) | 22,745 | 23,715 |
| Production (boepd) | 62,316 | 64,974 |
| Average realised price ($/boe) | $51 | $59 |

**Production**
The Company's production in 2019 was 22,745,630 bbls (2018: 23,715,800 bbls), a decrease of 4% from the previous year. This decrease is mainly attributable to the restructuring of producing assets to other group entities from 17th December 2019.

**Price**
Average realised oil prices decreased to $66/bbl in 2019 in line with market movements (2018: $71/bbl). For the same period the average Brent price decreased to $64/bbl (2018: $71/bbl).

**Profit and loss account**
2019 results were impacted by lower average hydrocarbons prices with turnover down from £1,068.7 million in 2018 to £885.9 million in 2019, along with slightly lower production volumes mainly as a result of the transfer of the majority of producing assets to other Ithaca entities on 17th December 2019. In addition, there is a significant gain (£980.8 million) following the transfer of producing assets to other Ithaca entities at fair market value.

**Balance sheet**
The Company's net assets have increased from £899.4 million in 2018 to £1,676.3 million in 2019, primarily due to the transfer of assets at fair value versus the initial cost basis. Not all CNSL assets were acquired by Ithaca and an internal asset restructuring exercise in December 2019 also saw the ownership of producing assets (excluding Alba), transferring to other Ithaca group companies.

**Future developments**
Management's primary area of focus for 2020 with regards to Alba is to continue to operate safely, efficiently and maximise production.

**Principal risk and uncertainties**
The principal risks and uncertainties of the Company are consistent with the principal risks of the group and are not managed separately. Refer to the directors' report for further details

**Section 172 Statement**
This section of the Strategic Report describes how the directors have had regard to the matters set out in section 172(1), and forms the directors' statement required under section 414CZA, of the Companies Act 2006.

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefits of its members as a whole and in doing so have regard, amongst other matters, to:

- *The likely consequence of any decision in the long term:*

The Company is part of a group and has a strong Board of experienced industry professionals. The Board meets in person quarterly with additional meetings and calls as required. The Board consider and discuss the long-term goals of the group and the impact that any decisions might have across the relevant stakeholders. It also reviews strategy, financial and operational performance to ensure considered and informed decisions in the best interest of the group and its members. Information is provided to the Board through reports sent in advance of each Board meeting.

- *The interests of the group's employees:*

The group is located within a single onshore location in Aberdeen and across a number of offshore production and storage facilities. The executive directors of the board are co-located within the onshore location and are readily accessible to the workforce. The Board promotes employee engagement through a variety of channels:

  - Regular town hall meetings are held to ensure maximum accessibility to all employees. Key business issues including targets and performance are discussed. Employees can engage directly with board members and management at these meetings and can ask questions in person or submit questions by email beforehand or online during the meeting via Microsoft Teams.
  - Employees can participate as members of the Employee Consultative Forum (ECF). The ECF consists of a group of elected employees who come together with management representatives on a regular basis to exchange information, discuss, and where appropriate consult, on a variety of workplace issues.

- *The need to foster the group's business relationships with suppliers, customers and others:*

Members of the Senior Management team and the Board meet with key vendors, customers and lenders to enhance relationships and share learnings and points of view. Regular meetings and telephone discussions are held with lenders either in Aberdeen or at the offices of each lender.

- *The impact of the group's operations on the community and the environment; the desirability of the group maintaining a reputation for high standards of business conduct; the need to act fairly between members of the group:*

The welfare of the community and environment in which the group operates is of fundamental importance. The group is committed to the principle of continuous improvement in its environmental performance through responsible design, development and operations. The group is committed to achieving excellence in Health, Safety and Environmental (HSE) performance across all operations and considers the HSE performance and the health, safety and security of those who work for, with and alongside the group as central to its business success.

**Section 172 Statement (continued)**

- *Maintain a reputation for high standards of business conduct*

The UK oil and gas industry is a highly regulated business environment. Within this highly regulated environment, the Board oversees a group that is subject to a considerable level of scrutiny and oversight as a function of:

  - Its backing from its parent Delek Group Limited and the subsequent scrutiny and reporting and regular audit requirements which this brings.
  - Its backing by bondholders and financial institutions

- *Act fairly as between members of the company*

The Company is a privately held company owned by Delek Group Limited, an independent Exploration and Production (E&P) company listed on the Tel Aviv Stock Exchange. The Board is made up of two members of Ithaca Energy and two members of Delek Group. The Board provides stakeholders with a clear assessment of the Company position and outlook, which is communicated via the quarterly and annual financial reports and other ad hoc meetings and communications such as public announcements, presentations and conferences.

The results of the Company are included within the directors' report and the financial position is shown on page 13 in the balance sheet.

On behalf of the Board

Graham Forbes
Director

28 January 2021

## Directors' Report for the year ended 31 December 2019

The Directors present their report and the financial statements of Ithaca Oil and Gas Limited (formerly Chevron North Sea Limited) ('the Company') for the year ended 31 December 2019.

**Results and dividends**

The Company's profit for the financial year was £1,334.6 million (2018: £345.4 million) and this amount was transferred to reserves. Prior to acquisition, CNSL directors approved and paid a dividend of £559.2 million (2018: £599.7 million) payable out of profits available for distribution to its shareholder, Chevron Products UK Limited.

**Financial risk management**

The Company's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

**Commodity risk**

Commodity risk related to crude oil prices is the Company's most significant market risk exposure. Crude oil prices and quality differentials are influenced by worldwide factors such as OPEC actions, political events and supply and demand fundamentals. The Company is also exposed to natural price movements. Natural gas prices are generally influenced by oil prices and local market conditions. The Company's expenditures are subject to the effects of inflation and prices received for the product sold are not readily adjustable to cover any increase in expenses from inflation. The Company may periodically use different types of derivative instruments to manage its exposure to price volatility, thus mitigating fluctuations in commodity-related cash flows.

**Credit risk**

The Company's accounts receivable with customers in the oil and gas industry are subject to normal industry credit risks and are unsecured. Oil production from Alba is sold to BP International Limited.

The Company uses a model for measuring the expected credit loss which uses a lifetime expected loss allowance and is measured on the days past due criterion. Having reviewed past payments combined with the credit profile of its existing trade debtors in order to assess the potential for impairment, the Company has concluded that this is insignificant as there has been no history of default or disputes arising on invoiced amounts since inception and as such the credit loss percentage is assumed to be almost zero. No provision for doubtful accounts against these sales has been recorded as at 31 December 2019 (2018: £nil).

The Company regularly monitors all customer receivable balances outstanding in excess of 90 days. As at 31 December 2019 substantially all trade receivables were current (being defined as less than 90 days). The Company has no allowance for doubtful debts as at 31 December 2019 (2018: £Nil).

**Liquidity risk and cash flow risk**

The Company along with its parent company (see note 31) actively maintains a view on the future to optimise the mixture of debt and equity that will ensure the Company has sufficient available funds to develop its existing licenses and participate in future opportunities.

**Covid-19 risk**

In Q1 2020 the Covid-19 pandemic resulted in a sharp fall in global crude prices in addition to significant commodity market volatility relating to the global supply of oil. The main focus of the company has centred on maintaining the health of the workforce and reducing the risk of spreading the virus, whilst at the same time preserving the operational and financial resilience of the business.

The Company benefits from hedging deals within its group for forward output at an average price of $62/bbl. This significantly reduces the exposure of the Company in this regard. Further information on the hedging arrangements are disclosed within the financial statements of Ithaca Energy (UK) Limited. Operationally, Alba's production remains steady and around planned levels.

## Directors' Report for the year ended 31 December 2019 (continued)

### Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

B Dunnett Appointed 24 August 2020
G Forbes Appointed 8 November 2019
L Thomas Appointed 8 November 2019/Resigned 24 August 2020

G Lydecker Resigned 8 November 2019
M Thompson Resigned 8 November 2019
A McGarva Resigned 8 November 2019
T Harlan Resigned 8 November 2019
A Pitts Resigned 10 September 2019
W Ricketts Resigned 28 February 2019

All Directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

### Employees

Prior to acquisition, CNSL employees were employed by another Chevron group company. From acquisition date, employee contracts were transferred to "Ithaca Energy (UK) Limited". The Company has no employees and incurs the recharged costs of those employees working on its assets.

### Brexit

The political and economic effects of Brexit remain uncertain, but at this time the directors believe that the Company will not be materially affected. It is not possible to accurately predict the effects of Brexit on the short, medium and long-term prospects of the Company but the directors continue to monitor the situation closely and will continue to take appropriate advice and actions to position the Company for success.

### Section 172(1)

Please see the Strategic Report for details on how the directors have fostered the Company's relationships with suppliers, customers and other during the financial year.

### Going concern

To conclude on the going concern for the Company, the directors have considered the liquidity and solvency of Ithaca Energy Limited and have considered going concern at the group level.

Factors likely to affect the future development of the Group are lower commodity prices and a reduction in production due to personnel restrictions. The actions taken to mitigate the potential impact of Covid-19 are:

- Deferral of capital programmes
- Reduction of operating expenditure
- Hedging of commodity prices

Management closely monitors the funding position throughout the year including monitoring continued compliance with covenants and available facilities to ensure sufficient headroom to fund operations. Forecasts are produced regularly along with any related sensitivity analysis to allow proactive management of any business risks including liquidity risk

Using these forecasts and sensitivities along with additional stress testing including a sustained low oil price and interruption to production and the actions outlined in response to Covid-19, the directors are satisfied that they have a reasonable basis upon which to conclude that the Group is able to continue as a going concern.

Additional stress testing included:

- Reduction of the commodity prices to $1/bbl for oil for the remainder of the year
- Interruption of production on all assets for 4 months
- Reduction of the commodity prices by 20% for the going concern period

Based on their assessment of the Group's financial position, the Company's directors believe that the Group will be able to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## Directors' Report for the year ended 31 December 2019 (continued)

**Post balance sheet events**
In Q1 2020 the Covid-19 pandemic resulted in a sharp fall in global crude prices in addition to significant commodity market volatility relating to the global supply of oil. The main focus of the company has centred on maintaining the health of the workforce and reducing the risk of spreading the virus, whilst at the same time preserving the operational and financial resilience of the business.

The Company benefits from hedging deals within its group for forward output at an average price of \$62/bbl. This significantly reduces the exposure of the Company in this regard. Further information on the hedging arrangements are disclosed within the financial statements of Ithaca Energy (UK) Limited. Operationally, Alba's production remains steady and around planned levels.

Various initiatives have been undertaken over the first half of the year to reset the cost base of the business and drive forward the underlying transformation principles of process simplification, operational efficiencies and value creation.

**Preparation of financial statements**
The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

**Statement of directors' responsibilities in respect of the financial statements**
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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 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.

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.

**Directors' confirmations**
In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Directors' Report for the year ended 31 December 2019 (continued)**

**Independent Auditors**
The auditors Ernst and Young LLP have indicated their willingness to continue in office and a resolution concerning their re-appointment will be passed.

On behalf of the Board

Graham Forbes
Director

28 January 2021

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ITHACA OIL & GAS LIMITED

### Opinion

We have audited the financial statements of Ithaca Oil and Gas Limited for the year ended 31 December 2019 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 32, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

### Emphasis of matter – Effects of COVID-19 and recent decline in oil price

We draw attention to notes 3(b) and 32 of the financial statements, which describes the economic and social disruption the company is facing as a result of COVID-19 which is impacting commodity prices. Our opinion is not modified in respect of this matter.

### 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 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.

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.

**Directors' Report for the year ended 31 December 2019 (continued)**

**Independent Auditors**
The auditors Ernst and Young LLP have indicated their willingness to continue in office and a resolution concerning their re-appointment will be passed.

On behalf of the Board

Graham Forbes
Director

28 January 2021

## Profit and Loss Account
## For the year ended 31 December 2019

| | Note | 2019 £million | 2018 £million |
|---|---|---|---|
| Turnover | 5 | 885.9 | 1,068.7 |
| Cost of sales | | (437.8) | (531.6) |
| Gross profit | | 448.1 | 537.1 |
| Other Income | 6 | 25.7 | 20.5 |
| Administrative expenses | 6 | (13.5) | (52.0) |
| Operating profit | 7 | 460.3 | 505.6 |
| Gain on sale of non-current assets | 8 | 879.3 | - |
| Interest receivable and similar income | 9 | 14.5 | 7.0 |
| Interest payable and similar expenses | 10 | (32.7) | (32.0) |
| Profit before taxation | | 1,321.4 | 480.6 |
| Tax on profit | 14 | 13.2 | (135.2) |
| Profit for the financial year | | 1,334.6 | 345.4 |

All current and prior year results are derived from continuing operations.

The Company has no recognised gains or losses other than the profit for the financial year disclosed in the profit and loss account, therefore a Statement of Comprehensive Income has not been presented.

The notes on pages 15 to 34 are an integral part of these financial statements.

## Balance Sheet as at 31 December 2019

| | Note | 2019 £million | 2019 £million | 2018 £million | 2018 £million |
|---|---|---|---|---|---|
| **FIXED ASSETS** | | | | | |
| Intangible assets | 15 | | 0.3 | | 1.2 |
| Tangible assets | 16 | | 48.7 | | 2,055.5 |
| Investments | 17 | | - | | 0.1 |
| | | | 49.0 | | 2,056.8 |
| **CURRENT ASSETS** | | | | | |
| Stocks | 18 | 4.1 | | 58.7 | |
| Debtors due within 1 year | 19 | 25.0 | | 220.9 | |
| Debtors due after more than 1 year | 19 | 1,949.0 | | 0.1 | |
| Cash at bank and in hand | | 4.4 | | - | |
| | | 1,982.5 | | 279.7 | |
| **CREDITORS: Amounts falling due within one year** | 20 | (83.0) | | (163.6) | |
| **Net current assets** | | | 1,899.5 | | 116.1 |
| **Total assets less current liabilities** | | | 1,948.5 | | 2,172.9 |
| **CREDITORS: Amounts falling due after more than one year** | 21 | | (8.0) | | (12.1) |
| **PROVISIONS FOR LIABILITIES** | 22 | | (264.2) | | (1,261.4) |
| **NET ASSETS** | | | 1,676.3 | | 899.4 |
| **CAPITAL AND RESERVES** | | | | | |
| Called up share capital | 25 | | 221.0 | | 221.0 |
| Share premium account | | | 119.2 | | 119.2 |
| Retained earnings | | | 1,336.1 | | 559.2 |
| **TOTAL EQUITY** | | | 1,676.3 | | 899.4 |

The notes on pages 15 to 34 are an integral part of these financial statements.

The financial statements on pages 12 to 34 were approved by the Board of Directors on 28 January 2021 and were signed on its behalf by:

Graham Forbes
Director

## Statement of Changes in Equity for the year ended 31 December 2019

| | Called up Share Capital £million | Share Premium Account £million | Retained Earnings £million | Total Equity £million |
|---|---|---|---|---|
| **Balance as at 1 January 2018** | **221.0** | **119.2** | **812.4** | **1,152.6** |
| Profit for the financial year 2018 | - | - | 345.4 | 345.4 |
| Credit relating to share based payments | - | - | 1.6 | 1.6 |
| Debit relating to share based payments | - | - | (0.5) | (0.5) |
| Dividends paid | - | - | (599.7) | (599.7) |
| **Balance as at 31 December 2018** | **221.0** | **119.2** | **559.2** | **899.4** |
| Profit for the financial year 2019 | - | - | 1,334.6 | 1,334.6 |
| Credit relating to share based payments | - | - | 1.6 | 1.6 |
| Debit relating to share based payments | - | - | (0.1) | (0.1) |
| Dividends paid | - | - | (559.2) | (559.2) |
| **Balance as at 31 December 2019** | **221.0** | **119.2** | **1,336.1** | **1,676.3** |

## Notes to the Financial Statements for the year ended 31 December 2019

1. **General Information**

Ithaca Oil and Gas Limited ("the Company"), is a private company limited by shares incorporated in England and domiciled in Scotland. The Company is involved in the appraisal, development and production of oil and gas in the North Sea. The Company's registered office is: C/O Pinsent Masons LLP, 1 Park Row, Leeds, United Kingdom, LS1 5AB.

2. **Statement of compliance**

The individual financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. **Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

**(a) Basis of preparation**

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and Financial Reporting Standard 102.
In these financial statements, the Company is considered to be a qualifying entity (for the purposes of FRS 102) and has applied the disclosure exemptions available under FRS 102 (paragraph 1.12). These exemptions are:

- The requirement to prepare a Statement of Cash Flows and related notes:

  The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a Statement of Cash Flows, on the basis that it is a qualifying entity and its ultimate parent company, Delek Group Limited, includes the Company's cash flows in its own consolidated financial statements;

- The non-disclosure of key management personnel compensation;

- Certain disclosures required by FRS 102.26 Share Based Payments; and, disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

- Details of exemptions taken in relation to Related Party Transactions are disclosed in note 30.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

**(b) Going concern**

The Group's business activities, together with the factors likely to affect its future development and position are set out in the strategic report including the actions taken to mitigate the potential impact of Covid-19.

To conclude on the going concern for the Company, the directors have considered the liquidity and solvency of Ithaca Energy Limited and have considered going concern at the group level.

Factors likely to affect the future development of the Group are lower commodity prices and a reduction in production due to personnel restrictions. The actions taken to mitigate the potential impact of Covid-19 are:

- Deferral of capital programmes
- Reduction of operating expenditure
- Hedging of commodity prices

3. **Summary of significant accounting policies (continued)**

Management closely monitors the funding position throughout the year including monitoring continued compliance with covenants and available facilities to ensure sufficient headroom to fund operations. Forecasts are produced regularly along with any related sensitivity analysis to allow proactive management of any business risks including liquidity risk.

Using these forecasts and sensitivities along with additional stress testing including a sustained low oil price and interruption to production and the actions outlined in response to Covid-19, the directors are satisfied that they have a reasonable basis upon which to conclude that the Group is able to continue as a going concern.

*Additional stress testing included:*

- Reduction of the commodity prices to \$1/bbl for oil for the remainder of the year
- Interruption of production on all assets for 4 months
- Reduction of the commodity prices by 20% for the going concern period

Based on their assessment of the Group's financial position, the Company's directors believe that the group will be able to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**(c) Jointly controlled operations**

The operation of most of the oil and gas exploration, development and production activity are generally conducted through jointly controlled operations (which are not entities) with other companies. The Company's interests in these jointly controlled operations are accounted for by recognising its share of assets, liabilities, income and expenses in the financial statements.

**(d) Investments**

Investments in subsidiary undertakings are stated at cost in the financial statements, less accumulated impairment losses.

**(e) Exploration, appraisal and development costs**

Exploration, appraisal and development costs are accounted for under the successful efforts method. All exploration and appraisal wells are capitalised pending evaluation of the project. If the project is subsequently deemed to be unsuccessful, the costs are expensed in the period in which the evaluation is made. Expenditure on general seismic data is expensed as incurred.

Development expenditure capitalised represents costs incurred in drilling development wells and acquiring and installing production facilities, except for costs relating to the initial feasibility studies which are expensed as incurred.

All licence acquisition costs are capitalised as intangible assets and are amortised on a unit of production basis.

**(f) Intangible assets, tangible assets, depreciation and amortisation**

Intangible assets comprise licence acquisition costs for producing fields which are amortised on a unit of production basis, as described in note (e).

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Leasehold property is depreciated over the life of the asset. The accumulated capital cost of producing equipment and completed wells and the decommissioning asset is depreciated on a unit of production basis, either by field, or group of fields where there are significant interdependencies such as infrastructure and cost share agreements. Under these methods, depreciation is calculated by reference to the production in the year as a proportion of proved reserves at the beginning of the period. Depreciation is provided to write off cost or valuation.

Assets Under Construction are not depreciated.

3. **Summary of significant accounting policies (continued)**

**(g) Impairment of non-financial assets**

At each balance sheet date, fixed assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit). Such impairment reviews are performed in accordance with FRS 102.

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the net realisable value, being fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's cash generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset. When determined, a fair value less costs to sell is derived using estimation techniques such as a discounted cash flow analysis by incorporating assumptions that market participants would use in estimating the asset's fair value and applying a post-tax discount rate (using market participant assumptions).

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

**(h) Provision for liabilities**

A provision is recognised when the Company has a legal or constructive obligation because of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

The Company has a provision for the estimated cost of dismantling and restoring the production and related facilities at the end of the economic life of each field which is recognised in full at the commencement of oil and gas production. The amount recognised is the present value of the estimated future restoration cost. An offsetting tangible fixed asset is also recognised and depreciated on a unit of production basis. Changes to the present value of the estimated future restoration cost are accounted for prospectively as adjustments to the provision and the fixed asset.

The unwinding of discounts on provisions is included within interest payable (note 10).

3. **Summary of significant accounting policies (continued)**

**(i) Leases**

At inception, the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the leases.

**(j) Taxation**

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account.

Current or deferred taxation assets and liabilities are not discounted.

**(i) Current Tax**

Current Tax including Petroleum Revenue Tax (PRT) which is provided on a field by field basis and Supplementary Charge (SCT) is the amount of tax payable in respect of the taxable profit for the year or prior years. Tax is calculated based on tax rates and laws that have been enacted or substantively enacted by the period end.

**(ii) Deferred Tax**

Deferred tax arises from timing differences that are differences between taxable profits and total profit and loss as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions:
- Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.
- Deferred tax shall also be recognised on assets acquired through a business combination when the amount that can be deducted for tax for an asset is less or more than the value at which it is recognised.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing differences.

**3. Summary of significant accounting policies (continued)**

**(k) Stocks**

**(i) Joint venture warehouse stock**

The Company's share of joint venture warehouse stock is stated at the lower of cost, determined on an average cost basis, and net realisable value. Cost includes the purchase price, taxes and duties, transport and handling directly attributable to bringing the inventory to its present location and condition.

**(ii) Crude oil and other hydrocarbon products**

Stocks of crude oil and other hydrocarbon products are stated at the lower of cost and selling price using the First-In, First-Out (FIFO) method. Cost is determined on an average cost basis and includes the appropriate share of operating expenses and depreciation. Over / under-lift positions and stock are considered on a net basis. Provision is made for the restitution of liftings if they differ from the Company's equity share of production. Any net over-lift position is included in creditors, valued at replacement value. Any net under-lift position is included within "stocks".

At the end of each reporting period, stocks are assessed for impairment. Where impairment is identified, the stock is reduced to its selling price less costs to sell, and an impairment charge is recognised in the profit and loss account as an adjustment to cost of sales. Where a reversal of the impairment is recognised, the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the profit and loss account as an adjustment to cost of sales.

**(l) Turnover**

Turnover represents amounts received and receivable net of value added tax and excise duties in respect of goods and services provided during the year. Goods and services represent the sale of hydrocarbons to third parties and fellow Group undertakings. Revenue from sales is recognised when the significant risks and rewards of ownership have been passed to the buyer and when the amount is recoverable and can be reasonably measured. Revenue associated with sales of oil and gas is recorded upon transfer of title, according to the terms of the sales contract. Any net over/under lift adjustment in respect of the sale of hydrocarbons is recognised in the profit and loss account as an adjustment to cost of sales.

**(m) Foreign currencies**

**(i) Functional and presentational currency**

The Company's functional and presentational currency is the pound sterling.

**(ii) Transactions and balances**

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

**(n) Pensions**

Prior to acquisition in November 2019, CNSL participated in the Chevron UK Pension Plan ("the Plan"). Contributions were accounted for in the financial statements as a defined contribution scheme with the annual cost of allocations charged to the profit and loss account. Transferring employees of CNSL became deferred members of the Plan from the date of acquisition and the Plan continues to be managed by Chevron group and formed no part of the acquisition.

The Company offers its employees membership of a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund.

3. **Summary of significant accounting policies (continued)**

**(o) Share based payments**

*Share Incentive Plan*
Prior to the acquisition of CNSL by Ithaca Energy, eligible employees of CNSL could participate in the Chevron UK Share Incentive Plan. Monthly contributions from salary were used by the plan trustee to acquire Chevron shares which were then matched by the plan on a two-for-one basis. CNSL received an annual management charge equivalent to the cost of each matched share during the period and this cost was charged to the profit and loss account.

*Long Term Incentive Plan*
Prior to the acquisition date, certain CNSL employees were eligible to participate in the Long-Term Incentive Plan of the former ultimate parent company, "Chevron Corporation". For the major types of awards outstanding at the acquisition date, the contractual terms varied between three years and 10 years. In accordance with FRS 102.26, the values of outstanding awards for those eligible employees, was charged to the profit and loss account and accounted for as equity-settled arrangements.

Equity-settled arrangements were measured at fair value at the grant date and this fair value was expensed on a straight-line basis over the vesting period, adjusted for the number of equity instruments that will ultimately vest.

Both of these Chevron-related schemes ceased to exist post-acquisition for Ithaca Energy (UK) Limited employees.

**(p) Financial instruments**

The Company has chosen to adopt the sections 11 and 12 of FRS 102 in respect of financial instruments:

*Financial assets*
Basic financial assets, including trade and other receivables, cash and bank are initially recognised at transaction price, unless arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method. At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the assets original effective interest rate. The impairment loss is recognised in profit or loss.

*Financial liabilities*
Basic financial liabilities, including trade and other payables and loans from fellow group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost using the effective rate of interest.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

**(q) Intercompany**

Balances with other companies of the Ithaca group are stated gross, unless both the following conditions are met;

- currently there is a legally enforceable right to set off the recognised amounts; and
- there is intent either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## 4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Critical judgements in applying accounting policies*
The Company elected to use the previous UK GAAP valuation of certain items of property, plant and equipment as the deemed cost on transition to FRS 102 from the date of transition (1 January 2014) in accordance with the Company's accounting policies.

*Critical accounting estimates and assumptions*
The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

### (i) Estimates of oil and gas reserves

The principal activities of the Company comprise the exploration for, development of and production and sale of hydrocarbons within the United Kingdom. Estimates of oil and gas reserves are used in the calculations for impairment tests and for accounting for depreciation and decommissioning. Changes in estimates of oil and gas reserves will affect the calculation of future cash flows used in impairment testing, anticipated decommissioning dates and depreciation charges in accordance with the unit of production method (UOP).

### (ii) Provisions for the cost of dismantling and restoring the production and related facilities

The Company has an obligation to pay for the dismantling and restoration costs for all production and related facilities at the end of a field's life. The present value cost of this obligation is dependent on several factors including the physical condition and location of the asset, future investment, current credit ratings and inflation factors. See note 24 for the disclosure relating to the provision.

### (iii) Rosebank sale

CNSL completed the sale of Rosebank to Equinor in January 2019. The timing and value of future proceeds and related receivable from this transaction were based on management's best estimates of future events. Rosebank did not form part of the CNSL purchase by Ithaca and so the cash proceeds received on completion of the sale and the remaining receivable balance were transferred to another Chevron entity in June 2019, prior to completion of the Ithaca transaction.

## 5. Turnover

All turnover and profits of the Company result from oil and gas exploration and production activities and the sale of hydrocarbons.

The Company's net assets, turnover and profit are derived from sales which originate in the United Kingdom. The directors of the Company believe that there is only one class of business.

| **Turnover comprises sales to the following markets:** | **2019 £million** | **2018 £million** |
|---|---|---|
| United Kingdom | 779.8 | 854.9 |
| Rest of Europe | 31.6 | 213.8 |
| North America | 74.5 | - |
| | 885.9 | 1,068.7 |

## 6. Other Income / Administrative expenses

| | **2019 £million** | **2018 £million** |
|---|---|---|
| **Other Income:** | | |
| Other operating income | (3.8) | (4.8) |
| Exchange (gain) | (15.9) | (0.7) |
| Income from amounts recharged within Chevron group | (6.0) | (11.1) |
| Research and development expenditure credit | - | (3.9) |
| | (25.7) | (20.5) |
| **Administrative expenses:** | | |
| Administrative expenses | 9.4 | 20.5 |
| Exploration costs | 4.1 | 31.5 |
| | 13.5 | 52.0 |
| | (12.2) | 31.5 |

## 7. Operating profit

| **Operating profit is stated after charging/(crediting):** | **2019 £million** | **2018 £million** |
|---|---|---|
| Depreciation and amortisation | 147.1 | 222.7 |
| Impairment charge – Captain EOR | - | 32.7 |
| Operating lease costs | 7.1 | 7.5 |
| Impairment of materials and supplies inventory | 3.1 | 6.1 |
| Crude oil stock and other hydrocarbon products movement | (13.4) | (4.5) |
| Research and development costs | 3.7 | 9.2 |
| Exchange (gain) from trading activities | (15.9) | (0.7) |

## Notes to the Financial Statements for the year ended 31 December 2019 (continued)

### 8. Gain on sale of non-current assets

The gain of £879.3 million mainly relates to a gain of £980.8 million made on transfer of assets at market value, to other group entities effective 17th December 2019 as part of restructuring. Alba remained within the Company, while the assets transferred were Captain, Erskine & Alder operated fields, plus non-operated equities in Britannia and its satellite fields, Elgin-Franklin & Jade. This was offset by a before-tax loss of £101.5 million on the sale of Rosebank which occurred prior to the acquisition of CNSL.

There were no gains or losses relating to the sale of non-current assets in 2018.

### 9. Interest receivable and similar income

| | 2019 £million | 2018 £million |
|---|---|---|
| Interest receivable and similar income | 0.2 | 0.1 |
| Interest receivable from group undertakings | 5.5 | 4.5 |
| Adjustment to provisions: | | |
| Decrease in restoration liability for assets not owned | 6.9 | 1.6 |
| Unwinding of discount and adjustment on provisions: | | |
| Other | 1.9 | 0.8 |
| | 14.5 | 7.0 |

### 10. Interest payable and similar expenses

| | 2019 £million | 2018 £million |
|---|---|---|
| Interest payable and similar expense | (0.7) | (0.2) |
| Interest payable to group undertakings | (0.1) | - |
| Unwinding of discount and adjustment on provisions: | | |
| For field restoration costs (note 24) | (31.9) | (31.8) |
| | (32.7) | (32.0) |

### 11. Auditors' remuneration

Fees payable to the current auditor (EY)
- Audit of the Company's financial statements, £120,000 (2018: nil)
- Non-audit services £nil (2018: nil).

Fees payable to the previous auditor (PwC)
- Audit of the Company's financial statements, £nil (2018: £300,000)
- Non-audit services £108,000 (2018: nil)

**Notes to the Financial Statements**
**for the year ended 31 December 2019 (continued)**

12. **Directors' Emoluments**

| | Directors' emoluments | |
|---|---|---|
| **(a) Aggregate amounts** | **2019 £million** | **2018 £million** |
| Emoluments of directors | 4.4 | 4.5 |

| | **2019 Number** | **2018 Number** |
|---|---|---|
| Number of directors to whom retirement benefits are accruing under defined benefit schemes | 6 | 6 |
| Number of directors exercising share options in Chevron Corporation | 4 | - |
| Number of directors entitled to receive shares in Chevron Corporation under long term incentive schemes | 6 | 6 |

| **(b) Highest paid director** | **2019 £million** | **2018 £million** |
|---|---|---|
| Aggregate of amount disclosed under (a) above - emoluments | 2.1 | 1.0 |

The current directors of the Company are remunerated by another group company and the relevant disclosures are made within the financial statements of the employing company, Ithaca Energy (UK) Limited.

Directors' emoluments above relates to outgoing directors who resigned at the time of, or prior to, the date of the Company being acquired by Ithaca Energy Limited.

The highest paid outgoing director received share options and shares in Chevron Corporation under long term incentive schemes.

The highest paid outgoing director accrued pension entitlement under Chevron Corporation defined benefit scheme of £31,500 (2018: £28,000) and accrued lump-sum entitlement was £6,100,000 (2018: £4,900,000).

No compensation was payable in respect of loss of office during the financial year (2018: £nil).

13. **Employee Information (including directors)**

Prior to the date of acquisition, the contracts of service for CNSL's employees were held by the UK affiliate company, Chevron Energy Limited.

From the date of acquisition, the Company's employees are employed by Ithaca Energy (UK) Limited.

The related costs of the employees who work on the Company's assets are disclosed in the financial statements of the Company as if they were employed by the Company.

| **a) Employee costs (including directors) during the year:** | **2019 £million** | **2018 £million** |
|---|---|---|
| Wages and salaries | 57.4 | 72.1 |
| Social security costs | 5.7 | 6.9 |
| Pension costs (note 29) | 6.6 | 9.5 |
| | 69.7 | 88.5 |

| **b) Average monthly employees (including directors) during the year:** | **2019 Number** | **2018 Number** |
|---|---|---|
| **By activity** | | |
| Exploration, production and administration | 458 | 601 |

CNSL participated in the Chevron UK Share Incentive Plan and membership was available until the date of acquisition. For the financial year to date of acquisition, £911,000 (2018: £1,350,000, 12 months) was charged to the profit and loss account in relation to the shares gifted to employees who worked for the CNSL. The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(d)(i), from disclosing details of the CNSL share incentive plan, on the basis that CNSL was a qualifying entity and its former ultimate parent company provides details of employee benefits plans within its own published financial statements.

CNSL also participated in the Chevron Corporation Long-Term Incentive Plan until the date of acquisition. In accordance with FRS 102 paragraph 26, the awards were accounted for as equity-settled awards. During 2019, the movement on the awards of £1,333,000 (2018: £1,020,000), was charged to the profit and loss account.

The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(d)(i), from disclosing details of the share-based payments, as at the time of eligibility to these payments, the Company was a qualifying entity of its former parent company which includes full details of these in its own consolidated financial statements.

## 14. Tax on profit

| | 2019 £million | 2018 £million |
|---|---|---|
| The charge for taxation is made up as follows: | | |
| Current year Corporation Tax charge | 146.2 | 172.4 |
| Current year Supplementary (credit)/charge | 27.3 | |
| Prior year Corporation Tax (credit)/charge | 1.9 | (0.6) |
| | 175.4 | 171.8 |
| Current year deferred Corporation Tax (credit)/charge | (140.5) | (27.7) |
| Current year deferred Supplementary (credit)/charge | (46.7) | (9.1) |
| Prior year deferred Corporation Tax (credit)/charge | (1.4) | 0.2 |
| | (188.6) | (36.6) |
| **Tax on profit** | (13.2) | 135.2 |

The UK rate of Corporation Tax applicable to ring fence activities is charged at 30% (2018: 30%). The Supplementary Charge at 10% (2018: 10%) is calculated on the same basis as Corporation Tax, without the deduction for financing costs. The lower standard rate of Corporation Tax of 19.0% (2018: 19.0%) applies to certain incidental activities.

Petroleum Revenue Tax is charged on the taxable profit chargeable to Petroleum Revenue Tax at 0% (2018: 0%).

The tax assessed for the year is lower (2018: lower) than the standard rate of Corporation Tax in the UK of 30% (2018: 30%). The differences are explained below:

| | 2019 £million | 2018 £million |
|---|---|---|
| Profit on ordinary activities before taxation | 1,321.4 | 480.6 |
| Tax at 30% (2018: 30%) | 396.4 | 144.2 |
| **Effects of:** | | |
| Deferred Tax timing differences | (46.7) | (9.1) |
| Current Year Supplementary (credit)/charge | 27.3 | - |
| Non-ring fence items credit | (0.5) | (0.4) |
| Prior year Corporation Tax and Supplementary credit | 1.9 | (0.6) |
| Prior year Deferred Corporation Tax charge | (1.4) | 0.2 |
| Items not subject to tax | (387.8) | 0.8 |
| Other | (2.4) | 0.1 |
| Total tax charge for the financial year | (13.2) | 135.2 |

## 15. Intangible assets

| | £million |
|---|---|
| **Cost** | |
| At 1 January 2019 | 75.7 |
| Disposals | (69.7) |
| At 31 December 2019 | 6.0 |
| **Accumulated amortisation** | |
| At 1 January 2019 | 74.5 |
| Charge for the year | 0.2 |
| Disposals | (69.0) |
| At 31 December 2019 | 5.7 |
| **Net book value** | |
| At 31 December 2019 | 0.3 |
| At 31 December 2018 | 1.2 |

Intangible assets comprise licence acquisition costs for producing fields which are amortised on a unit of production basis. Amortisation charged for the year is included within "Depreciation and amortisation" note 7.

**Notes to the Financial Statements**
**for the year ended 31 December 2019 (continued)**

## 16. Tangible assets

| | Long Leasehold Property £million | Producing Equipment & Completed Wells £million | Decommissioning Asset £million | Exploration Asset £million | Assets Under Construction £million | Total £million |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2019 | 12.7 | 5,377.3 | 226.1 | 151.1 | 387.3 | 6,154.5 |
| Reclassifications | 0.1 | 107.0 | - | - | (107.1) | - |
| Additions | - | - | (1.5) | 0.9 | 110.7 | 110.1 |
| Disposals (Note 8) | - | (4,982.1) | (189.5) | (151.1) | (385.3) | (5,708.0) |
| At 31 December 2019 | 12.8 | 502.2 | 35.1 | 0.9 | 5.6 | 556.6 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2019 | 9.9 | 3,701.8 | 354.6 | - | 32.7 | 4,099.0 |
| Charge for the year | 0.7 | 178.7 | (32.5) | - | - | 146.9 |
| Disposals | - | (3,426.3) | (279.0) | - | (32.7) | (3,738.0) |
| At 31 December 2019 | 10.6 | 454.2 | 43.1 | - | - | 507.9 |
| **Net book value** | | | | | | |
| At 31 December 2019 | 2.2 | 48.0 | (8.0) | 0.9 | 5.6 | 48.7 |
| At 31 December 2018 | 2.8 | 1,675.5 | (128.5) | 151.1 | 354.6 | 2,055.5 |

**Notes to the Financial Statements**
**for the year ended 31 December 2019 (continued)**

## 17. Investments

| | 2019 £million | 2018 £million |
|---|---|---|
| Shares in subsidiary and affiliate undertakings: | | |
| Shares at cost at 1 January | 125.0 | 125.0 |
| Disposals | (125.0) | - |
| Shares at cost at 31 December | - | 125.0 |
| Provisions for impairment of investments at 1 January | (124.9) | (124.9) |
| Disposals | 124.9 | - |
| Provisions for impairment of investments at 31 December | - | 124.9 |
| Net book value of shares at 31 December | - | 0.1 |

Disposal of subsidiary investments to Chevron North Sea Holdings Ltd, prior to Ithaca acquisition in accordance with Sale & Purchase Agreement

## 18. Stocks

| | 2019 £million | 2018 £million |
|---|---|---|
| Crude oil and other hydrocarbon products | 2.3 | 21.7 |
| Warehouse stocks | 1.8 | 37.0 |
| | 4.1 | 58.7 |

Crude oil and other hydrocarbon stocks are stated after a provision for impairment charge of £nil (2018: £nil). Warehouse stocks are stated after a provision for impairment charge of £1.3 million (2018: £6.1 million).

## 19. Debtors

| | 2019 £million | 2018 £million |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade debtors | - | 49.5 |
| Amounts owed by group undertakings | 3.5 | 110.6 |
| Other debtors | 20.7 | 56.6 |
| Prepayments and accrued income | 0.8 | 4.2 |
| | 25.0 | 220.9 |
| Amounts falling due after more than one year: | | |
| Group Restructuring Loan | 1,123.7 | - |
| Group Loan Note | 737.7 | - |
| Deferred Tax Asset (note 23) | 87.1 | - |
| Other debtors | 0.5 | 0.1 |
| | 1,974.0 | 221.0 |

All group balances relate to UK entities. The Group Restructuring and Loan Note relates to the purchase of CNSL. The opposite side of this loan resides within the financial statements of Ithaca Energy (UK) Limited.

## 20. Creditors: amounts falling due within one year

| | 2019 £million | 2018 £million |
|---|---|---|
| Bank loans and overdrafts | - | 0.1 |
| Trade creditors | 7.5 | 18.6 |
| Amounts owed to group undertakings | - | 14.1 |
| Other creditors including taxation and social security | 58.8 | 80.8 |
| Accruals and deferred income | 7.5 | 42.5 |
| Short-term decommissioning provision | 9.2 | 7.5 |
| | 83.0 | 163.6 |

All group balances relate to UK entities.

## 21. Creditors: amounts falling due after more than one year

| | 2019 £million | 2018 £million |
|---|---|---|
| Other creditors | 8.0 | 12.1 |
| | 8.0 | 12.1 |

## 22. Provisions for liabilities

| | 2019 £million | 2018 £million |
|---|---|---|
| Deferred Taxation (notes 19 & 23) | - | 554.9 |
| Provision for field restoration costs (note 24) | 264.2 | 706.5 |
| | 264.2 | 1,261.4 |

Deferred Tax is an asset at the end of 2019, as a result of Decommissioning Provisions exceeding Fixed Assets. See note 23 (Deferred Taxation) and note 19 (Debtors).

## 23. Deferred Taxation

Deferred Corporation Tax is provided at 30% (2018: 30%) and Deferred Supplementary Charge at 10% for all timing differences (2018: 10%). Deferred Petroleum Revenue Tax is provided at 0% or 50% dependent upon the anticipated timing of the reversal (2018: 0% or 50%).

| The gross movement on deferred income tax is as follows: | 2019 £million | 2018 £million |
|---|---|---|
| At January | 554.9 | 591.5 |
| Income Statement credit | (186.8) | (36.8) |
| Prior Year Deferred Corporation Tax charge | (1.4) | 0.2 |
| Transfer of assets to a connected party | (453.7) | - |
| Liability/(Asset) at 31 December | (87.1) | 554.9 |

| (a) Deferred Corporation Tax and Supplementary Charge | 2019 £million | 2018 £million |
|---|---|---|
| Accelerated capital allowances | 21.9 | 870.2 |
| Field restoration costs | (112.6) | (337.0) |
| Short-term timing differences | 3.6 | 21.7 |
| Tax losses carried forward | - | - |
| | (87.1) | 554.9 |

| (b) Deferred Petroleum Revenue Tax | 2019 £million | 2018 £million |
|---|---|---|
| Field restoration costs | - | - |
| | - | - |

At 31 December 2019 there were no activated but unused tax allowances (2018: £67.4 million).

## Notes to the Financial Statements for the year ended 31 December 2019 (continued)

### 24. Provision for field restoration costs

| | 2019 £million | 2018 £million |
|---|---|---|
| At 1 January | 706.5 | 667.5 |
| Chevron group balance transfers pre-acquisition | (32.7) | - |
| Ithaca group balance transfers on restructure | (419.7) | - |
| (Decrease)/increase in restoration liability | (10.6) | 5.9 |
| Unwinding of discount (note 10) | 31.9 | 31.8 |
| Currency adjustment | (1.7) | 3.1 |
| Transfer to short term liability | (9.5) | (1.8) |
| At 31 December | 264.2 | 706.5 |

At the end of December 2019, the Company's long-term provision for field restoration costs was £264.2 million (2018: £706.5 million). The balance at 31 December 2019 relates to Alba, Heather and Strathspey. The balances relating to other assets were transferred within the group as part of a restructuring exercise in December 2019. Heather & Strathspey have an offsetting receivable within Ithaca Energy (UK) Limited as Ithaca did not purchase the obligation.

The costs, for dismantling and restoring the Company's production and related facilities, will be incurred over a period, estimated to be the next 30 years. The provision has been calculated in current day monies and has been discounted using a discount rate of 4.1% (2018: 4.1%).

### 25. Called up share capital

| | 2019 £million | 2018 £million |
|---|---|---|
| **Authorised, issued, called up and fully paid** | | |
| 221 million (2018: 221 million) ordinary shares of £1 each | 221.0 | 221.0 |

### 26. Dividends

| | 2019 £million | 2018 £million |
|---|---|---|
| **Ordinary shares** | | |
| £2.53 (2018: £2.71) per £1 share | 559.2 | 599.7 |

The 2019 dividend was declared and paid prior to the acquisition of the Company.

There are no dividends proposed at the year-end (2018: £nil).

## 27. Operating leases

| | 2019 £million | 2018 £million |
|---|---|---|
| The future minimum lease payments under non-cancellable operating leases extant at 31 December are as follows: | | |
| Not later than one year | 11.3 | 13.2 |
| Later than one year and not later than five years | 16.7 | 18.5 |
| Later than five years | 2.6 | - |
| Total operating leases | 30.6 | 31.7 |

Annual commitments under operating lease contracts are shown gross, as the leases are held in the Company's name. Group companies and co-venturers will incur their share of these costs where applicable.

The rental expense recognised for leases for the year is £7.1 million (2018: £7.5 million).

The rentals payable under these leases are subject to renegotiation at various intervals specified in the leases.

## 28. Capital commitments

| | 2019 £million | 2018 £million |
|---|---|---|
| Commitments in respect of contracts entered | 3.5 | 126.0 |

Capital commitments are shown at the Company's net position. At 31 December 2019, the balance relates only to Alba as a result of assets being transferred to other group entities during internal restructuring.

## 29. Pension scheme

Prior to acquisition, CNSL took advantage of the exemption available under FRS 102 paragraph 28 'Post Employment Benefits'. Pension contributions to the Chevron UK Pension Plan (a defined benefits scheme) were charged to the profit and loss Account as they became due. From the date of acquisition, transferring employees became deferred members of this plan which formed no part of the acquisition and remains a part of Chevron group.

The Company currently operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund.

Total pension contributions paid by the Company and charged to the profit and loss account amounted to £6,600,000 (2018: £9,500,000).

## 30. Related party transactions

The Company has taken advantage of the exemption available under FRS 102 paragraph 33.1A not to disclose any transactions with entities that are part of the Group which qualify as related parties, as the Company is a wholly owned subsidiary which is included in the publicly available financial statements of Delek Group Limited.

**Notes to the Financial Statements**
**for the year ended 31 December 2019 (continued)**

31. **Ultimate parent undertaking**

From the date of acquisition on 8th November, the immediate parent undertaking is Ithaca Energy (UK) Limited.

From acquisition date, the ultimate parent undertaking and controlling party is Delek Group Limited, an independent Exploration and Production (E&P) company listed on the Tel Aviv Stock Exchange and the ultimate controlling party is Yitzhak Tshuva.

32. **Post Balance Sheet Events**

In Q1 2020 the Covid-19 pandemic resulted in a sharp fall in global crude prices in addition to significant commodity market volatility relating to the global supply of oil. The main focus of the company has centred on maintaining the health of the workforce and reducing the risk of spreading the virus, whilst at the same time preserving the operational and financial resilience of the business

The Company benefits from hedging deals within its group for forward output at an average price of $62/bbl. This significantly reduces the exposure of the Company in this regard. Further information on the hedging arrangements are disclosed within the financial statements of Ithaca Energy (UK) Limited. Operationally, Alba's production remains steady and around planned levels.

Various initiatives have been undertaken over the first half of the year to reset the cost base of the business and drive forward the underlying transformation principles of process simplification, operational efficiencies and value creation.