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JKX Oil & Gas plc Annual Report 2012

An important growth phase begins

Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2012

Principal activities, business review and future developments
The principal activities of the Group are oil and gas exploration, appraisal, development and production, conducted through subsidiary undertakings

The Company is required by the Companies Act 2006 to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2012 and of the position of the Group at the end of the year (the business review)

A review of principal business activities and future developments are set out in the following sections of the Annual Report and these sections are incorporated into the Directors Report by reference

The Chairman s statement, Chief Executive s statement and the Financial Review also include details of expected future developments in the business of the Group

Results and dividends
The consolidated income statement on page 110 sets out the results of the Group for the year

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2012 (2011 nil)

Going concern
The Board closely monitors and manages its liquidity risk Cash flow forecasts are regularly produced and sensitivities run for different scenarios including but not limited to changes in commodity prices different production and tax rates in relation to the Group s producing assets and delays to development projects

The Directors have reviewed the Group s forecast cash flows for the next twelve months and through to the end of 2014 Capital and operating costs are based on approved budgets and latest forecasts in the case of 2013 and current development plans in the case of 2014

In addition the Directors have made enquiries into and considered the Ukrainian and Russian business environments and future expectations regarding country and currency risks that the Group may encounter

Having considered the sensitivities and potential outcomes relating to these country and currency risks and the Group s ability to change the timing and scale of its discretionary capital expenditure the Directors consider that the Company and Group have adequate resources to continue for the foreseeable future The going concern basis for the financial statements has therefore continued to be adopted

Annual General Meeting
The Annual General Meeting of the Company will be held at 11am on 5 June 2013 at the premises of The Kings Fund, 11-13 Cavendish Square, London, W1G 0AN

At the AGM, individual shareholders are given the opportunity to put questions to the Chairman, the chairmen of the Audit Nominations and Remuneration Committees and to other members of the Board The voting results are announced via the London Stock Exchange as soon as practicable after the meeting The announcement is also made on the Company s corporate website

Notice of the 2013 AGM and matters of Ordinary Business and those proposed as Special Business together with explanatory notes, will be sent to shareholders at least 20 working days before the meeting

Political and charitable contributions
The Group made charitable contributions of $425,196 (2011 $476,812) for local educational, health and village infrastructure initiatives in Ukraine and Russia In line with Group policy, the Group did not make any political contributions during the year (2011 nil)

Disabled employees
The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by such persons

Should an existing employee become disabled it is in the Group s policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion

Shares in JKX Oil & Gas plc
Details of movements in share capital during the year are set out in note 15 to the financial statements The Company has one class of Ordinary Share which carries no right to fixed income Each share carries the right to one vote at General Meetings of the company There are no significant restrictions on the transfer of securities

Treasury Shares
In 2012 the Company did not purchase in the market any of its own ordinary 10p shares, to be held as Treasury Shares At 31 December 2012, 402,771 (2011 402,771) shares continued to be held as Treasury Shares representing 0 23% (2011 0 23%) of the shares then in issue

Directors and their interests
The Directors and their interests at the beginning and end of the year in the shares of the Company all beneficially held, were as shown in the table below

Details of Directors remuneration and share options are shown in the Remuneration Report on pages 92 to 107 There were no contracts existing during or at the end of the year in which a Director was, or is, materially interested

The share capital structure is listed in note 15 in the notes to the financial statements and the significant holdings are listed below

Directors' indemnities
As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006 The indemnity was in force throughout the last financial year and is currently in force The Company also purchased and maintained throughout the financial year Directors and Officers liability insurance in respect of itself and its Directors

Significant contracts and transparency directive information
There are a number of agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts finance agreements, property lease arrangements and employees share plans None of these is considered to be significant in terms of their likely impact on the business of the Group as a whole Furthermore, the directors are not aware of any agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid

Events after the reporting date
Events after the reporting date are discussed in note 34 to the financial statements

Creditor payment policy and practice
It is the Company s policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers providing that all trading terms and conditions have been complied with The Company has no trade creditors (2011 none)

Directors' interests

	1 January 2012 Ordinary Share Number	31 December 2012 Ordinary Share Number	5 April 2013 Ordinary Share Number
Nigel Moore	14 000	29 000	29,000
Dr Paul Davies[1]	3,632 272	3 632 272	3,632,272
Cynthia Dubin	–	40,000	40,000
Peter Dixon	163 179	163 179	163,179
Martin Miller	190 000	190 000	190,000
Dipesh Shah OBE[2]	5,000	10 490	10 490
Lord Oxford	94 000	94,000	94 000
Alastair Ferguson	–	-	-
Richard Murray (appointed 1 January 2013)	Not applicable	Not applicable	-

1) Dr Paul Davies interest is partly indirect with 1 975 000 ordinary shares held in trust the beneficiary of which is the family of Dr Paul Davies Of the remaining ordinary shares 1 000 are held by Mr D Davies the son of Dr Paul Davies with the balance held directly by Dr Paul Davies
2) Dipesh Shah s interest is held by members of his immediate family

Directors' report

Substantial shareholders

At 31 December 2012 and at 5 April 2013, the Company had received notification from the following institutions of interests in excess of 3% of the total number of voting rights of the Company (see below)

Directors' Responsibilities Statement
The responsibility statement set out below has been reproduced from the Annual Report and Accounts, which will be published in April 2013, and relates to that document and not this announcement

The directors confirm to the best of their knowledge

- The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities financial position and profit and loss of the group
- The annual report includes a fair review of the development and performance of the business and the financial position of the group and the parent company, together with a description or the principal risks and uncertainties that they face

	31 December 2012 Number of shares	31 December 2012 % of total voting rights	5 April 2013 Number of shares	5 April 2013 % of total voting rights
Ralkon Commercial Ltd	47,276,752	27 48%	-	-
Eclairs Group Limited	-	-	47 287 027	27 55%
Glengary Overseas Ltd	19,656,344	11 42%	19 656 344	11 45%
Aberforth Partners	11,773,103	6 84%	13 413 103	7 81%
Interneft Ltd	11 368 460	6 61%	11 368 460	6 62%
Blackrock Investment Management (UK)	10 899 171	6 33%	9 249 504	5 39%
JSC Naftogaz of Ukraine	9 957 214	5 79%	9 957 214	5 80%
The Boston Company Asset Management	6,752,574	3 92%	8 254 347	4 81%

By order of the Board
Limor Gonen
Company Secretary
8 April 2013

Corporate governance

Governance principles
Good governance at all levels is taken seriously at JKX and the Board set the tone and take the lead

The Board s policy is to ensure that good practice flows throughout the Group It is committed to driving our strategic priorities designed to significantly enhance shareholder value at the same time securing our future and further developing our processes and procedures

During 2012, we continued to strengthen our internal control and risk management processes and we continue to embed these right across our operations across the Group

The Board is committed to the principles of the revised UK Corporate Governance Code (the Code) which was published by the Financial Reporting Council in May 2010 and which was updated in September 2012

Role of the Board
The Board provides leadership to the Group The Board is responsible to shareholders for leading developing and protecting the interests of the Group and delivery of sustainable financial performance and long-term shareholder value

Key matters reserved for the consideration and the approval of the Board are

- setting and monitoring Group strategy
- review of Group business plans, trading performance and costs
- review and approval of the annual operating and capital expenditure budgets
- approval of capital investment projects across the Group
- examination of acquisition opportunities, divestment possibilities and significant financial and operational issues
- remuneration policy (through the Remuneration Committee)
- appointments to the Board (through the Nominations Committee) and senior management appointments, Committee membership and remuneration for Directors and senior management
- review and approval of the Company s financial statements
- setting any interim dividend and recommendation of the final dividend and
- ensuring that the significant business risks are actively monitored and managed using robust control and risk management systems

All other authorities are delegated by the Board, supported by appropriate controls, to the Chief Executive Officer on behalf of senior management

Board effectiveness

How the Board functions
The Board has six scheduled meetings each year and arranges additional meetings if the need arises

During 2012 there were 8 Board meetings (2011 9) In addition, the Board meets at least annually to consider strategy

The Chairman, in consultation with the Executive Directors, sets the agenda for Board meetings All directors receive comprehensive documentation prior to each meeting on the matters to be discussed

In addition to Board meetings, the Non-Executive Directors meet in private session both as a group and without the Chairman, at least once annually to discuss current issues affecting the Group

Financial reporting
In light of the recent challenging economic times we continue to focus on more accurate, efficient and timely financial reporting and have reduced the internal group monthly management reporting timetable by several days during 2012

The Group continues to maintain an effective and reliable accounting and management information system

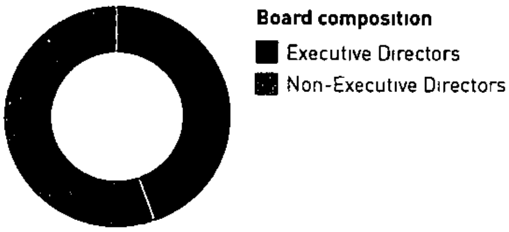
Board briefings
The Board receives consolidated monthly management reports outlining all material operational, financial and strategic developments The consolidated reports comprising financial information from all parts of the Group include actual performance against budget and forecast for oil and gas production, sales and costs, and provides the Board with information on issues including debtors, the cash position, cash flow forecasting and the financial implications of key sensitivities including changes in commodity prices, production and exchange rates These reports ensure that members remain properly briefed on the performance and financial position of the Group

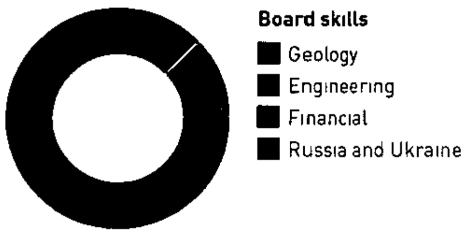
All directors are encouraged to participate in site visits to the Group s operations and to engage with local employees Except for Richard Murray, who was appointed on 1 January 2013 all of the current Board members have visited our operations in Ukraine and Russia during 2012

The Board has adopted a policy whereby directors may in the furtherance of their duties seek independent professional advice at the Company s expense During 2012 no director sought independent legal advice pursuant to the policy

Each director has the benefit of a deed of indemnity from the Company and its subsidiaries in respect of claims made and liabilities incurred in either case

Corporate governance





arising out of the bona fide discharge by the director of his or her duties The Company has also arranged appropriate insurance cover in respect of legal action against directors of the Company and its subsidiaries

Committees of the Board
The Board has established a number of standing committees to assist the Board by focusing on specialist areas which are ultimately accountable to it These comprise

- the Audit Committee
- the Nominations Committee
- the Remuneration Committee

The Board committees meet independently and provide feedback to the main Board through their chairmen

The roles and activities of each of these committees during the year are noted below

Composition of the Board, independence and commitment
At 1 January 2013 the Board comprised a Non-Executive Chairman, four Executive Directors and four Non-Executive Directors

The Board has reviewed the independence of each Non-Executive Director None of the Non-Executive Directors who has served during the year had any material business or other relationship with the Group and there were no other matters that were likely to affect their independence of character and judgement

It is the Board s view that the Non-Executive Directors have sufficient time to fulfil their commitments to the Company and no Executive Director holds a Non-Executive Directorship, or Chairmanship, in a FTSE 100 company

Board skills, experience and responsibilities
The majority of the Directors have extensive knowledge and experience of the oil and gas industry and bring other relevant experience required by JKX to achieve its strategic goals Director biographies are provided on pages 78 and 79

The Non-Executive Directors bring a broad range of skills, experience and expertise which allows them to challenge effectively, independently and constructively the performance of the Executive Board and their strategy

Board changes
In July Sir Ian Prosser resigned from the Board to pursue other interests and Nigel Moore was voted unanimously by the Board to assume the post of Chairman At the same time Dipesh Shah became the Senior Independent Director

Following an extensive search by an external advisory firm Richard Murray was appointed as a Non-Executive Director with effect from 1 January 2013 and was subsequently appointed as Chairman of the Audit Committee and as a member of the Remuneration Committee

Richard has recently retired from the position of Audit Partner at Ernst & Young after more than 35 years of service and after becoming partner in 1984 Richard brings significant financial and international business experience to the Board

Senior Independent Director
Dipesh Shah is the Senior Independent Director (SID) Dipesh is available for discussions with other Non-Executive Directors who may have concerns which they believe have not been properly considered by the Board as a whole He also acts as an alternative point of contact for the Executive Directors, if required, in addition to the normal channels of the Chairman and Chief Executive Officer

A key responsibility of the SID is to ensure he is available to shareholders if they have concerns that have not been resolved by contact through the normal channels of Chairman, Chief Executive Officer or other Executive Directors, or where such contact is inappropriate

Key biographical details	Relevant experience	Board responsibilities
Nigel Moore		
• Chartered Accountant • Chairman of the Audit Committee of Hochschild Mining plc, The Vitec Group plc, Ascent Resources plc	• Previously a London-based partner of Ernst & Young • Extensive financial experience in international oil and gas and mining groups • FTSE-listed company experience	• Chairman of the Board (since 13 July 2012) • Chairman of the Nomination Committee • Member of Audit Committee (until 17 January 2013) • Member of the Remuneration Committee • Leadership of the Board ensuring cohesion between the Executive and Non-Executive Directors
Dr Paul Davies		
• Civil engineer, PhD in Structural Mechanics • Co-founder of the JP Kenny Group of Companies (forerunner of JKX Oil & Gas plc) • Board member since 1998	• Extensive experience of business in the former Soviet Union • Oil and gas engineering, exploration and production projects	• Chief Executive Officer • Stewardship of the Group and its business • Developing an appropriate business strategy for Board approval • Leadership to the executive team and subsidiary directors • Investor relations
Cynthia Dubin		
• Investment banker • Co-founder and Chief Financial Officer of Canamens Energy Ltd • Finance Director for EMEA at Edison Mission Energy	• Significant project finance and banking experience	• Finance Director • Financial management of the Group • Relationships with the Group s bankers • Risk Management, IT, Facilities and Procurement
Peter Dixon		
• 15 years working in geophysical roles within Schlumberger • Joined JKX in 1995 as Asset Manager for Ukraine • General Director of Poltava Petroleum Company for 3 years • Board member since 2007	• Significant experience in the upstream oil and gas industry in the former Soviet Union • In-depth knowledge of working in Ukraine and Russia	• Commercial Director • Trading of oil, gas and condensate
Martin Miller		
• Geologist, Chartered Engineer • Senior positions with Mobil and BP • Joined JKX in 1994 as Chief Geologist	• 40 years of experience working in the oil and gas industry	• Technical Director • Subsurface and technical teams
Dipesh Shah, OBE		
• Former Chief Executive of several businesses in BP • Chief Executive of the UK Atomic Energy Authority • Non-Executive Director at Thames Water Utilities and Chairman of Viridian Group plc • Non-Executive Director of Canaccord Financial Inc	• Over 30 years of experience working in the oil and gas sector • Significant FTSE-listed company experience	• Senior Independent Director • Chairman of the Remuneration Committee • Member of the Audit Committee

Corporate governance

Key biographical details	Relevant experience	Board responsibilities
Lord Oxford		
• Joined the Foreign Office in 1980 • Counsellor at the British Embassy in Kiev from 1992 to 1997	• Unrivalled knowledge and experience of doing business in Ukraine • FTSE-listed company experience	• Non-Executive Director • Member of the Nominations Committee
Alastair Ferguson		
• Former President of New Gas Projects, Upstream, TNK-BP • Former Executive Vice-President of Gas & Power with TNK-BP • Senior positions with BP	• 30 years of experience in the oil and gas sector • Extensive experience of the gas and power business in Russia and Ukraine	• Non-Executive Director • Member of the Audit Committee
Richard Murray		
• Chartered Accountant • Audit partner at Ernst & Young with more than 35 years of service	• Advisor to major international companies on various corporate finance activities	• Non-Executive Director (appointed 1 January 2013) • Chairman of the Audit Committee (appointed 17 January 2013) • Member of the Remuneration Committee

Diversity
The Board comprises eight men (89%) and one woman (11%)

The Board supports the longer term aspirations of Lord Davies s report regarding gender diversity on appointment of directors to boards Gender is only one aspect of diversity, and there are many other attributes and experience that can improve the board s ability to act effectively

Our policy is to search for the highest quality people with the most appropriate experience for the requirements of the business be they men or women

Board evaluation
The effectiveness of the Board is vital to our continuing success

An evaluation of the full Board and Chairman was carried out during 2011 by Michael Kayser, the Interim Director of Finance at the end of his tenure, and overseen by Nigel Moore Following a number of changes to Board responsibilities during the year and the appointment of Richard Murray on 1 January 2013 the Board will consider the relevance of an externally facilitated evaluation during 2013

Evaluation of the performance of Directors, the Board and its committees is undertaken as follows

- the Executive Directors are evaluated by the Non-Executive Directors in informal session
- the Chairman is evaluated by the other Non-Executive Directors, led by the Senior Independent Non-Executive Director, taking into account the views of the Executive Directors
- the Committees are evaluated by the Senior Independent Non-Executive Director along with the Chief Executive, taking into account the views of the other Executive Directors
- the Non-Executive Directors excluding the Chairman, are evaluated by the Chairman and Chief Executive taking into account the views of the other Executive Directors and
- the Board as a whole evaluates its own performance by consolidating and discussing the reviews set out above

Board activities

Board's work during 2012
Completing, commissioning and the ramp-up of production at our Russian gas plant took up a considerable amount of the Board s time during 2012, as would be expected given the strategic importance of this major project

In addition the most efficient and appropriate capital structure of the group was considered at length in light of the cash impact of the strategic move to diversify into new assets in Russia whilst continuing to invest in capital intensive projects in Ukraine This resulted in the successful completion of the $40m convertible bond in February

Other matters of particular focus were

- Operational and financial performance reviews, with particular focus on production performance and expenditure at our Russian gas plant
- Group financing strategies and capital structure
- Corporate policy risk management and compliance
- New growth opportunities

Attendance at meetings

The number of meetings of the Board and its committees during 2012 and individual attendance by director is shown below

	Board	Audit	Remuneration	Nomination
Number of meetings	**8**	**5**	**5**	**1**
Nigel Moore	8/8	5/5	5/5	1/1
Dr Paul Davies	8/8	-	-	-
Cynthia Dubin	7/8	-	-	-
Martin Miller	8/8	-	-	-
Peter Dixon	8/8	-	-	-
Lord Oxford	6/8	-	-	1/1
Dipesh Shah OBE	7/8	5/5	5/5	-
Alastair Ferguson	6/8	5/5	-	-
Sir Ian Prosser	2/3	-	4/4	-

Audit Committee Report
Richard Murray (as Chairman), Dipesh Shah, Alastair Ferguson

Role

- Monitors adequacy of the Group s internal control, risk management and financial reporting processes
- Reviews the Group s accounting policies
- Monitors the integrity of the financial statements of the Group and any significant financial reporting judgements
- Recommends appointment of the external auditors to the Board and annually assesses their independence, objectivity, effectiveness, remuneration and terms of engagement
- Reviews adherence to, and reliability of, internal and external audit plans
- Reviews the interim and final financial statements and results press announcements
- The Audit Committee Terms of Reference can be accessed via our corporate website (www jkx co uk)

Activities during 2012

In addition to regular topics, the committee engaged in additional matters including

- structure of and skills within our Russian Finance Department
- appointment of a Group Internal Audit Manager
- appointment of an International Internal Audit firm
- improvements to our Change Management Policy
- the effects of foreign exchange devaluation/ appreciation
- Bribery Act compliance matters
- review of asset carrying values and the Annual Report

Corporate governance

Membership and process
During 2012, the Audit Committee was chaired by Nigel Moore, who as a former audit partner with Ernst & Young LLP possesses relevant financial experience Nigel also chairs the Audit Committee of three other UK listed companies, and maintains a regular pattern of attendance at relevant seminars and courses

Richard Murray now chairs the Audit Committee following his appointment to the Board in January 2013 Richard recently retired from Ernst & Young where he has been an audit partner since 1984

The Board is satisfied that the membership of the Committee meets the requirement for recent and relevant financial experience The Company Secretary acts as Secretary to the Committee

The Audit Committee met five times during the year (2011 four)

Attendance at meetings
The meetings are, by invitation, attended by the Chairman the Chief Executive Officer, the Finance Director, the Head of Compliance and representatives from the external auditors Other directors are invited to attend the meetings from time to time when appropriate

The Chairman maintains contact with those other attendees throughout the year Twice during the year, external auditors were given an opportunity to meet with the Committee members in private to raise any issues

Internal Audit
Following the growth in the size and geographic spread of the Group s operations the Audit Committee has engaged KPMG to assist with the implementation of a Group internal audit function The assessment of our processes and controls is underway which will prioritise their work programme

We expect to appoint a permanent Internal Audit Manager in the coming weeks to support KPMG in their work which will strengthen the finance and operational functions across the Group

External audit
The Audit Committee maintains an objective and professional relationship with the Company s auditors, PricewaterhouseCoopers LLP, who have been auditors to the Group since 2006, and meets in private session with them on a periodic basis

PricewaterhouseCoopers LLP were reappointed as the Company s auditors in 2011 following a competitive tender process Any decision to open the external audit to tender is taken on the recommendation of the Audit Committee based on the results of the performance review

From time to time, the auditor is requested to perform non-audit engagements for the Group In such instances the continued objectivity and independence of the auditors in their capacity of auditor is an objective of the Group Full disclosure of the non-audit fees paid to PricewaterhouseCoopers LLP during the year is made in note 21 to the financial statements

Having reviewed PricewaterhouseCoopers LLP performance during the year and satisfied itself of their continuing independence and objectivity within the context of applicable regulatory requirements and professional standards, the Committee has invited the Board to recommend the reappointment of PricewaterhouseCoopers LLP as auditor at the forthcoming AGM and a resolution to that effect will appear in the notice of the AGM

Nomination Committee Report
Nigel Moore (as Chairman), Lord Oxford

Role

- Reviews the structure, size, skills and composition of the Company Board and the Boards of companies owned by JKX Oil & Gas plc
- Considers suitable nominations for appointments to the Boards and succession planning
- Makes appropriate recommendations based on qualifications and experience

Activities during 2012

In addition to regular topics the committee engaged in additional matters including

- the appointment of an international executive search firm to assist with the identification of a Non-Executive Director
- the appointment of Richard Murray from 1 January 2013

Membership and process
The Nomination Committee comprises two Non-Executive Directors and is chaired by Nigel Moore The Committee meets at least once a year and more frequently if required

The Nomination Committee met once during 2012 (2011 three)

Richard Murray was identified as a potential candidate for the role of Non-Executive Director and Chairman of the Audit Committee by an external advisory firm and subsequently recommended to the Board by the Nomination Committee on the basis of his significant international business experience in financial markets gained over 35 years at Ernst & Young LLP

The whole Board subsequently discussed the recommendation before Richard s appointment was confirmed

The Chairman ensures that any new Directors are provided with a full induction on joining the Board The letters of appointment of each Non-Executive Director are available for inspection at the registered office of the Company

Succession Planning
During the latter part of the year, the Nomination Committee began its consideration of the Company s succession planning methodology for Executive Directors and senior management This will continue to be a focus for the Nomination Committee during the early part of 2012 with the expectation that development plans will be considered by the Board during the second quarter for implementation thereafter

Remuneration Committee
Details of the work of each of the Remuneration Committee is given in the Remuneration report on pages 92 to 107

Compliance

Compliance with the UK Corporate Governance Code
The Board believes the Company has been in full compliance with the provisions set out in the UK Corporate Governance Code, which was updated in September 2012 with the following minor exception

B 2 3 The terms of appointment of the Non-Executive Directors are set out in their service contracts, which for Nigel Moore is dated 12 July 2007 for Lord Oxford is dated 1 January 2002, for Dipesh Shah is dated 1 June 2008 for Alastair Ferguson is dated 1 November 2011 and for Richard Murray is dated 1 January 2013 and includes a termination notice of three months by either party However, the service contracts are for an indefinite term, not a finite term subject to re-election on an as required basis The Board continues to believe this is appropriate given the company size, Non-Executive skill set and evaluation of performance and independence on an ongoing basis with regards to Non-Executives The Company continues to believe the unspecified term is reasonable

In considering that the Company is, other than as noted above, in full compliance the Board notes that excluding the Chairman, independent Non-Executive Directors comprise 50% of the Board as the Board considers that the four other Non-Executive Directors , are wholly independent

The Executive Directors have undertaken a review of the independence of each of the Non-Executive Directors and Chairman The review addressed the matters highlighted at Section B 1 1 of the Code, which could appear to affect a Director s judgment In undertaking the review, one specific matter addressed was that Lord Oxford has served on the Board for more than nine years Following the review, the Executive Directors do not consider that this matter in any way influences the independent judgment of Lord Oxford Accordingly the Executive Directors believe each of the Non-Executive Directors and Chairman to be independent in accordance with Section B 1 1 of the Code both during the period under review and subsequently

In addition the Board supports the continued appointment of Lord Oxford as a Non-Executive Director because of his unrivalled knowledge and experience of doing business in Ukraine

Internal control and risk management
The Board is responsible for identifying and evaluating the major business risks faced by the Company and for determining and monitoring the appropriate course of action to manage these risks The Audit Committee monitors the integrity of the financial statements and related announcements reviews the Company s internal control processes and risk management systems and reports its conclusions to the Board

The Board regularly conducts reviews, and has reviewed, for the year under review and up to the date of approval of the 2012 Annual Report, the effectiveness of the Company s systems of internal control and risk management

It has concluded that the Company s procedures policies and systems are appropriate and suitable to enable the Board to safeguard shareholders investment and the Company s assets, and comply with Turnbull Guidance

The Risk Committee, which comprises the Finance Director and senior management assists the Board in discharging their responsibility to review on an ongoing basis the risks potentially facing the Group, their potential impact the strategies available to mitigate those risks and the costs of such mitigation

Corporate governance

The Chairman of the Risk Committee reports to the Audit Committee and the Board at relevant meetings on matters it has reviewed and material changes to the Group s risk environment, in addition to making recommendations when appropriate

The Risk Committee met twice in 2012 and again in February 2013 The principal risks identified by the Group are set out on pages 36 to 43

Budgetary process
Each year the Board reviews and approves the Group s annual budget with key risk areas identified The preparation of the annual Group budget is a multi-stage comprehensive process led by the Finance Director who works closely with local finance directors for operating subsidiaries in Russia and Ukraine and other senior management with specific responsibilities for our Hungarian, Slovakian and other operations

Performance is monitored through the monthly reporting to the Board of variances from the budget Relevant action is taken by the Board throughout the year based on updated forecasts which are prepared using current information on the key risk areas and sensitivities

Investment appraisal
For each capital intensive project there is a rigorous project analysis and risk and return appraisal completed using technical financial, commercial, and operational specialists across the Group

We have a sub-surface technical team in our London Head Office to monitor, assess, appraise and oversee all on-going Group projects and potential opportunities Bringing this expertise in-house has improved our ability to identify the potential risks, rewards and value in new capital intensive opportunities and to quickly and efficiently utilise the available resources to maximise returns from our existing portfolio of oil and gas assets

Capital investment is regulated by the budgetary process, our automated application for expenditure (AFE) system and pre-defined authorisation levels

For expenditure beyond specified levels, detailed written proposals are submitted to the Board Using our AFE system Group capital expenditures are reviewed weekly on a project-by-project basis by the Finance Director and overruns actual or foreseen, are investigated

Whistleblowing
The Board reviews the arrangements by which employees can raise any concerns they may have about workplace fraud or mismanagement with local management on a confidential basis Whistleblowing incidents are taken very seriously by the Board

Complaints are investigated in the first instance and a decision taken about further steps Feedback is provided to the person making the complaint

As part of the Board s commitment to support our employees in the work place, we have a confidential process for reporting Concerns at Work This is a confidential service for reporting delicate matters that sometimes arise in the work place

In addition this service forms part of the Company s commitment to comply with best practice under the UK Bribery Act As disclosed in our Anti-Bribery and Corruption policy, all individuals who work on behalf of the Group have a responsibility to help detect prevent and report instances not only of bribery but also of any other suspicious activity or wrongdoing

The Board is absolutely committed to ensuring that all employees have a safe, reliable, and confidential way of reporting any suspicious activity

Communication with shareholders
Communication with shareholders is a high priority for the Board

A number of formal communication channels are used to account to shareholders for the performance of the Group which include the Annual Report, AGMs and periodic reports to the London Stock Exchange

Presentations given at appropriate intervals to representatives of the investor community are available to all shareholders to download from the Group s website (www jkx co uk) Less formal processes include contacts with institutional shareholders for which the Board as a whole takes responsibility

Extensive information about the Group s activities is provided in the Annual Report and the Half-yearly Report which are provided to shareholders

The Board is keen to ensure that it maintains an open relationship with the Group s major shareholders and communicate directly with them, offering the opportunity to meet in order that their views on the Group can be understood or any other points that they might wish to raise

Enquiries from individuals on matters relating to their shareholding and the business of the Group are welcomed and are dealt with in an informative and timely manner Shareholders are encouraged to attend the Annual General Meeting to discuss the progress of the Group

Conflicts of interest
The Company complies with the provisions on conflicts of interest in the Companies Act 2006

The Company has in place procedures for the disclosure and review of any conflicts or potential conflicts, of interest which the Directors may have and for the authorisation of such conflicting matters by the Board In deciding whether to authorise a conflict or potential conflict the Directors must have regard to their general duties under the Companies Act 2006 The procedure operates to ensure the disclosure of conflicts and for the consideration and if appropriate, the authorisation of them by non-conflicted Directors

The authorisation of a conflict matter, and the terms of authorisation, may be reviewed at any time by the Board The Nomination Committee supports the Board in this process, both by reviewing requests from Directors for authorisations of situations of actual or potential conflict and making recommendations to the Board and by reviewing any situations of actual or potential conflict that have been previously authorised by the Board, and making recommendations regarding whether the authorisation remains appropriate

Going concern
The Board closely monitors and manages its liquidity risk Cash flow forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production and tax rates in relation to the Group s producing assets and delays to development projects

The Directors have reviewed the Group s forecast cash flows for the next twelve months and through to the end of 2014 Capital and operating costs are based on approved budgets and latest forecasts in the case of 2013 and current development plans in the case of 2014

In addition the Directors have made enquiries into and considered the Ukrainian and Russian business environments and future expectations regarding country and currency risks that the Group may encounter

Having considered the sensitivities and potential outcomes relating to these country and currency risks the Group s ability to change the timing and scale of its discretionary capital expenditure the Directors have a reasonable expectation that the Company and Group have adequate resources to continue for the foreseeable future The going concern basis for the financial statements has therefore continued to be adopted

Annual Report
The Board considers that the annual report and financial statements, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company s performance, business model and strategy

On behalf of the Board
Nigel Moore
Chairman
8 April 2013

Remuneration report

Introduction

This report sets out the details of the remuneration policy for the Company s directors, describes its implementation and discloses the amounts paid in 2012

The report meets statutory requirements in particular the relevant regulations on directors remuneration reports pursuant to the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, provisions of the UK Corporate Governance Code (the Code) and the Listing Rules of the Financial Services Authority

Relevant sections of this report have been audited in accordance with the Companies Act requirements For this reason the report is divided into two parts

- the first, which is not audited, sets out the role of the Remuneration Committee, the Company s executive reward policy and the link between this policy and the business strategy,
- the second part, which has been audited in accordance with the Regulations provides details of Directors emoluments share incentives and other performance-related awards and pension arrangements

In addition in preparing this report, the Committee has paid regard to the proposed reporting requirements announced by the UK Department for Business Innovation and Skills (BIS) that will come into force from next year s report and accounts The Committee has decided to adopt some of the new requirements where practical to do so whilst remaining compliant with the current Regulations It is the Committee s intention to provide a fully restructured report next year, once the details of the BIS requirements are finalised

Part 1 Unaudited information

Remuneration Committee

The Committee met five times during the year (2011 two)

Membership and process

The Remuneration Committee currently comprises three independent Non-Executive Directors and is chaired by Dipesh Shah (Senior Independent Director)

Richard Murray was appointed to the Remuneration Committee on 17 January 2013

The Committee meets at least twice a year, to assist the Board in determining the remuneration arrangements and contracts of the Directors and senior employees

The Remuneration Committee has reviewed the Code, specifically Section D that addresses the level, make up and procedural aspects of remuneration The Remuneration Committee considers that it complies with all the provisions and practices identified

Attendance at meetings

The meeting attendance record is set out in the Corporate Governance report on page 87 Meetings are attended by the Chief Executive except when his own remuneration is being discussed No Director plays a part in any discussion regarding his own remuneration

None of the Committee has any personal financial interest except as a shareholder (as detailed on page 81), which, given the level of holdings, the Board accepts does not impair independence, and no conflicts of interests arise from cross-directorships or day-to-day involvement in running the Group

Advisers

The Committee retains Kepler Associates (Kepler) as its independent executive remuneration advisers Kepler provides no other services to the Group Kepler is a signatory to the Remuneration Consultants Group Code of Conduct

During the year, Mercer Limited provided information on remuneration levels at comparator oil and gas companies Mercer provides no other services to the Group

Table 1 Independent Non-Executive Directors who served on the Remuneration Committee during 2012

Member	From	To
Dipesh Shah OBE (Chairman)	1 June 2008	to date
Nigel Moore	26 June 2007	to date
Sir Ian Prosser	1 March 2011	16 July 2012

Remuneration Committee members
Dipesh Shah OBE (as Chairman), Nigel Moore, Richard Murray

Role

- Establishes the overall principles of remuneration for Directors of all Group companies
- Determines the remuneration of Executive Directors and Senior Management, communicates this to the stakeholders in the annual report
- Recommends the participation in, and operation of, the Company s long-term incentive plans
- The full terms of reference are available from the Company Secretary

Activities during 2012

In addition to regular topics, the Committee engaged in specific matters including

- Review and approval of payments to be made under the 2011 Annual Bonus Scheme
- Approval of executive salary levels for 2012
- Confirmation of lapse of share option awards made in 2008 due to failure to achieve vesting criteria in 2012
- Review and approval of performance targets for the 2012 Annual Bonus Scheme
- Review and approval of the allocation of, and performance conditions applicable to, performance shares and share option awards made in 2012, and
- Review the application of current remuneration policies and examining whether these need to be amended in light of best practice guidelines and market circumstances

Remuneration policy
The Company aims to ensure that total remuneration is set at an appropriate level relative to peer group comparator companies The comparator companies are UK-based oil and gas companies which are primarily quoted on the London Stock Exchange or AIM

The remuneration for Executive Directors and senior management is made up of base salary benefits (including non-contributory health insurance life assurance income protection) annual bonus long-term incentives and pension contributions

The objectives of the remuneration policy are to

- enable the Company to recruit, retain and motivate individuals with the skills, capabilities and experience to achieve its stated objectives,
- strengthen teamwork by enabling all employees to share in the success of the business and
- ensure alignment of Executive, senior management and shareholder interests

The core principles of the remuneration policy are to

- pay an appropriate level of total remuneration relative to peer group companies,
- ensure that there is an appropriate link between performance and reward,
- award annual bonuses which are linked to the delivery of the annual Strategic Plan targets including the achievement of strategic objectives and personal performance, and
- ensure that long-term incentives are linked to Total Shareholder Return (TSR) and to the delivery of Strategic Plan targets including the achievement of strategic objectives

The philosophy of the Committee is that the targets established for each element of the remuneration should be quantified wherever practicable

Table 2 (on pages 94 and 95) summarises the Company s remuneration policy Certain elements of the remuneration policy for 2013 are currently under review by the Remuneration Committee and the Committee Chairman will write to shareholders if any changes are proposed

Remuneration report

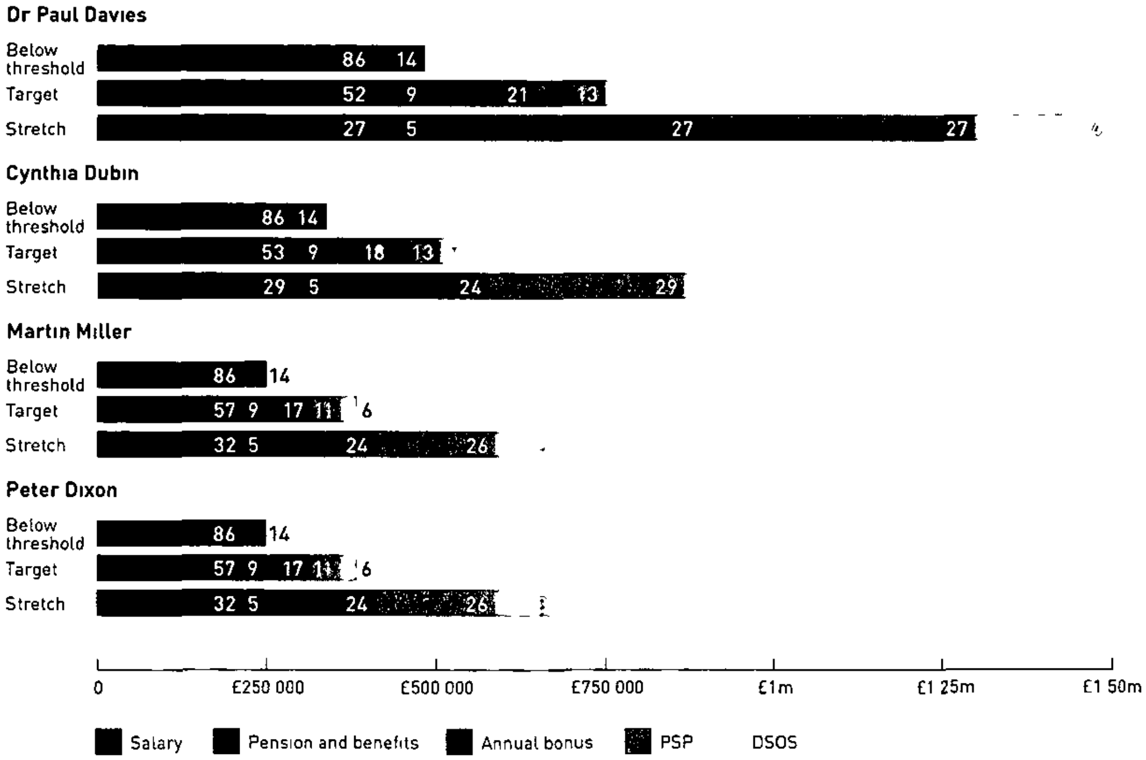
Table 2 Remuneration policy 2012

Element/purpose and link to strategy	Operation	Opportunity	Performance measures
Fixed elements			
Salary To attract and retain talent by ensuring base salaries reflect individual performance and market factors	Base salaries are reviewed annually on 1 January, with reference to the individual's role, experience and performance, salary levels at relevant UK sector comparators, and the range of salary increases applying across the Group	Base salary increases are applied in line with the outcome of the review	Business and individual performance are considerations in setting base salary
Pension To provide competitive retirement benefits	The Company makes a contribution to the pension scheme of the individual's choice	Latest contribution levels are set out on page 97	Not performance related
Benefits To provide competitive benefits	Benefits include life assurance, income protection and private medical cover	Benefits values vary by role and are reviewed periodically to market circumstances	Not performance related
Variable elements			
Annual bonus To incentivise the achievement of short-term financial and strategic objectives	Paid in cash, and at the discretion of the Committee, in deferred shares for Executive Directors	Bonuses range from 0% up to – 100% of salary for Paul Davies – 85% of salary for Cynthia Dubin – 75% of salary for Peter Dixon and Martin Miller – between 30% and 60% of salary for senior managers Target bonus is 40% of maximum	Performance measures and their respective weightings vary each year depending on strategic priorities At the end of the year, the Remuneration Committee determines the extent to which these have been achieved. The Remuneration Committee has the ability to exercise discretion to adjust for factors outside management control Measures used for the 2012 annual bonus are set out on page 99

Element/purpose and link to strategy	Operation	Opportunity	Performance measures
Variable elements			
Discretionary Share Option Scheme ('DSOS') To incentivise superior long-term financial and share price performance	The Remuneration Committee has the ability to grant awards of market-value options annually to Executive Directors and senior managers, conditional on Group performance over 3 years	The DSOS provides for annual awards up to an aggregate limit of 100% of salary in normal circumstances This limit may be exceeded in exceptional circumstances, e g recruitment, up to an exceptional limit of 200% of salary Awards policy for 2012 - 100% of salary for Paul Davies - 100% of salary for Cynthia Dubin - 80% of salary for Peter Dixon and Martin Miller - between 30% and 70% of salary for senior managers	The vesting of awards is usually subject to • continued employment • the Company s performance over a 3-year performance period The performance measures applied to DSOS awards are reviewed from time to time to ensure they remain appropriate and aligned with shareholder interests Measures used for the 2012 DSOS award are set out on page 98
Performance Share Plan ('PSP') To incentivise superior longer term returns to shareholders relative to peers	The Remuneration Committee has the ability to grant awards of nil-cost options annually to Executive Directors, conditional on Group performance over 3 years The award levels and performance conditions on which vesting depends are reviewed from time to time to ensure they remain appropriate	The PSP provides for annual awards up to an aggregate limit of 100% of salary in normal circumstances This limit may be exceeded in exceptional circumstances, e g recruitment, up to an exceptional limit of 200% of salary Awards policy for 2012 - 100% of salary for Paul Davies - 100% of salary for Cynthia Dubin, - 80% of salary for Peter Dixon and Martin Miller	The vesting of awards is usually subject to The performance measures applied to PSP awards are reviewed from time to time to ensure they remain appropriate and aligned with shareholder interests Measures used for the 2012 PSP award are set out on page 100
Share retention policy To support alignment with shareholder interests, Executive Directors will be required to build and hold a significant shareholding over time	Expressed as a percentage of salary Applicable to Executive Directors only	Current shareholding guidelines are detailed on page 102	Not performance related

Remuneration report

Figure 3 Remuneration scenarios for Executive Directors (%)



	Fixed pay	Annual bonus	PSP	DSOS
Below threshold	Latest salary, pension, benefits	No annual bonus payable	Threshold not achieved (0%)	
Target		On target annual bonus	Performance warrants Threshold vesting (25%)	
Stretch		Maximum annual bonus	Performance warrants full vesting (100%)	

Remuneration scenarios for Executive Directors
Figure 3 above shows how the composition of each Executive Director s remuneration package varies at different levels of performance under the policy set out in Table 2 on pages 94 and 95

Executive Directors remuneration

Single figure of total remuneration for Executive Directors

The total remuneration for Executive Directors in 2012 was as shown in Table 4 on page 97

An Executive Director s basic salary and the other fixed elements of pay are determined by the Committee at the beginning of each year The individual salaries and benefits of Executive Directors are reviewed and adjusted taking into account individual performance and market factors, with reference to independent and objective research that provides up-to-date information on a comparator group of UK companies operating in the independent oil and gas sector

Executive Directors base salaries and benefits are reviewed each year with any changes taking effect from 1 January At the Committee meeting on 17 January 2013, the Committee decided to award the basic salary increases shown in Table 5 on page 97

The average salary increase for employees was 4 0%

Benefits provided to Executive Directors includes life assurance, which is also provided for senior managers, for a sum assured of four times base salary income

Table 4 Executive Directors remuneration 2012

Notes		Dr Paul Davies (£ 000)	Cynthia Dubin (£ 000)	Martin Miller (£ 000)	Peter Dixon (£ 000)
1	Salary	398	280	212	212
2	Pension contribution	60	42	27	32
3	Benefits	6	3	2	3
4	Annual bonus	133	80	53	53
5	Deferred 2011 Annual bonus	23	-	9	9
6	DSOS	-	-	-	-
7	PSP	-	-	-	-
Total remuneration		**620**	**405**	**303**	**309**

1) Salary amount earned for the year
2) Benefits the taxable value of benefits received in the year
3) Pension annual contribution by the Group to directors pension plans or cash in lieu
4) Annual Bonus this is the total cash bonus earned on performance during the year
5) The deferred 2011 annual bonus which vested based on performance to 31 December 2012 valued based on the share price on 31 March 2013
6) DSOS no awards vested on performance to 31 December 2012
7) PSP no awards vested on performance to 31 December 2012

Table 5 Executive Directors base salaries

	2012 salary	**2013 salary**	% increase
Dr Paul Davies	£398,000	**£409,000**	2 8%
Cynthia Dubin	£280,000	**£288,000**	2 9%
Martin Miller	£212 000	**£218,000**	2 8%
Peter Dixon	£212,000	**£218,000**	2 8%

protection (¾ base salary deferred for 13 weeks), and private medical cover (PPP private medical cover is offered to all Company employees and provides medical cover for them and their dependents, on a non-contributory basis)

Pension
The Company makes a contribution equivalent to 15% of basic salary to the pension scheme of the individual s choice

At their option Executive Directors may either have contributions of the same amounts made to their personal pension schemes or cash in lieu of pension at the stated rate and subject to normal statutory deductions, or a combination of pension contributions up to £50,000 per annum with the remainder as cash in lieu of pension

Annual Bonus Scheme
The Annual Bonus Scheme applies to Executive Directors and certain senior management including senior staff in Poltava Petroleum Company (PPC) and Yuzhgazenergie (YGE)

Bonuses are based on both Group and individual performances against objectives determined by the Committee at the beginning of the year and are designed to reward short-term performance

The scheme is discretionary and annual awards are not pensionable

The performance conditions for each financial year which are derived from the Company s Annual Budget and Strategic Plan which have been approved by the Board

In order to encourage teamwork across the Group the weighting applied to each performance condition was identical for each Executive Director and for senior management

Remuneration report

Annual bonus scheme performance conditions and achievements 2012
The Annual Bonus Scheme performance conditions and Achievements for 2012 were as shown in Table 6 on page 99

To earn the maximum level of bonus requires the maximum to be met or exceeded for each performance measure and all of the strategic objectives to be met

The Remuneration Committee considers these performance measures as the key drivers and indicators of both short and long-term performance and value creation

1-year relative TSR is included in the Annual Bonus Scheme as the Committee believes this measure effectively isolates management performance from short-term fluctuations in the oil and gas prices, and from other market influences

Target and Maximum bonus opportunities and achievements
Target and maximum bonus opportunities , and those achieved for in 2012 were as shown in Table 7 on page 99

2012 Annual Bonus Payments
The 2012 results above and individual achievement against strategic objectives resulted in cash bonus payments of between 25 1% and 33 4% of basic salary for Executive Directors Other senior management received bonus payments of between 6 8% and 17 4% of basic salary

Annual bonus payments are in respect of the 2012 Annual Bonus Awards and were paid partly in January 2013 with the remainder being in February 2013

2011 Annual Bonus for Executive Directors
At the request of the Remuneration Committee the Executive Directors agreed to defer half of the 2011 Bonus earned into Performance Share Options These nil-cost options were issued as being exercisable from 31 March 2013 and were subject to claw back in the event that certain performance conditions relating to the Koshekhablskoye gas field were not satisfied These performance conditions were met in part resulting in one third of the nil-cost options granted becoming exercisable on 31 March 2013 The remaining two-thirds of the nil-cost options lapsed

Full details of the Directors interests in share options are detailed on page 107

Annual Bonus Scheme for 2013
For 2013 the Annual Bonus Scheme will operate on a similar basis to 2012 with the Committee set stretching financial, strategic and HSE objectives and relative TSR targets

Long-term incentive arrangements
The Company currently operates two long-term incentive plans

- the 2010 Discretionary Share Option Scheme (DSOS) and
- the 2010 Performance Share Plan (PSP)

both of which were approved by shareholders at the 2010 Annual General Meeting

The PSP provides nil-cost options for Executive Directors and the DSOS provides market value options for Executive Directors and senior management

In the aggregate the market value of shares that may be granted in any financial year under the DSOS and the PSP together cannot exceed 300% of basic salary for any Executive

2010 Discretionary Share Option Scheme ('DSOS')
The normal maximum grant of Options in any financial year under the DSOS is 100% of basic salary In exceptional circumstances the Committee has the discretion to grant options with a face value of up to 200% of basic salary To date, awards have not exceeded 100% of salary

Maximum award opportunities in 2012 under the DSOS was 100% of base salary for Paul Davies and Cynthia Dubin and 80% of base salary for Martin Miller and Peter Dixon

For 2012 awards under the DSOS, to reflect the reduction in targets for EPS growth (see below), the Remuneration Committee scaled back the option grants in June by c 40% for each Executive Director, Paul Davies and Cynthia Dubin received a grant of options of c 60% of salary, (normally 100%) and Peter Dixon and Martin Miller received grants of 50% of salary (normally 80%)

Vesting and performance conditions
Options generally vest at the end of a 3-year performance period, subject to achievement of 3-year Earnings per Share (EPS) growth targets The Committee considers EPS to be an appropriate measure, since it is the primary internal benchmark of long-term financial performance and promotes alignment between management and the Company s shareholders

For the purposes of the DSOS EPS will be adjusted for any changes in tax rates, including charges arising from the new Ukrainian tax code Executives will therefore not be rewarded (or penalised) for subsequent reductions (or increases) in these tax rates which the Remuneration Committee considers are outside of their control

Table 6 Annual bonus scheme performance conditions and achievements 2012

Element	Weighting to overall bonus	2012 Performance measures	2012 Performance targets	2012 Achievement	% of bonus earned
Financial targets	40%	Pre-Tax Profit	Targets established against each measure with a sliding scale between threshold and maximum	Below minimum threshold	2 5%
		Return on Average Capital Employed		Below minimum threshold	
		Minimum rolling cash resources		Above minimum threshold for most of the year, below for the rest	
Strategic Plan targets	30%	Increases in production	Based on quantifiable figures to limit subjectivity as far as possible	Below minimum threshold	20 9%
		New reserves and resources from existing and new licences		Exceeded stretch targets	
		Field development	Field development plan and funding mechanism for next Russian Phase	Exceeded stretch target	
1-year relative TSR	20%	Average TSR and spot TSR at start and end of the year measured relative to • the FTSE250 Index • the FTSE All Share Oil & Gas Producers Index	No payment below a threshold of performance in line with index TSR Maximum bonus under this element is earned if the TSR outperformance is 10% above index Bonus earned increases on a straight-line basis between threshold and maximum	Below minimum threshold on both	0%
Health and Safety targets	10%	Lost Time Injury Frequency Rate (LTIF)	LTIF=0 3	Exceeded stretch targets	10%
		All Injury Frequency Rate (AIFR)	AIFR=0 5	Exceeded stretch targets	
Total	**100%**				**33 4%**

Table 7 Target and maximum bonus opportunities and achievements

	Dr Paul Davies	Cynthia Dubin	Martin Miller	Peter Dixon	Senior managers
Target (% of base salary)	40%	34%	30%	30%	12%-24%
Maximum (% of base salary)	100%	85%	75%	75%	30%-60%
Achieved (% of base salary)	33 4%	28 5%	25 1%	25 1%	8%-20%

Remuneration report

Figure 8 Vesting schedule for the DSOS

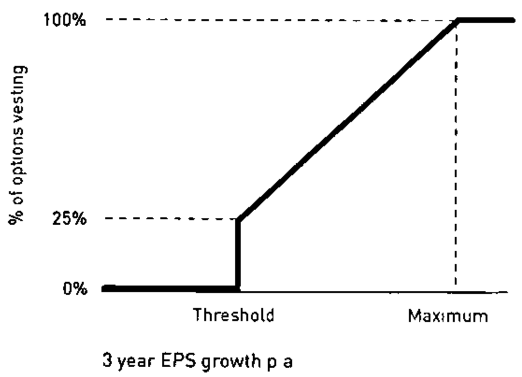
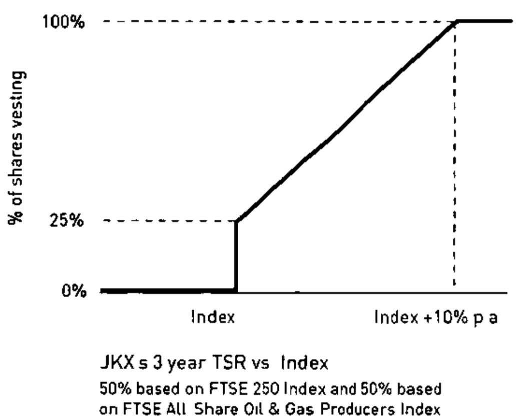


Figure 9 Vesting schedule for the PSP



The performance targets for the 2010 and 2011 cycles required 3-year nominal EPS growth of 22 5% p a for maximum vesting with threshold vesting (25% of an award) at 7 5% p a (and on a straight-line basis in between these points)

During 2012, the Committee reviewed the performance targets that were set when the revised DSOS was put in place in 2010 Whilst being very stretching these targets were considered appropriate at the time However, the circumstances facing the Company were considered materially different in 2012 and, in the opinion of the Remuneration Committee, these targets were no longer considered to be appropriate for the 2012 grants After careful consideration and having reviewed a number of different reference points, the Remuneration Committee determined that for 2012 grants a performance range for EPS growth of 5% to 10% per annum would be more realistic and more motivational for the executive management team, 25% of the options would vest for EPS growth of 5% p a and all of the options would vest for EPS growth of 10% p a (and on a straight-line basis in between these points)

The performance targets are reviewed on an annual basis at the start of each 3-year performance cycle to ensure their continued appropriateness

The Committee has total discretion as to the application of the Rules of the DSOS, and in the event of a change of control the Committee retains discretion to determine the treatment of unvested unapproved options

2010 Performance Share Plan ('PSP')

The normal maximum award of nil-cost options in any financial year under the PSP is 100% of a participant s basic salary In exceptional circumstances the Committee has the discretion to make awards of up to 200% of a participant s basic salary

To date, awards have not exceeded 100% of salary Maximum award opportunities in 2012 were 100% of salary for Paul Davies and Cynthia Dubin, and 80% of salary for Peter Dixon and Martin Miller

Vesting and performance conditions

PSP awards vest based on 3-year TSR performance relative to the FTSE 250 and FTSE All-Share Oil & Gas Producers indices (with half of the award being assessed against each index)

Each part of the award will be based on performance relative to the relevant index with 25% vesting for performance in line with the index Vesting would increase on a straight-line basis between 25% and 100% for index out-performance of up to 10% p a Historically, this has been broadly equivalent to upper quartile performance

The Remuneration Committee has the discretion to award nil-cost options that vest in a shorter timeframe

TSR performance measurement

The Committee must be satisfied that the recorded TSR is a genuine reflection of the underlying performance of the Company over the performance period

The Committee considers the use of TSR to be appropriate since it is dependent on the Company s relative long-term share price performance and therefore provides strong alignment with the interests of the Company s shareholders

TSR performance is measured using percentage out-performance rather than a ranking approach since it is less sensitive to the TSR of individual comparators, and uses a 12-month averaging period due to the volatility of the Company s share price and the long-term nature of the Company s investments

Whilst noting market practice is typically to use a shorter averaging period the Committee feel that 12-month averaging would give a fairer result for both management and shareholders

There is no retesting of performance targets

The Committee has total discretion as to the application of the Rules of the PSP, and in the event of a change of control, the Committee retains discretion to determine the treatment of unvested awards

Legacy Share Option Schemes
In 2001 the Company implemented HM Revenue & Customs (HMRC) Approved JKX Oil & Gas plc Discretionary Share Option Scheme 2001 (Approved Scheme) and the Unapproved JKX Oil & Gas Discretionary Share Option Scheme 2001 (Unapproved Scheme) (together, the Share Option Schemes)

At the time of implementation in 2001, these schemes reflected the best practice aspects recommended by the ABI Guidelines Following the introduction of new plans in 2010, no further awards have been made under the 2001 Share Option Schemes

None of the options granted in 2009 vested 2009 was the last year during which options under these schemes were granted

Vesting and performance conditions
The Committee has total discretion as to the application of the Rules of the Share Option Schemes, and in the event of a change of control, the Committee retains discretion to determine the treatment of unvested options

Options vest based on 3-year share price performance both in absolute terms and relative to external benchmarks Under these schemes, comparison against the FTSE Index in which the Company is a constituent at the time of the grant and against the FTSE Oil & Gas Producers Index were considered by the Committee to be the most appropriate external benchmarks

For options granted between 2006 and 2009, the number of options that vest and therefore can be subsequently exercised is determined by two factors

(1) the actual increase in the Company s share price, and

(2) a comparison of the actual increase in the Company s share price to the higher of the change in the FTSE 250 and the FTSE Oil & Gas Producers Index

The performance conditions are summarised in Table 10 below

The Company s share price and FTSE Index factors are multiplied together and the resultant figure is applied to the number of options granted to an individual to determine the number of options that vest

The structure was designed to introduce a sliding scale as distinct from a specific individual benchmark It requires the Company s share price to double and for this increase to be in the top quartile of the growth in the higher of the FTSE 250 and FTSE Oil & Gas Producers Index for all of the options to vest

To encourage the retention of senior managers, the Committee determined that an option holder would

Table 10 Summary of Share Option Scheme performance conditions (grants made 2006 to 2009)

Absolute share price performance	Share price factor
At exercise price or below	0
Between exercise price and 150% of exercise price	Up to 0 5
In excess of 150% and up to 200% of exercise price	0 66
In excess of 200% of exercise price	1
Relative share price performance	FTSE 250 / Oil & Gas Producers Index Factor
In the lower quartile of the % growth in the FTSE Index	0 25
In the second quartile of the % growth in the FTSE Index	0 5
In the third quartile of the % growth in the FTSE Index	0 75
In the top quartile of the % growth in the FTSE Index	1

Remuneration report

Table 11 Executive Directors share ownership guidelines

	Basic salary	Shareholding excluding restricted shares	Value of shareholding based on a share price of 77 5 pence[1]	Percentage of basic salary
Dr Paul Davies	£398 000	3 632,272	£2,815,011	707%
Cynthia Dubin	£280 000	40,000	£31 000	11%
Peter Dixon	£212 000	163,179	£126 464	60%
Martin Miller	£212 000	190 000	£147 250	69%

1) 77 5 pence was the closing middle market price of an ordinary share of the Company on 31 December 2012

be able to exercise up to 50% of vested options immediately following vesting and the remaining vested options only after a period of 12 months from vesting, unless otherwise determined by the Committee

Maximum share awards and dilution
In any ten year period, the number of Shares which may be placed under Option, or issued

- may not exceed five per cent of the Company s ordinary share capital if issued under the discretionary employees share scheme and
- may not exceed ten per cent of the Company s ordinary share capital if issued under the other employees share schemes

As at 31 December 2012 the maximum available shares under the Company s 5% and 10% limits was 6 4 million (2011 6 4 million) and 14 1 million (2011 14 1 million) shares respectively, out of an issued share capital of 172 1 million shares

Executive Directors share ownership guidelines
In 2010, the Committee introduced executive share ownership guidelines of 100% of basic salary for Executive Directors which can be built up over a reasonable period of time from appointment No specific value per share was designated for the calculation

Unvested share awards including shares held in connection to compulsory bonus deferrals are not taken into account in applying this test

Table 11 above shows the position at 31 December 2012 based on that day s closing middle market price of an ordinary share of the Company of 77 5 pence

5-year and 10-year Total Shareholder Return performance
Figure 12 below and 13 on page 103 shows the Company s TSR performance compared to the performance of the FTSE All-Share and FTSE All-Share

Figure 12 5-year – JKX vsFTSE All Share Index and FTSE All-Share Oil & Gas producers

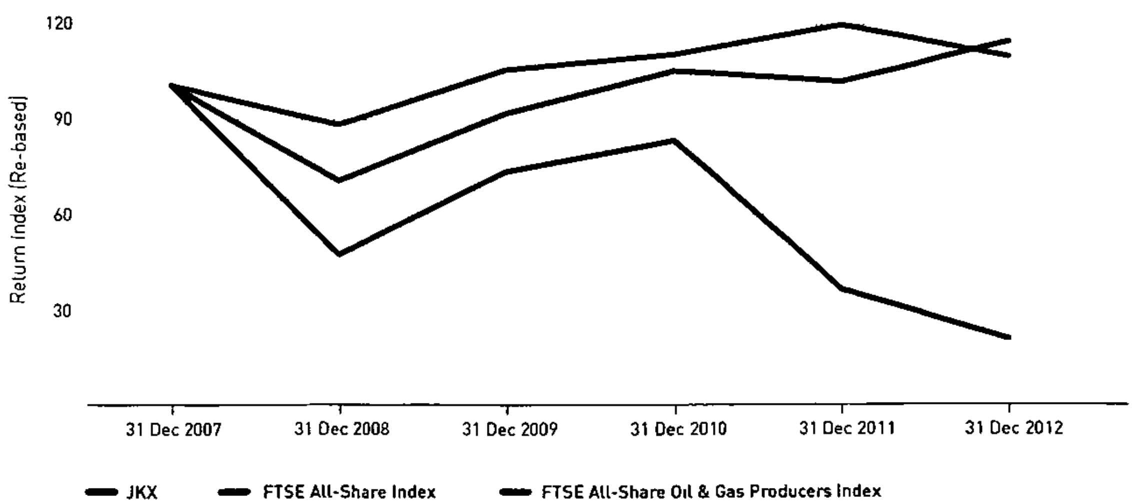
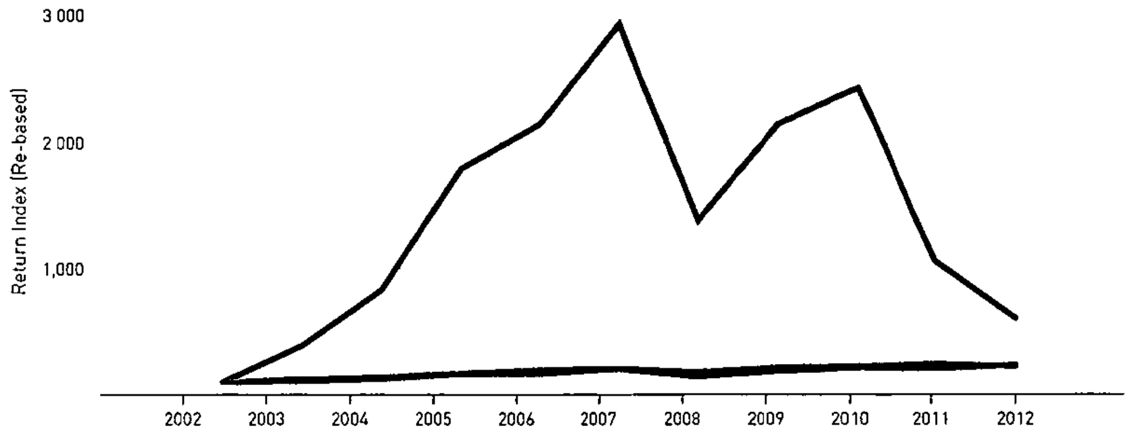


Figure 13 10-year – JKX vsFTSE All Share Index and FTSE All-Share Oil & Gas producers



Oil & Gas Producers Index indices over a 5-year and 10-year period These indices have been chosen as suitable broad comparators against which the Company s shareholders may judge their relative returns given that the Company is a member of the FTSE All-Share and continue to be part of the FTSE All-Share Oil & Gas Producers Index

The calculation of the return assumes dividends are reinvested to purchase additional equity

Value of £100 invested

An investment of £100 in the Company on 31 December 2007 was worth £20 55 at 31 December 2012 (same investment on 31 December 2006 was worth £49 38 at 31 December 2011)

Directors' contracts

Executive Directors' service contracts

Executive Directors service contracts are unlimited in term and capable in normal circumstances of termination on 12 months notice

In the event of early termination, the Directors contracts provide for compensation up to a maximum level of basic salary for the notice period

Directors contracts of service will be available for inspection at the Annual General Meeting

Table 14 Executive Directors' service contracts

	Date	Unexpired term	Notice period
Dr Paul Davies	1 January 2007	Rolling contract	12 months from Company or Director
Martin Miller	1 July 2007	Rolling contract	12 months from Company or Director
Peter Dixon	1 July 2007	Rolling contract	12 months from Company or Director
Cynthia Dubin	14 November 2011	Rolling contract	12 months from Company or Director

Remuneration report

Non-Executive Directors' service contracts

All Non-Executive Directors have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association and based on independent surveys of fees paid to Non-Executive Directors of similar companies The setting of the Chairman s remuneration is the responsibility of the Board and not the Committee, as recommended by Section D 2 3 of the Code

Non-Executive Directors service contracts are for an indefinite term not a finite term as recommended by Section B 2 3 of the Code subject to re-election on an as required basis The Board continues to believe these terms are appropriate given the Company size, the Non-Executive skill set, and the continuing evaluation of performance and independence In the event of early termination the Non-Executive Directors contracts provide for compensation of three months base fee

Non-Executive Directors' fees

The Non-Executive Directors are paid a base fee for carrying out their duties and responsibilities as Directors, and fees for membership and, where applicable chairmanship of each of the remuneration, nomination and audit committees

Current Non-Executive Directors fees are paid as shown in Table 16 below

The base fee was last reviewed in 2012 and is based on a per annum rate (in Sterling) that is compared to published material concerning Non-Executive Director fees in similar size companies and comparable companies in the sector

No changes have been made to the NED fees since 2012

Non-Executive Directors cannot participate in any of the Company s share schemes nor are they eligible to join the Company s pension benefit arrangements

External board appointments

The Committee considers that external directorships provide the Company s senior executives with valuable experience that is of benefit to the Company and believes that it is reasonable for the individual Executive Director to retain any fees received from external appointments

Executive Directors are entitled to accept appointments outside the Company providing that the Chairman s permission is sought and granted

Table 15 Non-Executive Directors' service contracts

	Date	Notice period
Nigel Moore	12 July 2007	3 months from Company or Director
Dipesh Shah OBE	1 June 2008	3 months from Company or Director
Lord Oxford	1 January 2002	3 months from Company or Director
Alastair Ferguson	1 November 2011	3 months from Company or Director
Richard Murray	1 January 2013	3 months from Company or Director
Sir Ian Prosser (resigned 16 July 2012)	1 March 2011	3 months from Company or Director

Table 16 Current Non-Executive Directors' fees

	£000
Chairman of the Company	150*
Board membership fee	45
Senior Independent Director	10
Committee chairman	
- Audit	10
- Remuneration	10
- Nomination	10
Committee membership	
- Audit	5
- Remuneration	5
- Nomination	5

* The Chairman s fee includes amounts for Chairman of the Nomination Committee and membership of the Remuneration Committee

Shareholder voting at the Annual General Meeting
At last year s Annual General Meeting held on 24 May 2012, the Directors Remuneration report received the following votes from shareholders

Table 17 Shareholder voting at the Annual General Meeting

	Total number of votes	% of votes cast
For	79,470,947	98 7%
Against	1,058,425	1 3%
Total votes (for and against, excluding withheld votes)	80,529,372	100%
Votes witheld[1]	1,295 869	1 6%
Total votes (for, against and withheld)	81,825 241	

1) A withheld vote is not a vote in law and is not counted in the calculation of votes cast "for" and "against" a resolution

Part 2 Audited information

Aggregate Directors' remuneration
The total amounts for directors remuneration were as follows

	2012 £000	2011 £000	2012 $000	2011 $000
Emoluments	**1,861**	1 829	**2,949**	2,928
Gains on exercise of share options	**–**	70	**–**	112
Pension contributions[1]	**161**	158	**253**	254
	2,022	2,057	**3,202**	3 294

1) Annual contribution by the Group to directors pension plans or cash in lieu

Developments in 2013
Richard Murray was appointed to the Board with effect from 1 January 2013 and therefore received no remuneration in 2012 Richard was appointed as a member of the Remuneration Committee on 17 January 2013

Remuneration report

Remuneration of the Directors of JKX Oil & Gas plc

	Salary and fees $000	Benefits $000	Annual bonus $000	Pension[1] $000	Total 2012 $000	Total 2011 $000	Total 2012[2] £000	Total 2011[2] £000
Executive Directors								
Dr Paul Davies	629	10	249	94	982	920	620	577
Martin Miller	335	3	100	43	481	462	303	289
Peter Dixon	335	5	100	50	490	464	309	290
Cynthia Dubin (appointed 14/11/11)	443	4	127	66	640	57	405	36
Non-Executive Directors								
Nigel Moore	170	–	–	–	170	97	107	60
Dipesh Shah OBE	101	–	–	–	101	113	64	70
Lord Oxford	71	–	–	–	71	107	45	65
Alastair Ferguson (appointed 1/11/11)	79	–	–	–	79	22	50	14
Former Directors								
Bruce Burrows (retired 30/9/11)	–	–	–	–	–	580	–	362
Michel-Marc Delcommune (retired 31/12/2011)	–	–	–	–	–	95	–	59
Lord Fraser (retired 28/2/11)	–	–	–	–	–	64	–	40
Sir Ian Prosser (appointed 1/3/11 resigned 16/7/12)	188	–	–	–	188	201	119	125
	2,351	22	576	253	3,202	3,182	2,022	1 987

1) Annual contribution by the Group to directors pension plans or cash in lieu
2) These totals are shown in Sterling for information purposes only Sterling is the currency in which remuneration payments are made to the Directors The average exchange rate used was £1/$1 5807 (2011 £1/$1 6096)

Directors' share options

The market price of a JKX share at 31 December 2012 was 77 5 pence (2011 136 0 pence) The range during 2012 was 68 0 pence to 187 8 pence (2011 128 0 pence to 335 1 pence)

This report was approved by the Board of Directors on 8 April 2013 and signed on its behalf by

Dipesh J Shah OBE, FRSA
Chairman of the Remuneration Committee

Directors' share options

	Number of options at 1 Jan 2012	Options granted during period	Options surrendered during period	Options lapsed during period	Number of options at 31 Dec 2012	Exercise price	Date from which exercisable	Expiry date
Dr Paul Davies								
(b) 17-Mar-05	90 000	-	-	-	90 000	£1 5150	17-Mar-08	17-Mar-15
(c) 27-Mar-09	194 500	-	194 500	-	-	£2 3075	27-Mar-12	27-Mar-19
(d) 29-Jun-10	155,500	-	-	-	155,500	£2 4100	29-Jun-13	29-Jun-20
(d) 29-Jun-10	155 500	-	-	-	155 500	£0 0000	29-Jun-13	29-Jun-20
(e) 31-Mar-11	122,900	-	-	-	122,900	£3 1500	31-Mar-14	31-Mar-21
(e) 31-Mar-11	122,900	-	-	-	122,900	£0 0000	31-Mar-14	31-Mar-21
(f) 01-Jan-12	-	92,500	-	61,667	30 833	£0 0000	31-Mar-13	01-Jan-22
(f) 28-Mar-12	-	252,200	-	-	252 200	£0 0000	28-Mar-15	28-Mar-22
(f) 06-Jun-12	-	252 200	-	-	252,200	£0 9750	06-Jun-15	06-Jun-22
	841,300	596 900	194 500	61 667	1 182,033			
Peter Dixon								
(b) 17-Mar-05	16 750	-		-	16 750	£1 5150	17-Mar-08	17-Mar-15
(c) 27-Mar-09	82,000	-	82 000	-	-	£2 3075	27-Mar-12	27-Mar-19
(d) 29-Jun-10	66 500	-	-	-	66,500	£2 4100	29-Jun-13	29-Jun-20
(d) 29-Jun-10	66,500	-	-	-	66 500	£0 0000	29-Jun-13	29-Jun-20
(e) 31-Mar-11	52 300	-	-	-	52 300	£3 1500	31-Mar-14	31-Mar-21
(e) 31-Mar-11	52 300	-	-	-	52,300	£0 0000	31-Mar-14	31-Mar-21
(f) 01-Jan-12	-	36 910	-	24 607	12 303	£0 0000	31-Mar-13	01-Jan-22
(f) 28-Mar-12	-	107 500	-	-	107,500	£0 0000	28-Mar-15	28-Mar-22
(f) 06-Jun-12	-	107,500	-	-	107,500	£0 9750	06-Jun-15	06-Jun-22
	336,350	251,910	82 000	24 607	481 653			
Martin Miller								
(a) 18-Mar-04	82 500	-	-	-	82 500	£0 6800	18-Mar-07	18-Mar-14
(b) 17-Mar-05	33,500	-	-	-	33,500	£1 5150	17-Mar-08	17-Mar-15
(c) 27-Mar-09	82 000	-	82 000	-	-	£2 3075	27-Mar-12	27-Mar-19
(d) 29-Jun-10	66 500	-	-	-	66,500	£2 4100	29-Jun-13	29-Jun-20
(d) 29-Jun-10	66 500	-	-	-	66,500	£0 0000	29-Jun-13	29-Jun-20
(e) 31-Mar-11	52 300	-	-	-	52 300	£3 1500	31-Mar-14	31-Mar-21
(e) 31-Mar-11	52 300	-	-	-	52,300	£0 0000	31-Mar-14	31-Mar-21
(f) 01-Jan-12	-	36 910	-	24,607	12 303	£0 0000	31-Mar-13	01-Jan-22
(f) 28-Mar-12	-	107,500	-	-	107,500	£0 0000	28-Mar-15	28-Mar-22
(f) 06-Jun-12	-	107 500	-	-	107 500	£0 9750	06-Jun-15	06-Jun-22
	435,600	251 910	82,000	24,607	580 903			
Cynthia Dubin								
(f) 28-Mar-12	-	177 400	-	-	177 400	£0 0000	28-Mar-15	28-Mar-22
(f) 06-Jun-12	-	177 400	-	-	177 400	£0 9750	06-Jun-15	06-Jun-22
	-	354,800	-	-	354,800			

(a) 2001 Share Options Scheme in respect 2004
(b) 2001 Share Options Scheme in respect 2005
(c) 2001 Share Options Scheme in respect 2009
(d) 2010 Share Options Scheme in respect 2010
(e) 2010 Share Options Scheme in respect 2011
(f) 2010 Share Options Scheme in respect 2012

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 Group and the Company and of the profit or loss of the Company and Group for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent,
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the Group and parent company financial statements respectively
- 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 the Group and enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006 and as regards the Group financial statements, Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the company s website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Each of the Directors whose names and functions are listed in the Directors Report confirm that, to the best of their knowledge

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU give a true and fair view of the assets, liabilities, financial position and loss of the Group and
- the Directors report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

The Directors in office at the date of this report have each confirmed that

- so far as the Director is aware, there is no audit information of which the Company s auditors are unaware and
- he or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company s auditors are aware of that information

By order of the board
Limor Gonen
Company Secretary
8 April 2013

Independent Auditors' Report to the members of JKX Oil & Gas plc

We have audited the Group financial statements of JKX Oil & Gas plc for the year ended 31 December 2012 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and the Notes to the financial statements 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

Respective responsibilities of Directors and auditors
As explained more fully in the Statement of Directors responsibilities set out on page 108, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board s Ethical Standards for Auditors

This report, including the opinions has been prepared for and only for the company s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the financial statements In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the Group financial statements

- give a true and fair view of the state of the Group s affairs as at 31 December 2012 and of its loss and cash flows 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 and Article 4 of the IAS Regulation

Opinion on other matter prescribed by the Companies Act 2006
In our opinion

- the information given in the Directors report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements,
- the information given in the Corporate governance statement set out on pages 83 to 91 with respect to internal control and risk management systems and about share capital structures is consistent with the Group financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if in our opinion

- 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,

Under the Listing Rules we are required to review

- the Directors statement, set out on page 80 in relation to going concern
- the part of the Corporate governance statement relating to the Company s compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on Directors remuneration

Other matter
We have reported separately on the parent company financial statements of JKX Oil & Gas plc for the year ended 31 December 2012 and on the information in the Remuneration report that is described as having been audited

Jason Burkitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
8 April 2013

Consolidated income statement

for the year ended 31 December

	Note	2012 $000	2011 $000
Revenue	4	202,858	236 854
Cost of sales			
Production based taxes	18	(47,353)	(67 102)
Write off of exploration and evaluation costs	5(b)	(4,884)	(12,920)
Exceptional item – provision for impairment of Hungarian oil and gas assets	5(a)	(15,093)	–
Exceptional item – accelerated depreciation of Ukrainian oil and gas assets	5(a)	(30,723)	–
Other cost of sales		(76,823)	(49 573)
Total cost of sales	18	(174,876)	(129,595)
Gross profit		27,982	107,259
Administrative expenses		(21,179)	(25 705)
(Loss)/profit on foreign exchange		(1,034)	460
Profit from operations before exceptional items		51,585	82 014
Profit from operations after exceptional items		5,769	82 014
Finance income	19	600	915
Finance costs	20	(4,748)	(852)
Profit before tax		1,621	82,077
Taxation – current		(18,856)	(21,769)
Taxation – deferred			
– before the exceptional items		(3,879)	(1 171)
– on the exceptional items		9,779	–
Total deferred taxation		5,900	(1 171)
Total taxation	25	(12,956)	(22 940)
(Loss)/profit for the year attributable to owners of the parent		(11,335)	59 137
Basic earnings/(loss) per 10p ordinary share (in cents)			
– before exceptional items	27	14 36	34 37
– after exceptional items		(6 59)	34 37
Diluted earnings/(loss) per 10p ordinary share (in cents)			
– before exceptional items		14 25	34 22
– after exceptional items		(6 59)	34 22

Consolidated statement of comprehensive income

for the year ended 31 December

	2012 $000	2011 $000
(Loss)/profit for the year	(11,335)	59,137
Currency translation differences	17,302	(18,383)
Net movement on cash flow hedges	(2,872)	2 872
Total comprehensive income attributable to		
– Owners of the parent	3,095	43,626

Items in the statement above are disclosed net of tax The income tax relating to each component of other comprehensive income is disclosed in note 26

Consolidated statement of financial position

as at 31 December

	Note	2012 $000	2011 $000
ASSETS			
Non-current assets			
Property plant and equipment	5(a)	**479,875**	498 834
Other intangible assets	5(b)	**21,137**	23,546
Other receivable	6	**6,203**	24 238
Deferred tax assets	26	**22,698**	13,432
		529,913	560 050
Current assets			
Inventories	8	**8,934**	3,669
Trade and other receivables	9	**35,406**	21 405
Restricted cash	10	**587**	9 777
Cash and cash equivalents	10	**12,042**	19,122
		56,969	53 973
Total assets		**586,882**	614 023
LIABILITIES			
Current liabilities			
Current tax liabilities		**(757)**	(2,778)
Trade and other payables	11	**(33,225)**	(44 509)
Borrowings	12	**(14,951)**	(35,930)
Derivative liability	13	**-**	(3,169)
		(48,933)	(86 386)
Non-current liabilities			
Provisions	17	**(3,420)**	(3 445)
Other payables		**(6,203)**	(4,356)
Deferred tax liabilities	26	**(16,427)**	(13 061)
		(26,050)	(20 862)
Total liabilities		**(74,983)**	(107,248)
Net assets		**511,899**	506,775
EQUITY			
Share capital	15	**26,657**	26 657
Share premium		**97,476**	97 476
Merger reserve		**30,680**	30,680
Other reserves			
- Capital redemption reserve		**587**	587
- Equity share options reserve		**7,512**	5 483
- Foreign currency translation reserve		**(29,177)**	(46 479)
- Hedge reserve		**-**	2,872
Retained earnings		**378,164**	389 499
Total equity		**511,899**	506,775

These financial statements on pages 110 to 147 were approved by the Board of Directors on 8 April 2013 and signed on its behalf by

Dr Paul Davies
Director

Cynthia Dubin
Director

Consolidated statement of changes in equity

	Share capital $000	Share premium $000	Merger reserve $000	Capital redemption reserve $000	Equity share options reserve $000	Foreign currency translation reserve $000	Hedge reserve $000	Retained earnings $000	Total equity $000
At 1 January 2011	26 649	97 363	30 680	587	3,914	(28,096)	-	337,569	468,666
Profit for the year	-	-	-	-	-	-	-	59,137	59,137
Exchange differences arising on translation of overseas operations	-	-	-	-	-	(18 383)	-	-	(18 383)
Net movement on cash flow hedges	-	-	-	-	-	-	2 872	-	2 872
Total comprehensive income attributable to owners of the parent	-	-	-	-	-	(18,383)	2,872	59,137	43,626
Transaction with owners									
Issue of ordinary shares	8	113	-	-	-	-	-	-	121
Share-based payment charge	-	-	-	-	1 569	-	-	-	1,569
Dividends paid	-	-	-	-	-	-	-	(7 207)	(7,207)
Total transactions with owners	8	113	-	-	1 569	-	-	(7 207)	(5,517)
At 31 December 2011	26,657	97,476	30,680	587	5 483	(46 479)	2,872	389,499	506,775
At 1 January 2012	26 657	97 476	30 680	587	5,483	(46,479)	2 872	389 499	506 775
Loss for the year	-	-	-	-	-	-	-	(11 335)	(11 335)
Exchange differences arising on translation of overseas operations	-	-	-	-	-	17 302	-	-	17 302
Net movement on cash flow hedges	-	-	-	-	-	-	(2,872)	-	(2,872)
Total comprehensive income attributable to owners of the parent	-	-	-	-	-	17 302	(2 872)	(11,335)	(3,095)
Transaction with owners									
Share-based payment charge	-	-	-	-	2 029	-	-	-	2,029
Total transactions with owners	-	-	-	-	2,029	-	-	-	2,029
At 31 December 2012	26,657	97,476	30 680	587	7,512	(29 177)	-	378 164	511,899

Consolidated statement of cash flows

for the year ended 31 December

	Note	2012 $000	2011 $000
Cash flows from operating activities			
Cash generated from operations	29	**109,288**	124 150
Interest paid		**(8,946)**	(2,416)
Income tax paid		**(21,837)**	(22 737)
Net cash generated from operating activities		**78,505**	98,997
Cash flows from investing activities			
Deferred payment on Russian acquisition	11	**-**	(2,214)
Interest received		**456**	724
Proceeds from sale of property plant and equipment		**22**	-
Purchase of intangible assets		**(3,805)**	(12,836)
Purchase of property plant and equipment		**(66,687)**	(149,873)
Net cash used in investing activities		**(70,014)**	(164,199)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**-**	121
Restricted cash		**9,190**	(9 777)
Repayment of borrowings		**(40,000)**	(10,000)
Funds received from borrowings (net of costs)		**14,951**	49,500
Dividends paid to shareholders	28	**-**	(7,207)
Net cash (used in)/generated from financing activities		**(15,859)**	22,637
Decrease in cash and cash equivalents in the year		**(7,368)**	(42,565)
Effect of exchange rates on cash and cash equivalents		**288**	(331)
Cash and cash equivalents at 1 January		**19,122**	62,018
Cash and cash equivalents at 31 December	10	**12,042**	19 122

Group financial statements
Notes to the financial statements

1 General Information
JKX Oil & Gas plc (the ultimate parent of the Group hereafter "the Company") is a public limited company listed on the London Stock Exchange which is domiciled and incorporated in England and Wales under the UK Companies Act The registered number of the Company is 03050645 The registered office is 6 Cavendish Square, London W1G 0PD and the principal place of business is disclosed in the introduction to the Annual Report

The principal activities of the Company and its subsidiaries, (the Group), are the exploration for, appraisal and development of oil and gas reserves

2 Basis of preparation
The Group s financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006 applicable for Companies reporting under IFRS and therefore the consolidated financial statements comply with Article 4 of the EU IAS Regulations The Group s financial statements have been prepared under the historical cost convention, as modified for derivative instruments held at fair value through profit or loss The principal accounting policies adopted by the Group are set out below

The disclosed policies have been applied consistently by the Group for both the current and previous financial year with the exception of the new standards adopted

The financial information has been prepared on a going concern basis following review by the directors of forecast cash flows for the next 12 months, including consideration of the ability of the Group to change the timing and scale of capital expenditure, if required In making their assessment the Directors have considered sensitivities to their forecast cash flows including reducing forecast oil and gas realisations, and increasing costs

The EU IFRS financial information has been drawn up on the basis of accounting policies consistent with those applied in the financial statements for the year to 31 December 2011 except for the following

- Amendment to IFRS 7 "Financial Instruments Disclosures – Transfers of Financial Assets This amends required disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity s financial position The amendment relates to disclosure only and has no impact on Group earnings or shareholders funds in the current or prior year

The Group has not applied the following pronouncements which are not mandatory for 2012

Mandatory for 2013
- Amendment to IAS 1 Presentation of Financial Statements – Presentation of items of other comprehensive income
- IAS 19 (revised 2011), Employee Benefits
- IAS 28 (revised 2011), Investments in Associates and Joint Ventures
- Amendments to IFRS 7, Financial instruments Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 10, Consolidated Financial Statements
- IFRS 11 Joint Arrangements

IFRS 10 and 11 are mandatory for 2013 under IFRS but 2014 under EU IFRS Early adoption is permitted under EU IFRS and the Group does not expect to early adopt

- IFRS 12 Disclosures of Interests in Other Entities
- IFRS 13, Fair Value Measurement
- Annual improvements 2011

Mandatory for 2014 and endorsed by the EU
- Amendments to IAS 32 Financial instruments Presentation – Offsetting Financial Assets and Financial Liabilities

Mandatory for 2015 and not yet endorsed by the EU
- IFRS 9, Financial instruments

3 Significant accounting policies

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year All intragroup balances transactions, income and expenses and profits or losses, including unrealised profits arising from intragroup transactions have been eliminated on consolidation

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies in order to obtain benefits from their activities Control is presumed to exist where the Group owns more than one half of the voting rights (which does not always equate to percentage ownership) unless it can be demonstrated that ownership does not constitute control Control does not exist where other parties hold veto rights over significant operating and financial decisions In assessing control, potential voting rights that are currently exercisable or convertible are taken into account The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Companies and their subsidiaries after eliminating intragroup transactions as noted above Subsidiaries are fully consolidated from the date on which control is transferred to the Group They are de-consolidated from the date that control ceases Uniform accounting policies are applied across the Group

Interests in joint venture agreements
A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control Where a Group company undertakes its activities under joint venture arrangements directly, the Group s shares of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant company and classified according to their nature

Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis Income from the sale or use of the Group s share of the output of jointly controlled assets, and its share of joint venture expenses are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities (JCE) The Group reports its interests in jointly controlled entities using proportionate consolidation – the Group s share of the assets liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group s interest in the joint venture

Foreign currencies
The presentation currency of the Group is the US Dollar based on the fact that the Group s primary transactions originate in or are dictated by, the US Dollar, these being amongst others oil sales and procurement of rigs and drilling services

Each entity in the Group is measured using the currency of the primary economic environment in which the entity operates (the functional currency) Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement

On consolidation of subsidiaries and JCEs with a non US Dollar presentation currency, their statements of financial position are translated into US Dollar at the closing rate and income and expenses at the average monthly rate All resulting exchange differences arising in the period are recognised in other comprehensive income, and cumulatively in the Group s translation reserve Such translation differences are reclassified to profit or loss in the period in which any such foreign operation is disposed of

Subsidiaries within the Group hold monetary intercompany balances for which settlement is neither planned nor likely to occur in the foreseeable future and thus this is considered to be part of the Group s net investment in the relevant subsidiary An exchange difference arises on translation in the company income statement which on consolidation is recognised in equity, only being recognised in the income statement on the disposal of the net investment

The major exchange rates used for the revaluation of the closing statement of financial position at 31 December 2012 were $1/£0 6 (2011 $1/£0 6), $1/UAH 8 0 (2011 $1/UAH 8 1), $1/RUB 30 37 (2011 $1/RUB 32 2) $1/HUF 222 1 (2011 $1/HUF 241 7), $1/BGN 1 5 (2011 $1/BGN 1 5)

Goodwill and fair value adjustments arising on acquisition are treated as assets/liabilities of the foreign entity and translated at the closing rate

Property, plant and equipment and other intangible assets
Property plant and equipment comprises the Group s tangible oil and gas assets together with computer equipment, motor vehicles and other equipment and are carried at cost, less any accumulated depreciation and accumulated impairment losses Cost includes purchase price and construction costs for qualifying assets, together with borrowing costs where applicable, in accordance with the Group s accounting policy Depreciation of these assets commences when the assets are ready for their intended use

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 income statement

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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 are not amortised and 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 are 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

Costs related to hydrocarbon production activities are depreciated on a field by field unit of production method based on commercial proved plus probable reserves of the production licence, except in the case of assets whose useful life differs from the lifetime of the field, which are depreciated on a straight-line basis over their anticipated useful life of up to 10 years

The calculation of the unit of production depreciation takes account of estimated future development costs and is based on current period end unescalated price levels Changes in reserves and cost estimates are recognised prospectively

Other assets
Depreciation is charged so as to write off the cost, less estimated residual value, over their estimated useful lives using the straight-line method, for the following classes of assets

Motor vehicles	– 4 years
Computer equipment	– 3 years
Other equipment	– 5 to 10 years

The estimated useful lives of property plant and equipment and their residual values are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively Assets under construction are not subject to depreciation until the date on which the Group makes them available for use

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement for the relevant period

Business combinations
The acquisition of subsidiaries is accounted for using the purchase method The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree

The acquiree s identifiable assets, liabilities and contingent liabilities that meet the criteria for recognition under IFRS 3 (revised) are recognised at their fair value at the acquisition date Acquisition costs are expensed

Goodwill is recognised as an asset and is initially measured at cost being the excess of the cost of the business combination over the Group s share in the net fair value of the acquiree s identifiable assets liabilities and contingent liabilities After initial recognition, goodwill is measured at cost less any accumulated impairment losses and is tested annually for impairment Impairment losses on goodwill are not reversed

On disposal of a subsidiary or jointly controlled entity, the attributable amount of unamortised goodwill, which has not been subject to impairment, is included in the determination of the profit or loss on disposal

Impairment of property, plant and equipment and intangible assets
At each reporting date, the Group reviews the carrying amounts of its property plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss Individual assets are grouped together as a cash-generating unit for impairment assessment purposes at the lowest level at which their identifiable cash flows, that are largely independent of the cash flows of the other Groups assets, can be determined

If any such indication of impairment exists the Group makes an estimate of its recoverable amount

The recoverable amount is the higher of fair value less costs to sell and value in use Where the carrying amount of an individual asset or a cash-generating unit exceeds its recoverable amount, the asset/cash-generating unit is considered impaired and is written down to its recoverable amount Fair value less costs to sell is determined by discounting the post tax cash flows expected to be generated by the cash-generating unit net of associated selling costs and takes into account assumptions, market participants would use in estimating fair value In assessing the value in use, the estimated future cash flows are adjusted for the risks specific to the asset/cash-generating unit and are discounted to their present value that reflects the current market indicators

Where an impairment loss subsequently reverses, the carrying amount of the asset/cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years A reversal of an impairment loss is recognised as income immediately

Financial instruments
Financial assets and financial liabilities are recognised on the consolidated statement of financial position when the Group becomes party to the contractual provisions of the instrument

Derivative financial instruments
The Group may use derivative financial instruments (derivatives) primarily to hedge its risks associated with oil price fluctuations relating to certain firm commitments and forecasted transactions Any such derivatives are initially recorded at fair value on the date at which the contract is entered into and subsequently re-measured at fair value on subsequent reporting dates

A financial asset or liability is derecognised when the obligation under the asset or liability is discharged, cancelled or expires

The purpose for which a derivative is used is established at inception To qualify for hedge accounting, the derivative must be highly effective in achieving its objective and this effectiveness must be documented at inception and throughout the period of the hedge relationship The hedge must be assessed on an ongoing basis and determined to have been highly effective throughout the financial reporting periods for which the hedge was designated

For the cash flow hedge, the portion of the gains and losses on the hedging instrument that is determined to be an effective hedge is taken to equity and the ineffective portion, as well as any change in time value is recognised in the consolidated income statement The gains and losses taken to equity are subsequently transferred to the consolidated income statement during the period in which the hedged transaction affects the consolidated income statement or if the hedge is subsequently deemed to be ineffective

Gains or losses on derivatives that do not qualify for hedge accounting treatment (either from inception or during the life of the instrument) are taken directly to the consolidated income statement in the period

Borrowings
Borrowings are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate a shorter period

Trade and other receivables
Trade and other receivables are recognised initially at fair value and are subsequently measured at amortised cost reduced by any provision for impairment A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due Indicators of impairment would include financial difficulties of the debtor, likelihood of the debtor s insolvency, default in payment or a significant deterioration in credit worthiness Any impairment is recognised in the income statement within Administrative expenses

Loans and receivables are non-derivative financial instruments which have a fixed or easily determinable value They are recognised at cost less any provisions for impairment in their value

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash Cash equivalents are short-term with an original maturity of less than 3 months, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value

Restricted cash
Restricted cash is disclosed separately on the face of the statement of financial position and denoted as restricted when it is not under the exclusive control of the Group

Trade and other payables
Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method if the time value of money is significant

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs

Inventories
Inventory is comprised of produced oil and gas or certain materials and equipment that are acquired for future use The oil and gas is valued at the lower of average production cost and net realisable value, the materials and equipment inventory is valued at purchase cost Cost comprises direct materials and, where applicable, direct labour costs plus attributable

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overheads based on a normal level of activity and other costs associated in bringing the inventories to their present location and condition Cost is calculated using the weighted average method Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution and any provisions for obsolescence

Treasury shares
JKX Oil & Gas plc treasury shares held by the Company are classified in shareholders equity The consideration paid including any directly attributable incremental costs is deducted from equity attributable to the Company s equity holders until the shares are cancelled or reissued Where such shares are subsequently sold or reissued, any consideration received, net of transaction costs, is included in equity attributable to the Company s equity holders No gain or loss is recognised in the financial statements on the purchase, sale, issue or cancellation of treasury shares

Taxation
Income tax expense represents the sum of the current tax payable and deferred tax

The current tax payable is based on taxable profit for the year Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The Group s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit 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 (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates and laws substantively enacted by the reporting date Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Deferred tax assets and liabilities are offset when there exists a legal and enforceable right to offset and they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis

Segmental reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Executive and Non-Executive Directors of the Group that make the strategic decisions

Share options
The Group issues equity-settled share-based payments to the Executive Directors and Senior Management Equity-settled share-based payments are measured at fair value at the date of grant The fair value of the employee services received in exchange for the grant of options is expensed on a straight-line basis over the vesting period, based on the Group s estimate of shares that will eventually vest At each subsequent reporting date the Group calculates the estimated cumulative charge for each award having regard to any change in the number of options that are expected to vest and the expired portion of the vesting period The change in this cumulative charge since the last reporting date is expensed Once an option vests, no further adjustment is made to the aggregate amount expensed The expected life of the options depends on the behaviour of the option holders, which is incorporated into the option model consistent with historic data The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value of 10p per share) and share premium when the options are exercised

The rules regarding the scheme are described in the Remuneration Report on pages 92 and 107 and in note 24 on share based payments

Bonus scheme
The Group operates a bonus scheme for its Directors and employees The scheme has four performance conditions 1 financial objectives 2 increase in share price 3 key strategic objectives and 4 safety performance conditions The bonus payments are made annually normally in January of each year and the costs are accrued in the period to which they relate

Pension costs
The Group contributes to the individual pension scheme of the qualifying employees choice Contributions are charged to the income statement as they become payable The Group has no further payment obligations once the contributions have been paid

Decommissioning
Provision is made for the cost of decommissioning assets at the time when the obligation to decommission arises Such provision represents the estimated discounted liability (the discount rate used currently being at 10% (2011 10%)) for costs which are expected to be incurred in removing production facilities and site restoration at the end of the producing life of each field A corresponding item of property plant and equipment is also created at an amount equal to the provision This is subsequently depreciated as part of the capital costs of the production facilities Any change in the present value of the estimated expenditure attributable to changes in the estimates of the cash flow or the current estimate of the discount rate used are reflected as an adjustment to the provision and the property plant and equipment The unwinding of the discount is recognised as a finance cost

Revenue recognition
Sales of oil and gas products are recognised when the significant risks and rewards of ownership have passed to the buyer and it can be reliably measured This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism Revenue from other services are recognised when the services have been performed Revenue is measured at the fair value of the consideration received excluding discounts rebates, value added tax (VAT) and other sales taxes or duty

Revenue resulting from the production of oil and natural gas from properties in which the Group has an interest with other producers is recognised on the basis of the Group s working interest (entitlement method) Gains and losses on derivative contracts are reported on a net basis in the consolidated income statement

Interest income is recognised as the interest accrues, by reference to the net carrying amount at the effective interest rate applicable

Share capital
Ordinary shares are classified as equity Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from share premium, net of any tax effects When share capital recognised as equity is repurchased the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from share premium Repurchased shares are classified as treasury shares and are presented in the reserve for own shares When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented in share premium

Leasing
Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease The Group has no finance leases

Dividends
Interim dividends are recognised when they are paid to the Company s shareholders Final dividends are recognised when they are approved by shareholders

Exceptional item
Exceptional items comprise items of income and expense including tax items, that are material in amount and unlikely to recur and which merit separate disclosure in order to provide an understanding of the Group s underlying financial performance Examples of events giving rise to the disclosure of material items of income and expense as exceptional items include, but are not limited to, impairment events, disposals of operations or individual assets litigation claims by or against the Group and the restructuring of components of the Group s operations See note 5 for further details

Critical accounting estimates and assumptions
The Group makes estimates and assumptions concerning the future The resulting accounting estimates will by definition, seldom equal the related actual results The estimates and assumptions that have a risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

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a) Recoverability of oil and gas assets and intangible oil and gas costs (Note 5)
Costs capitalised as oil and gas assets in property, plant and equipment, and intangible assets are assessed for impairment when circumstances suggest that the carrying value may exceed its recoverable value As part of this assessment management has carried out an impairment test (ceiling test) on the oil and gas assets classified as property, plant and equipment This test compares the carrying value of the assets at the reporting date with the expected discounted cash flows from each project For the discounted cash flows to be calculated, management has used a production profile based on its best estimate of proven and probable reserves of the assets and a range of assumptions, including an internal oil and gas price profile benchmarked to mean analysts consensus and a discount rate which, taking into account other assumptions used in the calculation, management considers to be reflective of the risks This assessment involves judgement as to (i) the likely commerciality of the asset, (ii) proven probable and possible (3P) reserves which are estimated using standard recognised evaluation techniques (iii) future revenues and estimated development costs pertaining to the asset (iv) the discount rate to be applied for the purposes of deriving a recoverable value and (v) the value ascribed to contingent resources associated with the asset

b) Carrying value of intangible exploration and evaluation expenditure (Note 5 (b))
The amounts for intangible exploration and evaluation assets represent the costs of active exploration projects the commerciality of which is unevaluated until reserves can be appraised Where a project is sufficiently advanced the recoverability of intangible exploration assets is assessed by comparing the carrying value to estimates of the present value of projects The present values of intangible exploration assets are inherently judgemental Exploration and evaluation costs will be written off to the income statement unless commercial reserves are established or the determination process is not completed and there are no indications of impairment The outcome of ongoing exploration, and therefore whether the carrying value of exploration and evaluation assets will ultimately be recovered, is inherently uncertain

c) Depreciation of oil and gas assets (Note 5)
Oil and gas assets held in property plant and equipment are mainly depreciated on a unit of production basis at a rate calculated by reference to proved plus probable reserves and incorporating the estimated future cost of developing and extracting those reserves Future development costs are estimated using assumptions as to the numbers of wells required to produce those reserves, the cost of the wells future production facilities and operating costs together with assumptions on oil and gas realisations

d) Decommissioning (Note 17)
The Group has decommissioning obligations in respect of its interests in Ukraine Russia and Hungary The full extent to which the provision is required depends on the legal requirements at the time of decommissioning, the costs and timing of any decommissioning works and the discount rate applied to such costs The decommissioning provision is updated each year to reflect management s best estimates based on the current economic environment of the key assumptions used Actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates This in turn will depend upon future oil and gas prices which are inherently uncertain

e) Taxation (Note 25)
Tax provisions are recognised when it is considered probable that there will be a future outflow of funds to the tax authorities In this case, provision is made for the amount that is expected to be settled The provision is updated at each reporting date by management by interpretation and application of known local tax laws with the assistance of established legal, tax and accounting advisors These interpretations can change over time depending on precedent set and circumstances in addition new laws can come into effect which can conflict with others and, therefore, are subject to varying interpretations and changes which may be applied retrospectively A change in estimate of the likelihood of a future outflow or in the expected amount to be settled would result in a charge or credit to income in the period in which the change occurs

Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse This requires assumptions regarding future profitability and is therefore inherently uncertain To the extent assumptions regarding future profitability change there can be an increase or decrease in the level of deferred tax assets recognised that can result in a charge or credit in the period in which the change occurs

Tax provisions are based on enacted or substantively enacted laws To the extent that these change there would be a charge or credit to income both in the period of charge which would include any impact on cumulative provisions and in future periods

f) Derivatives (Note 13)
Under the pre-paid swap transaction with Credit Suisse International (see note 12) entered into during 2011, the Group sold forward 36,000 bbl/month of crude at $94 00 Urals Med per barrel while retaining value if prices rise above $130 per bbl This derivative financial instrument is stated in the statement of financial position at the reporting date at its fair value Changes in the fair value of this derivative are recorded each period in comprehensive income as specific hedge accounting criteria have been met The fair value is determined using forward oil price curves which represent the Group s estimates of the prices at which a buyer or seller could contract today for delivery of oil or settlement of an oil-price contract at future dates The Group generally bases forward price curves upon readily obtainable market price quotations, as the Group s oil contracts do not generally extend beyond the actively traded portion of these curves However, the forward price curves used are only an estimate of how future prices will move and are, therefore, subjective All obligations under the pre-paid swap concluded with a final payment to Credit Suisse in December 2012

4 Segmental analysis
The Group has one single class of business, being the exploration for, appraisal, development and production of oil and gas reserves Accordingly the reportable operating segments are determined by the geographical location of the assets

There are five reportable operating segments which are based on the internal reports provided to the Chief Operating Decision Maker The Ukraine, Russia and Hungary are involved with production and exploration the Rest of World is involved in exploration and development and the UK is the home of the head office and purchases material, capital assets and services on behalf of other segments The Rest of the World segment comprises operations in Bulgaria and Slovakia Transfer prices between segments are set on an arms length basis in a manner similar to transactions with third parties Segment revenue, segment expense and segment results include transfers between segments Those transfers are eliminated on consolidation

Segment results and assets include items directly attributable to the segment Segment assets consist primarily of property, plant and equipment inventories and receivables Capital expenditures comprise additions to property, plant and equipment

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2012	UK $000	Ukraine $000	Russia $000	Hungary $000	Rest of world $000	Sub Total $000	Eliminations $000	Total $000
External revenue								
Revenue by location of asset								
– Oil	–	58 891	–	1 478	–	60 369	–	60,369
– Gas	–	111 976	5 111	5 142	–	122,229	–	122 229
– Liquefied petroleum gas	–	18,548	–	–	–	18,548		18,548
– Management services/other	59	1 647	–	–	6	1 712	–	1 712
	59	191,062	5,111	6,620	6	202 858	–	202 858
Inter segment revenue								
– Management services/other	14,320	–	–	–	–	14 320	(14 320)	–
– Equipment	173	–	–	–	–	173	(173)	–
	14 493	–	–	–	–	14 493	(14 493)	–
Total revenue	14 552	191 062	5 111	6 620	6	217,351	(14 493)	202 858
Profit before tax								
(Loss)/profit from operations	(9,170)	41,240	(12,017)	(13 912)	118	6 259	(490)	5 769
Finance income						600	–	600
Finance cost						(4 748)	–	(4,748)
						2 111	(490)	1 621
Assets								
Property plant and equipment	1,252	170 307	299,640	5,127	3,549	479,875	–	479 875
Intangible assets	–	1 493	–	12 371	7 273	21 137	–	21 137
Other receivable	–	–	6,203	–	–	6 203	–	6,203
Deferred tax	615	3 274	18 809	–	–	22,698	–	22 698
Cash and cash equivalents	10 222	1 352	111	176	181	12 042	–	12 042
Restricted cash	–	–	–	587	–	587	–	587
Inventories	–	7 176	1 758	–	–	8,934	–	8 934
Trade and other receivables	605	4,965	24,399	3,672	1 765	35 406	–	35 406
Total assets	12,694	188,567	350,920	21,933	12 768	586 882	–	586 882
Total liabilities	(5 795)	(35 087)	(29 197)	(4 272)	(632)	(74 983)	–	(74 983)
Non cash expense (other than depreciation and impairment)	2 133	1 157	1,317	–	–	4 607	–	4,607
Exceptional item – accelerated depreciation of Ukrainian Oil and Gas Assets	–	30 723	–	–	–	30,723	–	30 723
Exceptional item – provision for impairment of Hungarian oil and gas assets	–	–	–	15 093	–	15 093	–	15,093
Write off of exploration and evaluation costs	–	3 647	–	1 418	(181)	4,884	–	4 884
Increase in property plant and equipment and intangible assets	319	22 844	40 591	1,851	1 713	67,318	–	67 318
Depreciation, depletion and amortisation	666	47 460	2 741	1 695	1 158	53 720	–	53 720

2011	UK $000	Ukraine $000	Russia $000	Hungary $000	Rest of world $000	Sub Total $000	Eliminations $000	Total $000
External revenue								
Revenue by location of asset								
– Oil	-	80 000	-	1,508	-	81,508	-	81 508
– Gas	-	133,288	-	9,779	-	143 067	-	143,067
– Liquefied petroleum gas	-	10 881	-	-	-	10 881		10 881
– Management services/other	132	1 266	-	-	-	1,398	-	1 398
	132	225 435	-	11 287	-	236,854	-	236 854
Inter segment revenue								
– Management services/other	17,260	-	-	-	-	17 260	(17 260)	-
– Equipment	11 338	-	-	-	3 907	15 245	(15,245)	-
	28 598	-	-	-	3 907	32 505	(32 505)	-
Total revenue	28,730	225,435	-	11,287	3,907	269,359	(32 505)	236,854
Profit before tax								
(Loss)/profit from operations	(9,465)	106 632	(3,745)	(3,579)	(6 240)	83 603	(1,589)	82 014
Finance income						915	-	915
Finance cost						(852)	-	(852)
						83 666	(1,589)	82,077
Assets								
Property plant and equipment	1,599	226,667	246,238	20,937	3 393	498 834	-	498 834
Intangible assets	-	4 119	-	12,916	6,511	23,546	-	23 546
Other receivable	-	-	24 238	-	-	24 238	-	24 238
Deferred tax	3 828	1,634	7 916	54	-	13 432	-	13,432
Cash and cash equivalents	5 406	3,356	5 953	15	4 392	19,122	-	19 122
Restricted cash	9,504	-	-	273	-	9 777	-	9,777
Inventories	-	3 392	278	-	-	3,670		3 670
Trade and other receivables	2,889	4,044	6 719	8 016	(264)	21,404		21 404
Total assets	23 226	243,212	291 342	42,211	14 032	614,023	-	614 023
Total liabilities	(43 157)	(28,482)	(22 780)	(11 007)	(1,822)	(107,248)	-	(107 248)
Non cash expense (other than depreciation and impairment)	1 569	403	-	-	176	2 148	-	2,148
Impairment of oil and gas assets/ write off of exploration costs	-	-	-	6,704	6 216	12 920	-	12,920
Increase in property plant and equipment and intangible assets	1 924	41 447	103,428	12,382	2 819	162,000	-	162 000
Depreciation, depletion and amortisation	618	29 632	56	3,938	83	34 327	-	34 327

Major customers	2012 $000	2011 $000
1 Ukraine	**92,294**	87,999
2 Ukraine	-	46 878

There is 1 (2011 2) customer in the Ukraine that exceeds 10% of the Group s total revenues

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5 (a) Property, plant and equipment

2012	Oil and gas assets: Oil and gas fields Ukraine $000	Oil and gas assets: Gas field Russia $000	Oil and gas assets: Oil and gas fields Hungary $000	Other property plant and equipment $000	Total $000
GROUP					
Cost					
At 1 January	457 430	321,688	31,499	18 499	829 116
Additions during the year*	20,413	40 591	1,112	1 598	63,714
Foreign exchange equity adjustment	-	15,808	-	66	15,874
Disposal of property plant and equipment	-	-	-	(110)	(110)
Reclassification	1 410	-	(134)	-	1,276
At 31 December	479 253	378,087	32 477	20 053	909,870
Accumulated depreciation, depletion and amortisation and provision for impairment					
At 1 January	230,763	75 450	10,562	13,507	330 282
Depreciation on disposals of property, plant and equipment	-	-	-	(100)	(100)
Exceptional item – accelerated depreciation of Ukrainian oil and gas assets	30,723	-	-	-	30,723
Exceptional item - Impairment of Hungarian assets (see note 5(d))	-	-	15 093	-	15 093
Foreign exchange equity adjustment	-	256	-	21	277
Depreciation charge for the year	47 460	2 741	1,695	1 824	53,720
At 31 December	308 946	78,447	27,350	15 252	429,995
Carrying amount					
At 1 January	226 667	246,238	20,937	4 992	498 834
At 31 December	170 307	299 640	5,127	4 801	479 875

* Finance costs that have been capitalised within oil and gas properties during the year total $2 5m (2011 $3 2m) at a weighted average interest rate of 25 2 per cent (2011 25 2 per cent)

Oil and gas fields in Ukraine and Russia include $9 1m and nil respectively relating to items under construction (2011 $14 3m and $246 2m)

Exceptional item – accelerated depreciation of Ukrainian oil and gas assets

Following the change in the Group s oil and gas reserves at the Novo-Nikolaevskoye Complex on 31 December 2011, and subsequent revision to future production plans from those fields during 2012, there was a reassessment of the expected future economic benefit from the Complex s oil and gas assets in Ukraine As a result certain oil and gas assets have become obsolete and therefore their carrying value has been written off A one-off accelerated depreciation charge of $30 7m has been recognised in the consolidated income statement during the year in respect of these oil and gas assets

2011	Oil and gas assets				
	Oil and gas fields Ukraine $000	Gas field Russia $000	Oil and gas fields Hungary $000	Other property plant and equipment $000	Total $000
GROUP					
Cost					
At 1 January	416,654	236,992	29,688	17,123	700,457
Additions during the year*	40 776	103,428	1,811	2,559	148,574
Foreign exchange equity adjustment	–	(18 732)	–	(28)	(18 760)
Disposal of property plant and equipment	–	–	–	(1 155)	(1,155)
At 31 December	457,430	321,688	31 499	18 499	829,116
Accumulated depreciation, depletion and amortisation and provision for impairment					
At 1 January	202 353	75 450	6 624	12 688	297,115
Depreciation on disposals of property plant and equipment	–	–	–	(1 148)	(1 148)
Foreign exchange equity adjustment	–	–	–	(12)	(12)
Depreciation charge for the year	28,410	–	3,938	1 979	34 327
At 31 December	230 763	75,450	10 562	13 507	330 282
Carrying amount					
At 1 January	214 301	161 542	23,064	4 435	403 342
At 31 December	226,667	246 238	20 937	4,992	498,834

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5. (b) Intangible assets exploration and evaluation expenditure

2012	Ukraine $000	Hungary $000	Rest of world $000	Total $000
Cost				
At 1 January	5,427	12,916	12,866	31,209
Additions during the year	2,431	739	434	3,604
Write off of unsuccessful exploration and evaluation costs	(3,647)	(1,418)	181	(4,884)
Effect of exchange rates on intangible assets	–	–	147	147
Reclassification	(1 410)	134	-	(1 276)
At 31 December	2,801	12,371	13 628	28 800
Provision against oil and gas assets				
At 1 January and 31 December	1 308	–	6,355	7 663
Carrying amount				
At 1 January	4,119	12 916	6 511	23 546
At 31 December	1 493	12,371	7 273	21,137

The amounts for intangible exploration and appraisal assets represent costs incurred on active exploration and appraisal projects

The write off of exploration and evaluation costs comprises exploration and drilling costs of $3 6m (2011 nil) in respect of the M-172 well in Ukraine, $1 2m of drilling costs (2011 nil) in respect of the Pely-2 well in Hungary, exploration costs of $0 2m (2011 $6 7m) in respect of our Turkeve licence in Hungary and $0 2m (2011 nil) in respect of cost recoveries against Bulgarian exploration costs previously written off

The total write off of unsuccessful exploration and evaluation costs of $4 9m (2011 $12 9m) has been recognised in Cost of sales

2011	Ukraine $000	Hungary $000	Rest of world $000	Total $000
Cost				
At 1 January	4,756	9 049	17,229	31 034
Additions during the year	671	10,571	2 184	13 426
Write off of unsuccessful exploration costs	-	(6 704)	(6 216)	(12,920)
Effect of exchange rates on intangible assets	-	-	(331)	(331)
At 31 December	5,427	12 916	12 866	31,209
Provision against oil and gas assets				
At 1 January and 31 December	1 308	–	6,355	7,663
Carrying amount				
At 1 January	3,448	9 049	10,874	23,371
At 31 December	4,119	12 916	6,511	23,546

5 (c) Impairment test for Property, plant and equipment

A review was undertaken at the reporting date of the carrying amounts of property, plant and equipment to determine whether there was any indication of a trigger that may have led to these assets suffering an impairment loss In 2012 indicators of impairment were noted in respect of our Hungarian assets (see note 5 (d)) No other impairment triggers were noted and no other impairment charges have been recognised

Following this review in 2011 impairment triggers were noted in relation to Yuzhgazenergie (YGE) in Russia See note 5(d) for the results of the 2011 YGE impairment test and consideration of the carrying value at 31 December 2012

5 (d) Exceptional item – impairment of Hungarian oil and gas assets

HHE North Kft (HHN), Hungary

During 2012, two of our producing Hungarian wells experienced an unexpected decline in production rates

- well Gh-1 watered out and following a review with our partner there are currently no plans to attempt to rectify this
- well Hn-2 watered out but following remediation work this well has been restarted at lower production rates than previously experienced

We have reduced our future production forecasts and reserves in respect of these two wells which the Company considered constituted an impairment trigger and a full impairment test has been undertaken in respect of our Hungarian oil and gas assets

The test compared the recoverable amount of the Hernad field Cash Generating Unit (CGU) which contains these two wells and which is held by HHE North Kft (HHN) the subsidiary which holds our Hungarian assets, to the carrying value of the CGU The estimate of recoverable amount was based on fair value less costs to sell, derived by estimating discounted after tax cash flows for the CGU based on estimates that a typical market participant would use in valuing such assets In accordance with IAS 36, the impairment review has been undertaken in US$ being the functional currency of our Hungarian operations

The key assumptions used in the impairment testing were

- Production profiles these were based on the latest available information provided by our reserve engineers based on reserve information from the operator and external engineers, such information including 2P reserves (0 2 MMboe), 3P and contingent resources
- Oil and gas prices these were based on current prices being realised and short term price curves derived from expectations in the Hungarian oil and gas market
- Capital and operating costs these were based on project estimates provided by third parties and the partner and operator of our Hungarian assets

No value was attributed to 3P and contingent resources The post tax discount rate of 10% was applied This was based on a Capital Asset Pricing Model analysis for our Hungarian assets Accordingly the impairment test is dependent upon judgment used in determining such assumptions

The changes in the key assumptions used from previous periods has resulted in the oil and gas assets being impaired by $15 1m The Group has recognised the impairment charge within Cost of sales The associated net tax effect on the exceptional charge is a deferred tax credit to the income statement of $4 8m

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The impact on the impairment calculation of applying different assumptions to production oil and gas prices and capital and operating expenditure would be as follows

		(Decrease)/increase to impairment loss for HHN CGU $m
Impact if oil and gas production	Increased by 10%	(0 7)
	Decreased by 10%	0 8
Impact if oil and gas prices	Increased by 10%	(0 7)
	Decreased by 10%	0 8
Impact if future capital and operating costs	Increased by 10%	0 4
	Decreased by 10%	(0 3)

Yuzhgazenergie (YGE), Russia – 2011 disclosures
Following the 2007 acquisition of YGE in Russia, a technical and environmental re-evaluation of YGE s Koshekhablskoye gas field redevelopment was undertaken by the Group The re-evaluation resulted in a revised development plan and production profile The development plan and production profile have continued to be refined since that time

The anticipated cost of the development plan has continued to increase in 2011 and although first gas sales from the project are imminent they are delayed from when originally planned and from the assumptions used for the 2010 impairment review

In 2011 the anticipated convergence of Adygean gas prices to net back European levels was forecast to be later than assumed in the prior year s impairment review Historically gas prices in the Adygea Region are higher than the average gas price across all regions in Russia

In 2011 the Company considered that the delay to production start-up and the resulting additional capital expenditure incurred to constitute an impairment trigger Accordingly an impairment test was undertaken in 2011

The test compared the recoverable amount of the Cash Generating Unit (CGU), being YGE for the purpose of the review to the carrying value of the CGU

The estimate of recoverable amount was based on fair value less costs to sell, using a discounted cash flow (DCF) methodology The DCF was derived by estimating discounted after tax cash flows for the CGU based on estimates that a typical market participant would use in valuing such assets In accordance with IAS 36, the impairment review was been undertaken in Russian Roubles

Key assumptions – Russia – 2011 disclosures
The key assumptions used in the 2011 impairment testing were

- Production profiles these were based on the latest available information provided by independent reserve engineers Senergy (GB) Limited, such information included 2P reserves of 61 2 MMboe No value was attributed to the unconfirmed expectations of the 3P and contingent resources which may be relevant to any valuation by a market participant
- Economic life of field it was assumed that YGE will be successful in extending the licence term beyond its current 2026 expiration to the economic life of the field (expected to be around 2059) The discounted cash flow methodology used has not taken account of any opportunities that may exist to extract reserves in a shorter timeframe by investing to increase the current plant capacity
- Gas prices for 2012 these were based on the gas sales agreement that the Company had negotiated with Kubangazifikatziya for the forecast gas production in 2012
- Gas prices for 2013 and thereafter the gas price increases were based on Russian regional gas market price expectations and the Russian government s stated intention to achieve net-back convergence with the European gas markets The principle of achieving European net-back parity is the driver of regulatory price change in Russia and it was originally anticipated that this would be achieved by 2011, later revised to 2015 and subsequently 2017 Due to the recent sustained period of high international oil prices and hence high European gas prices it is now unlikely to achieve parity in this time-frame The Company assumed net-back convergence occurring in 2020 and applied the Russian government s stated intention to increase gas sector tariffs by 15% on 1

July 2012 and by 15% per annum in 2013 and 2014 to calculate expected future Russian gas prices in those years and by 15% thereafter to achieve European net-back convergence in 2020 This timing of convergence is consistent with current views expressed by many market commentators

- Gas prices the gas price was assumed to increase in line with forecast Rouble inflation after 2020 consistent with operating cash flow assumptions
- Capital and operating costs these were based on current operating and capital costs in Russia, project estimates provided by third parties and supported by estimates from our own specialists, where necessary
- Post tax nominal Rouble discount rate of 13 0% This was based on a Capital Asset Pricing Model analysis consistent with that used in previous impairment reviews

Based on the key assumptions set out above YGE s recoverable amount exceeds its carrying value by $35m in 2011 In 2011 it was concluded that YGE s Koshekhablskoye gas field was not impaired

Any impairment is dependent on judgement used in determining the most appropriate basis for the assumptions and estimates made by management particularly in relation to the key assumptions described above Sensitivity analysis to likely and potential changes in key assumptions has therefore been reviewed below

The impact on the 2011 impairment calculation of applying different assumptions to gas prices production, future capital expenditure and post-tax discount rates, all other inputs remaining equal, would be as follows

2011 sensitivity analysis

		Increase/(decrease) in impairment headroom of $35m for Yuzhgazenergie CGU $m
Impact if Adygean gas price	Increased by 10%	55
	Growth rate is reduced to 10% annually post 2014 through to European net-back in 2021	(64)
Impact if production volumes	Increased by 10%	51
	Decreased by 10%	(51)
Impact if future capital expenditure	Increased by 10%	(7)
	Decreased by 10%	7
Impact if post-tax discount rate	Increased by 1% to 14%	(23)
	Decreased by 1% to 12%	25

2012 update

For purposes of testing for impairment of YGE s non-current assets in 2012 we have adopted a similar process to that used in previous periods Having taken account of developments since the last test for impairment, based on the assessment of fair value less costs to sell, the recoverable amount exceeds the carrying value by approximately US$29m (9 1 per cent) (2011 $35m, 12 4 per cent) and no impairment trigger has been noted However it should be noted that the estimate of the recoverable amount uses a discounted cash flow (DCF) methodology which is highly sensitive to changes in the key assumptions of future Russian gas prices and related production taxes, both of which are under the direct control of the Russian government

As in previous estimates the Company has assumed net-back convergence with European gas prices occurring in 2020 after applying the Russian government s stated intention to increase gas sector tariffs annually by 15% on 1 July 2013 and through 2015 and by a lower increment in the years thereafter to achieve European net-back price convergence The Company s estimates also reflect the Russian government s recent confirmation of gas production tax rates through to 2015 and an inflationary increase has been applied thereafter

6 Other receivable

Non-current other receivable consists of VAT recoverable as a result of expenditures incurred in Russia A portion of the receivables are now expected to be recovered within one year (2011 between two and five years) following production and sales of oil, gas and condensate from YGE s Koshekhablskoye gas field and have therefore been classified as Current assets in 2012 (see note 9)

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7 Investments
The net book value of unlisted investments comprises

	2012 $000	2011 $000
Cost		
At 1 January and 31 December	**5,617**	5,617
Accumulated impairment		
At 1 January and 31 December	**5,617**	5,617
Carrying amount		
At 31 December	**-**	-

Full provision was made against investments in 2007 which comprise an investment in a Ukrainian oil and gas company At the end of 2007 there were no clear development plans relating to the investment and this continues to be the position at 31 December 2012 The investment reflects a 10% holding of the Company s ordinary share capital

8 Inventories

	2012 $000	2011 $000
Warehouse inventory and materials	**1,758**	1,182
Oil and gas inventory	**7,176**	2 487
	8,934	3 669

9 Trade and other receivables

	2012 $000	2011 $000
Trade receivables	**3,680**	6 714
Other receivables	**2,984**	4 745
VAT receivable	**26,214**	7,314
Prepayments	**2,528**	2,632
	35,406	21,405

As of 31 December 2012, there were no trade receivables which were impaired (2011 nil) At this date there were no trade receivables past due (2011 nil)

Included within Other receivables is an amount of $2 8m (2011 $3 4m) relating to the Group s share of a receivable of HHE North Kft (HHN) that is unsecured bears interest based on LIBOR plus a mark up and is expected to be repaid within 12 months of the reporting date

The Group s Russian subsidiary had total VAT receivable of $30 6m (2011 $29 7m) as of the reporting date of which $24 4m (2011 $5 5m) has been classified as a current receivable as recovery is expected within 12 months of the reporting date The remaining receivable of $6 2m (2011 $24 2m) has been classified as non-current

There is no difference between the carrying value of trade and other receivables and their fair value

The carrying amounts of the Group s trade and other receivables are denominated in the following currencies

	2012 $000	2011 $000
US Dollar	**2,773**	5 418
Sterling	**592**	575
Euros	**2,671**	5,744
Hungarian Forints	**22**	12
Ukrainian Hryvnia	**4,965**	3,649
Russian Roubles	**24,383**	6,007
	35,406	21,405

10 Cash and cash equivalents

	2012 $000	2011 $000
Cash	**11,004**	17 817
Short term deposits	**1,038**	1 305
Cash and cash equivalents	**12,042**	19 122
Restricted cash	**587**	9 777
Total	**12,629**	28 899

Short term deposits comprise amounts which are held on deposit, but are readily convertible to cash

Restricted cash
Restricted cash comprises two elements

- pursuant to the pre-paid swap transaction (see note 12), the Group held $nil (2011 $9 5m) in an account at Barclays Bank PLC, which is treated as restricted cash as this account was not under the exclusive control of the Group and the Group does not have immediate direct access to the funds,
- $0 6m (2011 $0 3m) of the cash held in Hungary at K & H Bank Zrt was restricted as under the Hungarian Mining Act the Group is required to deposit cash to cover compensation for any land damage and the costs of recultivation, including environmental damage of the waste management facilities

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11 Trade and other payables

	2012 $000	2011 $000
Trade payables	**18,390**	18,329
Other payables	**4,393**	8,541
Other taxes and social security costs	**1,580**	1,246
VAT payable	**1,655**	3 789
Accruals	**7,207**	12 604
	33,225	44 509

Included within other payables is an amount of $2 9m (2011 $4 0m) relating to the Group s share of a payable of HHE North Kft (HHN) that is unsecured, bears interest based on LIBOR plus a mark up and is expected to be repaid within 12 months of the reporting date

12 Borrowings

	2012 $000	2011 $000
Current		
Pre-paid swap	-	35 930
Credit facility	**14,951**	-
Term-loans repayable within one year	**14,951**	35,930

Pre-paid swap
The Pre-paid swap related to a term loan which the Group entered into on 14 June 2011 with Credit Suisse International The transaction which secured $50m for capital expenditure and other purposes is repayable over an 18 month schedule commencing in September 2011, concluding with a final payment in November 2012 There was a zero coupon rate on the outstanding balance however under the transaction the Group hedged forward sales of oil (see note 13)

The pre-paid swap was secured over the shares of all those Group subsidiaries which own control or have an interest in the Group s oil and gas licences

All obligations under the pre-paid swap concluded with a final payment to Credit Suisse in December 2012

Credit facility
On 31 March 2011 Poltava Petroleum Company (PPC), our subsidiary in Ukraine, entered into a reducing credit facility agreement with Credit Agricole CIB (France) secured by indemnity provided by the parent company, JKX Oil & Gas plc The credit facility is for a maximum of Ukrainian Hryvnia equivalent of $15 0m The facility was renewed on 26 April 2012 and is available until 30 June 2013 (2011 30 June 2012) All provisions contained in the credit facility documentation have been negotiated on normal commercial and customary terms for such finance arrangements The interest is calculated at prevailing Credit Agricole CIB (France) bank rate plus a margin

13 Derivative liability

	2012 $000	2011 $000
Current		
Derivative financial instruments	-	3,169
Total	-	3 169

Pre-paid swap

The pre-paid swap transaction with Credit Suisse International was structured to enable its repayment by the Group from future sales of oil Under this structure, the Group sold forward 36,000 bbl/month of crude at $94 00 Urals Med per barrel while retaining value if prices rise above $130 per bbl

The Urals Med index was the closest international benchmark for the range of oil and gas produced by the Group and delivered in local markets The volume allocated represented approximately 10% of the Group s current daily production on a barrel of oil equivalent basis

As the amount of consideration payable to Credit Suisse International changed in response to the change in the Urals Med index and was being settled in the future, the payable was treated as a derivative liability For the purpose of hedge accounting the oil price hedge (forward sale) entered into during the period was classified as cash flow hedge The gains and losses taken to equity that were transferred to the consolidated income statement during the period were $2 9m (2011 $1 1m)

All obligations under the pre-paid swap concluded with a final payment to Credit Suisse in December 2012

14 Financial instruments

Fair values of financial assets and financial liabilities – Group

Set out below is a comparison by category of carrying amounts and fair values of the Groups financial instruments Fair value is the amount at which a financial instrument could be exchanged in an arm s length transaction Where available market values have been used (this excludes short term assets and liabilities)

	Book and Fair Value	
	2012 $000	**2011 $000**
Financial assets		
Cash and cash equivalents (note 10)	**12,629**	28 899
Trade receivables (note 9) – classified as loans and receivables	**3,680**	6,714
Other receivables (note 9) – classified as loans and receivables	**2,984**	4,745
Financial liabilities		
Trade payables (note 11) – carried at amortised cost	**18,390**	18,329
Other payables (note 11) – carried at amortised cost	**4,393**	8 541
Borrowings – Credit facility (note 12)	**14,951**	-
Borrowings – Pre-paid swap (note 12)	**-**	35 930

Loans and receivables comprise trade and other receivables of $6 7m (2011 $11 5m) Financial liabilities measured at amortised cost are carried at $37 7m (2011 $62 8m) The Group s borrowings at 31 December 2012 relate entirely to the credit facility provided to PPC the Ukrainian subsidiary

In the statement of financial position at 31 December 2011 the Group s derivative financial instrument (the forward sale of 36,000 bbl/month of crude (see note 13)) was recorded at its fair value and was settled on a monthly basis through to December 2012 The value of the derivative was calculated by reference to forward market prices at the reporting date compared with the contract price As it was derived from inputs other than quoted prices in active markets that are observable, either directly (i e as prices) or indirectly (i e derived from prices) it was been grouped into Level 2 within the fair value measurement hierarchy Categorisation within the fair value measurement hierarchy was determined on the basis of the lowest level input that is significant to its fair value measurement

Credit risk – Group

The Group has policies in place to ensure that sales of products are made to customers with appropriate credit worthiness Where appropriate, the use of prepayment for product sales limits the exposure to credit risk There is no difference between the carrying amount of trade and other receivables and the maximum credit risk exposure

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Capital management – Group
The Group s policy as to the level of equity capital and reserves is to ensure that it maintains a strong financial position and low gearing ratio which provides financial flexibility to continue as a going concern and to maximise shareholder value The capital structure of the Group consists of shareholders equity excluding the hedge reserve together with the net debt

Net debt comprises borrowings disclosed in note 12 and total cash in note 10 Equity attributable to the shareholders of the Company comprises issued capital capital reserves retained profits, excluding the hedge reserve (see Consolidated statement of changes in equity)

The capital structure of the Group is as follows

	2012 $000	2011 $000
Borrowings (note 12)	**(14,951)**	(35 930)
Total cash (note 10)	**12,629**	28 899
Net debt	**(2,322)**	(7 031)
Total shareholders equity, excluding hedge reserve	**511,899**	503 903

Following the issue of $40m of convertible bonds in February 2013 the primary capital risk to the Group is the level of indebtedness The convertible bond includes a financial covenant which limits the Group s indebtedness (excluding the bonds themselves and the $15 0m Credit Agricole facility) in respect of any new borrowings (in addition to the bond amount) to three times 12-month free cash flow based on the most recently published consolidated financial statements

Liquidity risk – Group
The treasury function is responsible for liquidity, funding and settlement management under policies approved by the Board of Directors Liquidity needs are monitored using regular forecasting of operational cash flows and financing commitments The Group maintains a mixture of cash and cash equivalents and committed facilities in order to ensure sufficient funding for business requirements

The following tables set out details of the expected contractual maturity of non-derivative financial liabilities The tables include both interest and principal cash flows on an undiscounted basis To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the reporting date

Group – 31 December 2012	Within 3 months $000	3months 1year $000	Less than 1 year $000
Maturity of financial liabilities			
Trade payables (note 11)	18,390	–	–
Other payables (note 11)	4 393	–	–
Borrowings – Credit facility	-	14 951	–

Group – 31 December 2011			
Maturity of financial liabilities			
Trade payables (note 11)	18 329	–	–
Other payables (note 11)	8 541	–	–
Borrowings – Pre-paid swap	10 000	30 500	–

Interest rate risk profile of financial assets and liabilities – Group

The Group is exposed to interest rate risk principally in relation to the balance outstanding on the credit facility with Credit Agricole CIB (France) where interest is calculated at prevailing Credit Agricole CIB (France) bank rate plus a margin The interest rate profile of the financial assets and liabilities of the Group as at 31 December is as follows (excluding short-term assets and liabilities, non-interest bearing)

	Within 1 Year $000
Group – Year ended 31 December 2012	
Floating rate	
Short term deposits (note 10)	**1,038**
Other receivables (note 9)	**2,984**
Other payables (note 11)	**(4,393)**
Group – Year ended 31 December 2011	
Floating rate	
Short term deposits (note 10)	1 305
Other receivables (note 9)	4,745
Other payables (note 11)	(8 541)

Floating rate financial assets comprise cash deposits placed on money markets at call seven day and monthly rates

Interest rate sensitivity – Group

The sensitivity analysis below has been determined based on the exposure to interest rates on our short term deposits at the reporting date There were no interest bearing loans at the reporting date

If interest rates had been 1 per cent higher/lower and all other variables were held constant, the Group s profit after tax and net assets for the year ended 31 December 2012 would increase/decrease by $67,000 (2011 profit after tax and net assets for the year would increase/decrease by $11 000) 1 per cent is the sensitivity rate used as it best represents management s assessment of the possible change in interest rates that could apply to the Group

Foreign currency exposures – Group

The table below shows the extent to which the Group has monetary assets and liabilities in currencies other than the functional currency of the operating company involved These exposures give rise to the net currency gains and losses recognised in the income statement

As at 31 December the (liability)/asset foreign currency exposures were

	2012 $000	2011 $000
US Dollar	**72**	(3,816)
Sterling	**(1,890)**	(2 831)
Euros	**866**	(709)
Hungarian Forints	**433**	313
Ukrainian Hryvnia	**77**	234
Bulgarian Leva	**17**	2 612
Russian Roubles	**33**	145
Total net	**(392)**	(4 052)

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Foreign currency sensitivity – Group
The Group is mainly exposed to the currency fluctuations of Ukraine (Hryvnia), Russia (Rouble) and UK (Sterling) The sensitivity analysis principally arises on money market deposits and working capital items held at the reporting date

The following table details the Group s sensitivity to a 10 per cent increase and decrease in the US Dollar against the stated currencies and all other variables were held constant 10 per cent is the sensitivity rate that best represents management s assessment of the possible change in the foreign exchange rates affecting the Group A positive number below indicates an increase in profit and equity when the US Dollar weakens against the relevant currency For a strengthening of the US Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative

	Hryvnia		Rouble		Sterling	
	2012 $000	2011 $000	**2012 $000**	2011 $000	**2012 $000**	2011 $000
Profit/loss for the year and equity						
10 per cent strengthening of the US Dollar	**(39)**	(21)	**(3)**	(13)	**172**	257
10 per cent weakening of the US Dollar	**39**	21	**3**	13	**(172)**	(257)

Commodity Risk – Group
The Group is exposed to the effect of fluctuations in oil, gas and condensate prices and the risks relating to their fluctuation in are discussed on page 42 together with the discussion of financial risk factors

Commodity Sensitivity – Group
No sensitivity analysis has been prepared on the exposure to oil prices for outstanding monetary items at the 31 December 2011 as it comprised the pre-paid swap transaction with Credit Suisse International, which was an effective cash flow hedge

15 Share capital
Equity share capital, denominated in Sterling, was as follows

	2012 Number	2012 £000	2012 $000	2011 Number	2011 £000	2011 $000
Authorised						
Ordinary shares of 10p each	**300,000,000**	**30,000**		300,000,000	30 000	
Allotted, called up and fully paid						
Opening balance of 1 January	**172,070,477**	**17,207**	**26,657**	172,020,477	17 202	26,649
Exercise of share options	**-**	**-**	**-**	50,000	5	8
Closing balance at 31 December	**172,070,477**	**17,207**	**26,657**	172,070,477	17,207	26,657
Of which the following are shares held in treasury						
Treasury shares held at 1 January and 31 December	**402,771**	**40**	**77**	402,771	40	77

The Company did not purchase any treasury shares during 2012 (2011 none) and no treasury shares were used in 2012 (2011 none) to settle share options There are no shares reserved for issue under options or contracts As at 31 December 2012 the market value of the treasury shares held was $0 5m (2011 $0 8m)

16 Other reserves

Share premium represents the amounts received by the Company on the issue of its shares which were in excess of the nominal value of the shares

Merger reserve was created on 30 May 1995 when JKX Oil & Gas plc acquired the issued share capital of JP Kenny Exploration & Production Limited for the issue of ordinary shares and represents the difference between the fair value of consideration given for the shares and the nominal value of those instruments

Capital redemption reserve relates to the buyback of shares in 2002, there have been no additional share buy-backs since this time

Equity share options reserve relates to the fair value of the share options that have been expensed through the income statement since adoption of IFRS less amounts, if any, that have been transferred to the retained earnings upon exercise

Foreign currency translation reserve includes movements that relate to the retranslation of the subsidiaries whose functional currencies are not the US Dollar

Hedge reserve arose as a result of recognising the fair value of derivative financial instruments designated as hedging instruments on the statement of financial position

Retained earnings represent the cumulative net gains and losses recognised in the statement of comprehensive income less any amounts reflected directly in other reserves

17 Provisions

Provision for site restoration	Ukraine 2012 $000	Russia 2012 $000	Hungary 2012 $000	**Total 2012 $000**
At 1 January	1,483	1,507	455	**3,445**
Revision to estimate	(94)	-	-	**(94)**
Foreign exchange adjustment	-	(157)	27	**(130)**
Wells restored	(78)	-	-	**(78)**
Unwinding of discount (note 20)	67	210	-	**277**
At 31 December	1,378	1 560	482	**3,420**

The provision in respect of Ukraine represents the present value of the well and site restoration costs that are expected to be incurred up to 2024 (2011 2024) The Russia provision results from the decommissioning of 12 wells (2011 12) and removal of plant as required by the licence obligation Decommissioning is due to take place from 2014 to 2055 (2011 2014 to 2060) The provisions are made using the Group s internal estimates that management believe form a reasonable basis for the expected future costs of decommissioning

18 Cost of sales

	2012 $000	2011 $000
Operating costs	**24,928**	17,226
Depreciation depletion and amortisation	**51,895**	32,347
Production based taxes	**47,353**	67 102
	124,176	116 675
Exceptional item – provision for impairment of Hungarian oil and gas assets (notes 5(a) and 5 (d))	**15,093**	-
Write off of exploration and appraisal costs (note 5 (b))	**4,884**	12 920
Exceptional item – accelerated depreciation (note 5 (a))	**30,723**	-
	174,876	129,595

The cost of inventories (calculated by reference to production costs) expensed in cost of sales in 2012 was $120 7m (2011 $115 3m)

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19 Finance income

	2012 $000	2011 $000
Interest income on deposits	**105**	506
Other	**495**	409
	600	915

20. Finance costs

	2012 $000	2011 $000
Bank interest payable	**1,874**	512
Borrowing costs amortisation and fees	**5,100**	3 206
Unwinding of discount on site restoration (note 17)	**277**	340
	7,251	4 058
Less finance costs capitalised at 25 2%*	**(2,503)**	(3 206)
	4,748	852

* Tax relief on capitalised interest is $0 6m (2011 $0 8m)

21 Profit from operations – analysis of costs by nature

Profit from operations derives solely from continuing operations and is stated after charging the following

	2012 $000	2011 $000
Depreciation – other assets	**1,824**	1,979
Depreciation, depletion and amortisation – oil and gas assets	**51,896**	32 348
Staff costs (net of $3 9m (2011 $6 4m) capitalised note 23)	**25,326**	21,808
Foreign exchange loss/(gain)	**1,290**	(460)
Operating lease payments		
– property lease rentals	**1,572**	1 439
– plant and equipment	**676**	622

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group s auditors as detailed below

Group auditors' remuneration	2012 $000	2011 $000
Audit of the parent company and consolidated financial statements	**235**	239
Fees payable to company s auditor for other services		
– Audit of the Company s subsidiaries	**160**	213
– Audit related assurance services	**105**	110
– Other assurance services	**13**	–
– Taxation advisory services	**55**	354
– Other non-audit services	**3**	5
	571	921

22 Obligations under leases

At the reporting date the Group s aggregate future minimum commitments under non-cancellable operating leases are as follows

	2012 $000	2011 $000
Within one year	**709**	165
In the second to fifth years inclusive	**2,251**	2 085
After five years	**2,131**	1 994
	5,091	4 244

Operating lease primarily relate to rentals payable by the Group for certain of its office premises and staff accommodation

23 Staff costs

	2012 $000	2011 $000
Wages and salaries	**22,834**	22 768
UK social security costs	**816**	584
Pension contributions	**3,535**	3 297
Share based payments (equity-settled) (note 24)	**2,029**	1 569
	29,214	28 218

Staff costs are shown gross and $3 9m (2011 $6 4m) was capitalised, representing time spent on exploration and development activities

During the year, the average monthly number of employees was

	2012	2011
Management/operational	**845**	769
Administration support	**64**	52
	909	821

Included within management/operational are 4 (2011 5) Directors on service contracts Further details of the Directors and their remuneration is included on pages 92 to 107 which form part of these financial statements

24 Share-based payments

Share options

Share options are granted to Executive Directors and senior management based on performance criteria The scheme rules are described in the Directors Remuneration Report and repeated below All share-based payments are equity settled

At 31 December 2012, there were outstanding options under various employee share option schemes, exercisable during the years 2013 to 2022 (2011 2012 to 2021), to acquire 3,499,863 (2011 2 759,824) shares of the Company at prices ranging from £0 00 to £3 15 per share (2011 £0 00 to £4 54) The vesting period for 3,444,424 of the share options is 3 years with an exercise period of 7 years making a 10 year maximum term For 55 439 of the share options granted to Executive Directors in January 2012 in lieu of their bonus the vesting period was 1 25 years with an exercise period of 8 75 years making a 10 year maximum term

Group financial statements
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The following table illustrates the number and weighted average prices (WAEP) of and movements in share options during the year

	2012 Number	2012 WAEP	2011 Number	2011 WAEP
Outstanding as at 1 January	**2,759,824**	**194 32p**	2 593 724	211 63p
Granted during the year	**1,999,520**	**58 67p**	887 800	204 33p
Surrendered/lapsed during the year	**(1,259,481)**	**212 25p**	(671 700)	277 60p
Exercised during the year*	**-**	**-**	(50,000)	151 50p
Outstanding at 31 December	**3,499,863**	**110 37**	2,759,824	194 32p
Exercisable at 31 December	**241,424**	**122 97**	297 924	128 38p

* Weighted average market price at exercise N/A (2011 291 7p)

For the share options outstanding as at 31 December 2012, the weighted average remaining contractual life is 8 2 years (2011 7 7 years)

During the year share options were granted in accordance with the share option schemes the Discretionary Share Option Scheme (DSOS) and the Performance Share Plan (PSP), which were introduced in 2010 They reflect the best practice aspects recommended by the Association of British Insurers following the publication of their guidelines in March 2001 (the ABI Guidelines)

2012 Share Option Schemes

DSOS

The DSOS is made up of two parts Options to acquire ordinary shares in the Company granted under Part A are Approved Options and options to acquire Shares granted under Part B of the DSOS are Unapproved Options No consideration shall be payable for the grant of an Option

1,188 600 (2011 575,900) options were granted under DSOS in 2012 The weighted average exercise price of options granted under DSOS is 99p (2011 315p) For these options to vest there has to be an increase in the Group s Earnings Per Share (EPS) growth over the performance period measured over the 3 consecutive calendar years commencing from the date the options were granted The weighted average fair value of options granted during the year under the DSOS was 26 8p per option (2011 159 6p)

PSP

PSP are granted solely to Executive Directors Subject to shareholder approval at the AGM Executive Directors will receive awards under the 2010 Performance Share Plan in the form of nil cost options No consideration is required to be paid for the grant or exercise of an Option

810,920 (2011 311,900) options were granted under PSP in 2012 The PSP options provide a conditional right to acquire shares at nil cost subject to the satisfaction of the performance conditions and continued employment with the Group For these options to vest a comparison is performed between the Group s TSR against the FTSE 250 index (half the options) and the All-Share Oil & Gas Producers index (other half of options) The weighted average fair value of options granted during the year under the PSP was 55 5p per option (2011 184 3p)

Pre 2012 Share Option Schemes

In 2009 share options were granted in accordance with The New Approved Share Option Scheme and the New Unapproved Share Option Scheme (collectively the 2001 Share Option Schemes) that were introduced in 2001 They reflect the best practice aspects recommended by the Association of British Insurers following the publication of their guidelines in March 2001 (the ABI Guidelines)

The weighted average fair value of options granted in 2009 under the New Approved Share Option Scheme and the New Unapproved Share Option Scheme was 56 90p per option

Fair value of share options granted

The fair value of options granted under the DSOS is estimated as at the date of grant using a variance of the Binomial model taking into account terms and conditions upon which the options are granted, which includes the performance condition related to the Company s earnings per share directly No dividends are paid on shares under the scheme prior to exercise

The fair value of options granted under the PSP is estimated as at the date of grant using a variant of the Monte Carlo model taking into account the terms and conditions upon which the options are granted, which includes the performance condition related to the TSR directly No dividends are paid on shares under the scheme prior to exercise

The fair value of share options previously granted under the 2001 Share Option Schemes is estimated as at the date of grant using a variant of the standard binomial model, taking into account the terms and conditions upon which the options are granted which includes the performance condition related to the Company s share price directly The performance condition based on performance relative to other companies is modeled with a Monte Carlo model

The total share based payment charge for the year was $2 0m (2011 $1 6m)

The following table lists the inputs to the model used for the options granted in the years ended 31 December 2012 and 31 December 2011 The expected future volatility has been determined by reference to the historical volatility

	2012 DSOS	2011 DSOS	2012 PSP	2011 PSP
Dividend yield	**3 7%-5 1%**	1 6%	**3 2%-3 7%**	1 6%
Expected share price volatility	**42%-43%**	65%	**35%-42%**	65%
Risk free interest rate	**0 6%-0 8%**	1 9%	**0 3%-0 6%**	1 9%
Exercise price	**97 5p-154 50p**	315 00p	**0 00p**	0 00p
Expected life of option (years)	**3 90-4 10**	3 40	**1 25-3 00**	3 00
Weighted average share price	**108 87p**	239 93p	**108 87p**	239 93p

Bonus scheme

The performance criteria of the Directors and senior employees bonus payments includes a component that relates directly to JKX s share performance over the vesting period and a component which relates to the performance of JKX share price in relation to the FTSE Oil & Gas Producers Index There was no bonus accrued for 2012 in respect of the share price performance component (2011 nil) In January 2012 the Executive Directors agreed to defer half of their 2011 bonus earned into JKX shares The vesting period of these shares was 15 months to 31 March 2013 and the amount of shares awarded was subject to claw back in the event that certain performance conditions relating to the Koshekhablskoye gas field were not satisfied

The full details of the bonus performance criteria and the bonus earned is explained in the Remuneration Report on pages 92 to 107

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25 Taxation

Analysis of tax on profit	2012 $000	2011 $000
Current tax		
UK – current tax	**1,520**	-
Overseas – current year	**17,336**	21 769
Current tax total	**18,856**	21 769
Deferred tax		
UK	**3,157**	2,121
Overseas – current year	**(7,974)**	(1 083)
Overseas – prior year	**(1,083)**	133
Deferred tax total	**(5,900)**	1 171
Total taxation	**12,956**	22,940

Factors that affect the total tax charge
The total tax charge for the year of $13 0m (2011 $22 9m) is higher (2011 higher) than the average rate of UK corporation tax of 24 5% (2011 26 5%) The differences are explained below

Total tax reconciliation	2012 $000	2011 $000
Profit before tax	**1,621**	82 077
Tax calculated at 24 5% (2011 26 5%)	**397**	21 750
Other fixed asset differences	**162**	179
Net change in unrecognised losses carried forward	**(335)**	2 197
Other differences	**1,098**	806
Permanent foreign exchange differences	**5,891**	392
Effect of tax rates in foreign jurisdictions	**(2,555)**	(2,958)
Other non-deductible expenses	**2,751**	2,446
Adjustments in respect of prior years	**1,386**	-
Recognition of prior period losses	**(23)**	(24)
Total excluding impact of change in tax rates, tax losses of prior year not previously recognised and impairment and write down of fixed assets	**8,772**	24 788
Effect of changes in tax rates	**4,184**	(3,415)
Impairment of oil and gas assets/write off of exploration costs	**-**	1,567
Total tax charge	**12,956**	22,940

The current tax charged in the year mainly relates to Ukrainian corporation tax which has arisen in the Group subsidiary, Poltava Petroleum Company Taxes charged on production of hydrocarbons in Ukraine and Hungary are included in cost of sales (note 18)

Factors that may affect future tax charges

A significant proportion of the Group s income will be generated overseas Profits made overseas will not be able to be offset by costs elsewhere in the Group This could lead to a higher than expected tax rate for the Group

The UK Finance Act 2012 reduced the main rate of corporation tax from 26% to 24% from 1 April 2012 and to 23% from 1 April 2013 A further reduction to 21% from 1 April 2014 was also announced but not substantively enacted at the reporting date The impact of the rate reduction is not expected to have a material impact on provided and unprovided UK deferred taxation

In December 2010 a new Ukrainian tax rate was introduced The new corporation tax rate in the Ukraine for 2012 was 21%, the expected corporation tax rates in 2013 and 2014 are 19% and 16% respectively

Taxation in Ukraine – production taxes

The Group is subject to uncertainties relating to the determination of its tax liabilities Ukrainian tax legislation and practice are in a state of continuous development, with new laws coming into effect at times which can conflict with others and, therefore are subject to varying interpretations and changes which may be applied retrospectively Management s interpretation of tax legislation as applied to the transactions and activities of the Group may at times not coincide with that of the tax authorities As a result, the tax authorities may challenge transactions and the Group may be assessed for additional taxes, penalties and fines which could have a material adverse effect on the Group s financial position and results of operations

Since PPC s inception in 1994 the Company has operated in a regime where conflicting laws have often existed, including in relation to effective taxes on oil and gas production Various laws and regulations have existed and have implied a number of variable rates

PPC has at times since 1994 sought clarification of their status regarding a number of production related taxes and has been subject to a number of such taxes at various rates, which have been paid and accounted for within Operating Costs within the Group Income Statement In late 2009, coinciding with the lead up to the Presidential election in Ukraine, PPC was subjected to increased operational pressures in several areas including broader taxation

On 1 January 2010 yet another law came into force in Ukraine in the area of production related tax, the Law of Ukraine on On Rent Charges for Oil, Natural Gas and Gas Condensate which had been suspended since 2004 During 2010 conflicting laws were announced (most particularly the Law of Ukraine on Amending Certain Legislative Acts of Ukraine) which may be a basis for the Ukrainian Tax Authorities to assert that further production related taxes are due from various oil and gas companies, including PPC for periods through to 31 December 2010

PPC continues to defend itself in court against action initiated by the tax authorities concerning rules of calculation and payment of various production related taxes for the period from January to March 2007 The statutory period of limitation in Ukraine for such matters is three years If PPC was subject to maximum production related taxes for the periods from January to March 2007 and from April 2010 to December 2010 additional production related taxes could be approximately twenty per cent of Ukraine gross revenues for those periods (net of corporate tax savings), plus interest and penalties The Group considers that the likelihood of additional production related taxes for the period from May 2007 to March 2010 is remote on the basis of tax audits completed the related legal position and the three year statute of limitation The Group would exhaustively challenge the payment of any further production related taxes (over and above those it has already paid) for the period through 31 December 2010 Given the lack of clarity over the legal position together with arguments that the Group has to defend its position the Group considers that no payments are likely to be made in the next 12 months

A new tax code became effective in Ukraine on 1 January 2011 replacing most of the previous tax laws The new tax code has removed uncertainty over the applicability of rental fee payment by PPC from 2011 and accordingly PPC has been liable to and has paid, rental fees during the period The fees are levied on production volumes in accordance with a rates schedule which may change from time to time Such payments are recorded in cost of sales

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26. Deferred tax

Provided deferred taxation – net	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
Fixed asset differences	–	–	**(16,427)**	(13 061)	**(16,427)**	(13 061)
Other temporary differences	**3,274**	4,809	–	–	**3,274**	4 809
Tax losses	**19,424**	8 623	–	–	**19,424**	8 623
Net deferred tax asset recognised					**6,271**	371

A deferred tax liability of $10 7m (2011 $12 1m) arises in respect of PPC s activities, $5 7m in respect of YGE s activities and nil (2011 $1 2m) in respect of Hungarian activities

A deferred tax asset of $0 6m (2011 $3 8m) has been recognised in respect of brought forward UK losses
A deferred tax asset of $18 8m (2011 $7 9m) has been recognised in respect of Yuzhgaznergie LLC comprising Russian tax losses

The movement on the deferred tax account is as follows

	1 January 2012 $000	(Charge)/credit in the year $000	31 December 2012 $000
Deferred tax liabilities			
Fixed assets differences	(13 061)	(3,366)	**(16,427)**
Deferred tax assets			
Other temporary differences	4,809	(1,535)	**3,274**
Net change in recognised losses carried forward	8,623	10 801	**19,424**
	13,432	9 266	**22,698**
Net deferred tax movement	371	5 900	**6,271**

The main rate of UK corporation tax effective from 1 April 2012 was reduced from 26% to 24% Deferred tax has been provided at 23% based on when the deferred tax is expected to unwind and the substantively enacted rate at the reporting date

The corporation tax rate in the Ukraine for 2012 was 21% and the expected corporation tax rates in 2013 and 2014 are 19% and 16% respectively

The deferred tax assets in respect of Russian and Ukrainian corporation tax have been recognised with due consideration of the tax rate effective on the expected unwinding of those temporary differences

Unprovided deferred taxation	2012 $000	2011 $000
Tax losses	**(5,295)**	(3 241)
Fixed asset differences	**(4,208)**	(3 365)
Other temporary differences	**(134)**	(112)
	(9,637)	(6 718)

$94 0m (2011 $39 7m) of the tax losses will expire principally between 2017 and 2022 (2011 2017 and 2021) The deductible temporary differences do not expire under current tax legislation

Deferred tax assets have not been recognised in respect of the unprovided deferred taxation items because it is not probable that future taxable profit will be available to utilise these deductible temporary differences

27 Earnings/(loss) per share

The calculation of the basic and diluted earnings/(loss) per share attributable to the owners of the parent is based on the following data

Earnings/(loss)	2012 $000	2011 $000
Earnings/(loss) for the purpose of basic and diluted earnings per share (profit for the year attributable to the owners of the parent)		
Before exceptional item	**24,702**	59,137
After exceptional item	**(11,335)**	59,137

Number of shares	2012	2011
Basic weighted average number of shares	**172,070,477**	172 067 737
Dilutive potential ordinary shares		
Share options	**1,247,010**	767,342
Weighted average number of shares for diluted earnings per share	**173,317,487**	172,835,079

Earnings before exceptional item in 2012 of $24,701,965 (2011 $59 137 000) is calculated from the 2012 loss of $11,335,000 (2011 earnings $59 137 000) and adding back exceptional items of $45 816 000 (2011 nil) less the related deferred tax on the exceptional items of $9 779,000 (2011 nil)

In accordance with IAS 33 (Earnings per share) the effects of anti-dilutive potential have not been included when calculating dilutive loss per share for the year end 31 December 2012 There were 3,499,863 (2011 2 759,824) outstanding share options at 31 December 2012, of which 1,247,010 (2011 766,518) had a potentially dilutive effect

28 Dividends

No interim dividend was paid for 2012 (2011 nil) In respect of the full year 2012, the directors do not propose a final dividend (2011 no final dividend paid)

29 Reconciliation of profit from operations to net cash inflow from operations

	2012 $000	2011 $000
Profit from operations	**5,769**	82 014
Depreciation, depletion and amortisation	**84,449**	34 327
Impairment of property plant and equipment/intangible assets	**19,977**	12 920
Gain on disposal of property, plant and equipment	**(12)**	(9)
Share-based payment costs	**2,029**	1,569
Cash generated from operations before changes in working capital	**112,212**	130 821
Decrease/(increase) in operating trade and other receivables	**4,034**	(804)
Decrease in operating trade and other payables	**(1,693)**	(4 540)
Increase in inventories	**(5,265)**	(1,327)
Cash generated from operations	**109,288**	124,150

30 Capital commitments

Under the work programmes for the Group s exploration and development licenses the Group had committed $2 0m to future capital expenditure on drilling rigs and facilities at 31 December 2012 (2011 $4 0m)

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31 Related party transactions
The Group has taken the exemption under IAS 24 to not disclose related party transactions between wholly owned entities of the Group and joint ventures, which are related parties and which have been eliminated on consolidation

Key management personnel are considered to comprise only the Directors The remuneration of Directors during the year was as follows

	2012 $000	2011 $000
Short-term benefits	**2,949**	2 928
Post-employment benefits	**253**	254
Share-based payments equity settled	**1,547**	1 104
	4,749	4 286

Further information about the remuneration of individual Directors, together with the Directors interests in the share capital of JKX Oil & Gas plc, is provided in the audited part of the Remuneration Report on pages 92 to 107

Share-based payments represents the expenses arising from share-based payments included in the income statement, determined based on the fair value of the related awards at the date of grant (note 24)

Subsidiary undertakings and jointly controlled entities
The Company s principal subsidiary undertakings including the name, country of incorporation and proportion of ownership interest for each are disclosed in note 8 to the Company s separate financial statements which follow these consolidated financial statements

Transactions between subsidiaries and between the Company and its subsidiaries are eliminated on consolidation HHE North Kft which is a Hungarian registered company which is the only proportionally consolidated entity, refer to note 33 for further details

32 Audit exemptions for subsidiary companies

The Group has elected to take advantage of the full extent of the exemptions available under the Companies Act 2006 (UK Statutory Instrument SI 2012/2301) As a result, statutory accounts will not be audited for the following UK entities JKX Services Limited JKX Bulgaria Limited, JKX Georgia Ltd, JKX Turkey Ltd, JKX (Ukraine) Limited, Baltic Energy Trading Ltd, Eurodril Limited, JP Kenny Exploration & Production Limited Page Gas Ltd, Mid Asian Gas Ltd, Trans-European Energy Services Limited

33 Joint ventures

In September of 2011 Horizon Nyirseg Kft, which held the Gorbehaza well interests was merged with HHE North Kft (HHN) Originally HHN was set up for the purpose of holding the Hernad I and Hernad II Licences The ultimate holding of the merged entity remained unchanged with JKX holding a 50 per cent interest, the Group s accounting treatment was also maintained as a jointly controlled entity In 2012 the Group continued with its 50 per cent interest and the results of HHN have been proportionally consolidated

The following amounts represent the Group s 50 per cent share of the revenue and expenses and assets and liabilities of HHN for the years ended 31 December 2011 and 2012

	2012 $000	2011 $000
Revenue	**6,621**	11 287
Expenses	**20,878**	9 687
Profit after tax	**(14,257)**	1 600
Non-current assets		
Property plant and equipment	**2,303**	18,738
Current assets		
Cash and cash equivalents	**704**	288
Other current assets	**851**	2 558
	1,555	2 846
Current liabilities		
Trade and other payables	**(748)**	(3 321)
Short term loan	**(5,718)**	(7 473)
Non-current liabilities		
Other non-current liabilities	**(1,164)**	(300)

The administrative office of HHN and the operator of our Hungarian joint venture are located at 1126 Budapest, Nagy Jeno u 12 Hungary

34 Events after the reporting date

$40m Convertible Bond

On 19 February the Company successfully completed the placing of US$40 million of guaranteed unsubordinated convertible bonds with institutional investors which are due 2018 The Bonds have an annual coupon of 8 per cent per annum and a conversion price of 76 29 pence per Ordinary Share

Independent Auditors' Report to the members of JKX Oil & Gas plc

We have audited the parent company financial statements of JKX Oil & Gas plc for the year ended 31 December 2012 which comprise Company balance sheet and the Notes to the financial statements The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors responsibilities on page 108 the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board s Ethical Standards for Auditors

This report including the opinions, has been prepared for and only for the company s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the parent company s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the parent company financial statements

- give a true and fair view of the state of the company s affairs as at 31 December 2012
- 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

Opinion on other matters prescribed by the Companies Act 2006
In our opinion

- the part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where 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 parent company financial statements and the part of the Remuneration report to be audited 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

Other matter
We have reported separately on the group financial statements of JKX Oil & Gas plc for the year ended 31 December 2012

Jason Burkitt

Jason Burkitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
8 April 2013

Company balance sheet – UK GAAP

as at 31 December

	Note	2012 $000	2011 $000
FIXED ASSETS			
Tangible assets		**80**	38
Investments	B	**117**	117
		197	155
CURRENT ASSETS			
Debtors – amounts falling due within one year	C	**34,389**	23 277
Debtors – amounts falling due after more than one year			
– Amounts owed by group undertakings	C	**508,050**	450 059
– Deferred tax assets	D	**615**	1,128
Restricted cash		**–**	9,504
Cash at bank and in hand		**2,117**	5,321
		545,171	489 289
Creditors – amounts falling due within one year	E	**(99,165)**	(119 082)
Net current assets		**446,006**	370 207
Net assets		**446,203**	370 362
CAPITAL AND RESERVES			
Called-up share capital	F	**26,657**	26 657
Share premium account	F	**97,476**	97 476
Other reserves			
– Capital redemption reserve	F	**587**	587
– Equity share options reserve	F	**6,046**	4,017
– Equity Foreign currency translation reserve	F	**(1,090)**	(1,090)
Profit and loss account	F	**316,527**	242 715
Total shareholders funds	F	**446,203**	370,362

These financial statements on pages 149 to 158 were approved by the Board of Directors on 8 April 2013 and signed on its behalf by

Dr Paul Davies
Director

Paul Davies

Cynthia Dubin
Director

Cynthia Dubin

Company financial statements
Notes to the Company financial statements

A Presentation of the financial statements

Basis of preparation
The financial statements been prepared under the historical cost convention, as modified for financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom

The financial statements have been prepared on a going concern basis following review by the Directors of forecast cash flows for 12 months from the date of approval of these financial statements In making their assessment the Directors have considered sensitivities to their forecast cash flows from investments including reducing forecast oil and gas realisations, and increasing costs

The Company s principal accounting policies are summarised below and have been applied consistently throughout the year and the preceding year

Tangible assets
Tangible fixed assets are stated at historic purchase cost less accumulated depreciation Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use Depreciation is calculated to write off the cost of tangible fixed assets, less their residual values, over their expected useful lives using the straight line basis

Investments
Investments are initially measured at historic cost, including transaction costs, and stated at cost less impairment losses The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable If any such indication of impairment exists, the Company makes an estimate of its recoverable amount Where the carrying amount of an investment exceeds its recoverable amount the investment is considered impaired and is written down to its recoverable amount

Foreign currencies
Transactions in foreign currencies are initially recorded at the exchange rate ruling at the date of the transaction Exchange differences arising on the translation of monetary items are taken to the profit and loss account Non-monetary items are measured in terms of historical cost in foreign currency and are translated using the exchange rates of the original transaction

The presentation and functional currency of the Company is the US Dollar The US$/£ exchange rate used for the revaluation of the closing balance sheet at 31 December 2012 was $1/£0 6 (2011 $1/£0 6)

Share based payments
The Company issues equity-settled share-based payments to the Executive directors and senior management Equity-settled share-based payments are measured at fair value at the date of grant The fair value in the Company is determined at the grant date of the equity-settled share-based payments and is expensed on a straight-line basis over the vesting period based on the Company s estimate of shares that will eventually vest At each subsequent balance sheet date the Company calculates the estimated cumulative charge for each award having regard to any change in the number of options that are expected to vest and the expired portion of the vesting period The movement in cumulative expense since the previous reporting date relating to awards for services to subsidiaries is expensed in the profit and loss of those subsidiaries Once an option vests, no further adjustment is made to the aggregate amount expensed The corresponding entry is shown in equity in the Company The fair value which is calculated using the binomial model takes into account two performance criteria, being the actual increase in the Company s share price and a comparison of the actual increase in the share price to the change in FTSE FI until the end of June 2004, the FTSE SI until the end of February 2006 and the higher of the FTSE 250I and the FTSE Oil & Gas Producers Index subsequent to that The expected life of the options depends on the behaviour of the option holders, which is incorporated into the option model consistent with historic data

Leasing
Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the term of the relevant lease The Company has no finance leases

Financial instruments
Financial assets and financial liabilities are recognised on the Company s balance sheet when the Company becomes party to the contractual provisions of the instrument

Derivative financial instruments
The Company accounts for derivative financial instruments in line with FRS 29 – Financial Instruments Disclosures and FRS 26 – Financial Instruments Recognition and Measurement

Since 2011 the Company has used a derivative financial instrument (derivative) to manage its exposure to oil price fluctuations The pre-paid swap transaction with Credit Suisse International has been structured to enable repayment by the Company from future sales of oil Under this structure, the Company has sold forward 36,000 bbl/month of crude to November 2012 All obligations under the pre-paid swap agreement concluded with a final payment in December 2012

This derivative was initially recorded at cost, including transaction costs and subsequently carried at fair value All changes in fair value were recorded as financial income or expense in the year in which they arise

Any such derivative was initially recorded at fair value on the date at which the contract was entered into and subsequently re-measured at fair value on subsequent reporting dates

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires

Fair value is the amount for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm s length transaction It is determined by reference to quoted market prices adjusted for estimated transaction costs that would be incurred in an actual transaction, or by the use of established estimation techniques such as option pricing models and estimated discounted values of cash flows

Cash at bank and in hand
Cash at bank and in hand comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash Cash is short-term with an original maturity of less than 3 months highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value

Restricted cash
Restricted cash is disclosed separately on the face of the balance sheet and denoted as restricted when it is not under the exclusive control of the Company

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs

Dividends
Interim dividends are recognised when they are paid to the Company s shareholders Final dividends are recognised when they are approved by shareholders

Treasury shares
The consideration paid for shares repurchased by the Company and held as treasury shares is recognised as a reduction in shareholders funds through the profit and loss account reserve No gain or loss is recognised in the profit and loss account

Related parties
The Company is exempt under the terms of Financial Reporting Standard 8 Related Party Transactions, from disclosing related party transactions with wholly owned entities of the JKX Group

Cash flow statement
The Company financial statements are included within the publicly available consolidated financial statements of the Group Consequently, the Company has not prepared a cash flow statement under the exemption provided by Financial Reporting Standard 1

Tax
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax The exception to this is that deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted 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

Company financial statements
Notes to the Company financial statements continued

B. Fixed asset investments
The net book value of unlisted fixed asset investments comprise

	2012 $000	2011 $000
Cost		
At 1 January	**117**	6,769
Additions	**–**	28
Repayment of share capital by subsidiary	**–**	(6,680)
At 31 December	**117**	117
Net book amount		
At 31 December	**117**	117

At 31 December 2012, the principal subsidiary undertakings of JKX Oil & Gas plc were

Name	Business	% held (ordinary shares)	Country of incorporation and area of operation
Adygea Gas B V	Holding	100 00	Netherlands
Baltic Catering Services	Oil & gas services	100 00	Ukraine
Baltic Energy Trading Ltd*	Oil & gas exploration and production	100 00	UK
Eastern Ukrainian Pipeline Ltd	Oil & gas services	100 00	Ukraine
EuroDril Limited	Oil & gas exploration production and services	100 00	UK
JKX Bulgaria Limited*	Oil & gas exploration and production	100 00	UK
JKX Bulkan BG EAD	Oil & gas exploration and production	100 00	Bulgaria
JKX Carpathian BV	Oil & gas exploration and production	100 00	Netherlands
JKX Hungary BV	Oil & gas exploration and production	100 00	Netherlands
JKX (Navtobi) Limited	Oil & gas exploration and production	100 00	Cyprus
JKX (Nederland) B V	Finance and Holding	100 00	Netherlands
JKX Ondava BV	Oil & gas exploration and production	100 00	Netherlands
JKX Rusland BV	Finance	100 00	Netherlands
JKX Services Limited*	Services	100 00	UK
JKX Slovakia BV	Oil & gas exploration and production	100 00	Netherlands
JKX Ukraine BV	Finance and Holding	100 00	Netherlands
JP Kenny Exploration & Production Limited*	Finance and Holding	100 00	UK
Kharkiv Investment Company	Holding	100 00	Ukraine
PAGE Gas Ltd*	Oil & gas exploration and production	100 00	UK
Poltava Gas B V	Holding	100 00	Netherlands
Poltava Petroleum Company	Oil & gas exploration and production	100 00	Ukraine
Shevchenko Farm	Land lease	62 00	Ukraine
Southern Russia Gas B V	Finance	100 00	Netherlands
Southern Russia Gas Cooperatief W A	Finance and Holding	100 00	Netherlands
Trans-European Energy Services Limited*	Oil & gas exploration production and services	100 00	UK
Yuzhgazenergie LLC	Oil & gas exploration production and services	100 00	Russia

* Held directly by JKX Oil & Gas plc All other companies are held through subsidiary undertakings

In the opinion of the Directors the carrying value of the investments is supported by their underlying net assets

Company financial statements
Notes to the Company financial statements continued

C Debtors

	2012 $000	2011 $000
Amounts falling due within one year		
Amounts owed by group undertakings	**34,075**	23,096
Other debtors	**-**	129
Prepayments	**314**	52
	34,389	23 277
Amounts falling due after more than one year		
Amounts owed by group undertakings	**508,050**	450 059

$508m (2011 $462 8m) owed by subsidiary undertakings bears interest based on LIBOR plus a mark up and is not secured Amounts owed by group undertakings falling due within one year include a provision for impairment is nil (2011 $nil) The amounts determined as individually impaired were balances due from group subsidiary undertakings where the future cash flows from these companies were determined to be unlikely to be sufficient to repay the amounts owed

D Deferred tax

	2012 $000	2011 $000
At 1 January	**1,128**	5 737
Profit and loss account transfers	**(513)**	(4 609)
At 31 December	**615**	1 128
Deferred tax asset comprises		
Losses carried forward to future periods	**615**	1 128
	615	1 128

Unprovided deferred tax	2012 $000	2011 $000
Fixed asset differences	**-**	9
Other timing differences	**89**	82
	89	91

Neither the deductible timing differences nor the tax losses expire under current tax legislation Deferred tax assets have not been recognised in respect of the unprovided deferred taxation items because it is not probable that future taxable profit will be available to utilise these deductible timing differences

The UK Finance Act 2012 reduced the main rate of corporation tax from 26% to 24% from 1 April 2012 and to 23% from 1 April 2013 A further reduction to 21% from 1 April 2014 was also announced but is not expected to have a material impact on provided and unprovided UK deferred taxation

E Creditors

	2012 $000	2011 $000
Amounts falling due within one year		
Bank loan	-	35,930
Derivative liability	-	3,169
Amounts owed to group undertakings	**96,471**	79 430
Corporation tax	**1,521**	-
Other creditors	**514**	407
Accruals	**659**	146
	99,165	119 082

In 2011, the Company s Bank loan relates to a term loan (pre-paid swap) which the Company entered into on 14 June 2011 with Credit Suisse International This was structured to enable repayment by the Company from future sales of oil in the Group Under this structure, the Company has sold forward 36,000 bbl/month of crude at $94 00 Urals Med per barrel while retaining value if prices rise above $130 per bbl This derivative (forward sale) was initially recorded at cost, including transaction costs and subsequently carried at fair value and was settled on a monthly basis through to November 2012 All obligations under the pre-paid swap agreement concluded with a final payment in December 2012 All changes in fair value were recorded in profit or loss in the year in which they arise

The fair value was determined using forward oil price curves which represent the Company s estimates of the prices at which a buyer or seller could contract today for delivery of oil or settlement of an oil-price contract, at future dates The Company has based forward price curves upon readily obtainable market price quotations, as the oil contract does not extend beyond the actively traded portion of these curves

A $2 9m gain was recognised in the Company profit and loss account in respect of the fair value movements in the derivative (2011 $2 9m charge)

F Called up share capital and reconciliation of movements in shareholders' funds

Share capital, denominated in Sterling, was as follows

	2012 Number	2012 £000	2012 $000	2011 Number	2011 £000	2011 $000
Authorised						
Ordinary shares of 10p each	**300,000,000**	**30,000**		300,000 000	30 000	
Allotted, called up and fully paid						
Opening balance of 1 January	**172,070,477**	**17,207**	**26,657**	172,020 477	17 202	26 649
Exercise of share options	-	-	-	50 000	5	8
Closing balance at 31 December	**172,070,477**	**17,207**	**26,657**	172,070,477	17 207	26 657
Of which the following are shares held in treasury						
Treasury shares held at 1 January and 31 December	**402,771**	**40**	**77**	402,771	40	77

The Company purchased no treasury shares during 2012 (2011 none) There were no treasury shares used in 2012 (2011 none) to settle share options There are no shares reserved for issue under options or contracts As at 31 December 2012 the market value of the treasury shares held was $0 5m (2011 $0 8m)

Company financial statements
Notes to the Company financial statements continued

Movements in the shareholders funds during the year were as follows

	Called up share capital $000	Share premium account $000	Capital redemption reserve $000	Equity share options reserve $000	Foreign currency translation reserve $000	Profit And loss account $000	Total share-holders funds $000
At 1 January 2011	26 649	97 363	587	2,448	(1 090)	193 777	319 734
Exercise of employee share options	8	113	-	-	-	-	121
Share option charge	-	-	-	1,569	-	-	1 569
Profit for the financial year	-	-	-	-	-	56 145	56,145
Dividend	-	-	-	-	-	(7,207)	(7,207)
At 31 December 2011	26,657	97,476	587	4 017	(1 090)	242 715	370,362
At 1 January 2012	26 657	97 476	587	4,017	(1,090)	242 715	370 362
Share option charge	-	-	-	2,029	-	-	2 029
Profit for the financial year	-	-	-	-	-	73 812	73 812
At 31 December 2012	**26,657**	**97,476**	**587**	**6,046**	**(1,090)**	**316,527**	**446,203**

G Profit and loss

The Company has elected to take the exemption under section 408 of the Companies Act 2006, to not present the parent company profit and loss account The net profit for the parent company was $73 8m prior to the payment of dividends (2011 $56 1m prior to payment of dividends)

H Share-based payments

Share options

Share options are granted to Executive Directors and senior management based on performance criteria The scheme rules are described in the Directors Remuneration Report and repeated below All share-based payments are equity settled

At 31 December 2012 there were outstanding options under various employee share option schemes, exercisable during the years 2013 to 2022 (2011 2012 to 2021), to acquire 3,499,863 (2011 2 759 824) shares of the Company at prices ranging from £0 00 to £3 15 per share (2011 £0 00 to £4 54) The vesting period for 3 444 424 of the share options is 3 years, with an exercise period of 7 years making a 10 year maximum term For 55,439 of the share options granted to Executive Directors in January 2012 in lieu of their bonus the vesting period was 1 25 years with an exercise period of 8 75 years making a 10 year maximum term

The following table illustrates the number and weighted average prices (WAEP) of, and movements in share options during the year

	2012 Number	**2012 WAEP**	2011 Number	2011 WAEP
Outstanding as at 1 January	**2,759,824**	**194 32p**	2 593 724	211 63p
Granted during the year	**1,999,520**	**58 67p**	887 800	204 33p
Surrendered/lapsed during the year	**(1,259,481)**	**212 25p**	(671 700)	277 60p
Exercised during the year [1]	-	-	(50 000)	151 50p
Outstanding at 31 December	**3,499,863**	**110 37**	2 759 824	194 32p
Exercisable at 31 December	**241,424**	**122 97**	297 924	128 38p

1) Weighted average market price at exercise N/A (2011 291 7p)

For the share options outstanding as at 31 December 2012, the weighted average remaining contractual life is 8 2 years (2011 7 7 years)

During the year share options were granted in accordance with the share option schemes, the Discretionary Share Option Scheme (DSOS) and the Performance Share Plan (PSP), which were introduced in 2010 They reflect the best practice aspects recommended by the Association of British Insurers following the publication of their guidelines in March 2001 (the ABI Guidelines)

2012 Share Option Schemes

DSOS

The DSOS is made up of two parts Options to acquire ordinary shares in the Company granted under Part A are Approved Options and options to acquire Shares granted under Part B of the DSOS are Unapproved Options No consideration shall be payable for the grant of an Option

1,188,600 (2011 575 900) options were granted under DSOS in 2012 The weighted average exercise price of options granted under DSOS is 99p (2011 315p) For these options to vest there has to be an increase in the Group s Earnings Per Share (EPS) growth over the performance period measured over the 3 consecutive calendar years commencing from the date the options were granted The weighted average fair value of options granted during the year under the DSOS was 26 8p per option (2011 159 6p)

PSP

PSP are granted solely to Executive Directors Subject to shareholder approval at the AGM, Executive Directors will receive awards under the 2010 Performance Share Plan in the form of nil cost options No consideration is required to be paid for the grant or exercise of an Option

810,920 (2011 311,900) options were granted under PSP in 2012 The PSP options provide a conditional right to acquire shares at nil cost subject to the satisfaction of the performance conditions and continued employment with the Group For these options to vest a comparison is performed between the Group s TSR against the FTSE 250 index (half the options) and the All-Share Oil & Gas Producers index (other half of options) The weighted average fair value of options granted during the year under the PSP was 55 5p per option (2011 184 3p)

Pre 2012 Share Option Schemes

In 2009, share options were granted in accordance with The New Approved Share Option Scheme and the New Unapproved Share Option Scheme (collectively the 2001 Share Option Schemes) that were introduced in 2001 They reflect the best practice aspects recommended by the Association of British Insurers following the publication of their guidelines in March 2001 (the ABI Guidelines)

The weighted average fair value of options granted in 2009 under the New Approved Share Option Scheme and the New Unapproved Share Option Scheme was 56 90p per option

Fair value of share options granted

The fair value of options granted under the DSOS is estimated as at the date of grant using a variance of the Binomial model, taking into account terms and conditions upon which the options are granted, which includes the performance condition related to the Company s earnings per share directly No dividends are paid on shares under the scheme prior to exercise

The fair value of options granted under the PSP is estimated as at the date of grant using a variant of the Monte Carlo model taking into account the terms and conditions upon which the options are granted, which includes the performance condition related to the TSR directly No dividends are paid on shares under the scheme prior to exercise

The fair value of share options previously granted under the 2001 Share Option Schemes is estimated as at the date of grant using a variant of the standard binomial model, taking into account the terms and conditions upon which the options are granted, which includes the performance condition related to the Company s share price directly The performance condition based on performance relative to other companies is modeled with a Monte Carlo model

The total share based payment charge for the year was $2 0m (2011 $1 6m)

Company financial statements
Notes to the Company financial statements continued

The following table lists the inputs to the model used for the options granted in the years ended 31 December 2012 and 31 December 2011 The expected future volatility has been determined by reference to the historical volatility

	2012 DSOS	2011 DSOS	2012 PSP	2011 PSP
Dividend yield	**3 7%-5 1%**	1 6%	**3 2%-3 7%**	1 6%
Expected share price volatility	**42%-43%**	65%	**35%-42%**	65%
Risk free interest rate	**0 6%-0 8%**	1 9%	**0 3%-0 6%**	1 9%
Exercise price	**97 5p-154 50p**	315 00p	**0 00p**	0 00p
Expected life of option (years)	**3 90-4 10**	3 40	**1 25-3 00**	3 00
Weighted average share price	**108 87p**	239 93p	**108 87p**	239 93p

I Auditors' remuneration

	2012 $000	2011 $000
Audit services		
Fees payable to company auditors for the audit of the parent company	**40**	40
	40	40

J Directors' remuneration
The remuneration of the Directors is disclosed in the audited section of the Remuneration report on pages 92 to 107, which form part of these financial statements

K Dividends
No interim dividend was paid for 2012 (2011 nil) In respect of the full year 2012, the directors do not propose a final dividend (2011 no final dividend paid)

L Operating lease commitments
At the reporting date, the Company has annual lease agreements in respect of properties for which the payments extend over a number of years

Annual commitments under non-cancellable operating leases expiring	2012 $000	2011 $000
After five years – land and buildings	**556**	532
	556	532

Five year financial record

Year ended 31 December

	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m
Revenue					
– Oil	**60 3**	81 5	78 8	76 4	121 8
– Gas	**122 2**	143 1	112 9	118 1	83 1
– LPG	**18 6**	10 9	-	-	-
– Management services/other	**1 7**	1 4	1 2	2 0	2 1
Total	**202 8**	236 9	192 9	196 5	207 0
Production based taxes	**(47 4)**	(67 1)	(5 2)	(4 0)	(4 0)
Write off of exploration costs and evaluation costs	**(4 9)**	(12 9)	(13 7)	(5 0)	(6 9)
Exceptional item – provision for impairment of Hungarian oil and gas assets	**(15 1)**	-	-	-	-
Exceptional item – accelerated depreciation of Ukrainian oil and gas assets	**(30 7)**	-	-	-	-
Exceptional item – impairment of Russian assets	**-**	-	(74 6)	-	-
Other cost of sales	**(76 8)**	(49 6)	(51 1)	(53 5)	(51 1)
Total cost of sales	**(174 9)**	(129 6)	(144 6)	(62 5)	(62 0)
Gross profit	**28 0**	107 3	48 3	134 0	145 0
Administrative expenses	**(21 2)**	(25 7)	(25 3)	(14 6)	(12 7)
(Loss)/gain on foreign exchange	**(1 0)**	0 5	(2 6)	(2 3)	(6 9)
Gain on disposal/impairment of investment	**-**	-	-	2 5	-
Profit from operations before exceptional item	**51 6**	82 1	95 0	119 6	125 4
Profit from operations after exceptional item	**5 8**	82 1	20 4	119 6	125 4
Net other income and interest	**(4 1)**	-	0 4	(0 3)	2 2
Profit before tax	**1 6**	82 1	20 8	119 3	127 6
Taxation	**(12 9)**	(22 9)	0 4	(34 0)	(49 4)
(Loss)/profit attributable to owners of the parent	**(11 3)**	59 1	21 2	85 3	78 2
Ordinary dividends on equity shares	**-**	(7 2)	(13 2)	(12 3)	(13 6)
Earnings per share before exceptional item (cents)	**14 36**	34 37	47 56	54 23	49 85
Earnings per share after exceptional item (cents)	**(6 59)**	34 37	12 38	54 23	49 85
Group operating margin (%)	**2 9**	34 6	10 6	60 9	60 6
Employment of group capital					
Non-current assets	**529 9**	560 1	460 8	375 9	303 4
Net current assets/(liabilities)	**8 0**	(32 4)	26 8	63 1	62 3
Non-current liabilities	**(26 0)**	(20 9)	(18 9)	(34 7)	(31 5)
	511 9	506 8	468 7	404 3	334 2
Group capital employed					
Capital and reserves	**511 9**	506 8	468 7	404 3	334 2
	511 9	506 8	468 7	404 3	334 2
Net funds					
Cash and cash equivalents	**12 0**	19 1	62 0	74 4	64 8
Restricted cash	**0 6**	9 8	-	-	-
Total cash	**12 6**	28 9	62 0	74 4	64 8
Net gearing (%)	**2 9**	8 0	N/A	N/A	N/A

Glossary

2P reserves	Proved plus probable
3P reserves	Proved, probable and possible
P50	Reserves and/or resources estimates that have a 50 per cent probability of being met or exceeded
AIFR	All Injury Frequency Rate
Bcf	Billion cubic feet
Bcm	Billion cubic metres
bcpd	Barrel of condensate per day
boe	Barrel of oil equivalent
boepd	Barrel of oil equivalent per day
bopd	Barrel of oil per day
bpd	Barrel per day
bwpd	Barrels of water per day
cfpd	Cubic feet per day
GPF	Gas Processing Facility
HHN	HHE North Kft
Hryvna	The lawful currency of Ukraine
HSECQ	Health Safety Environment, Community and Quality
KPI	Key Performance Indicator
LIBOR	London InterBank Offered Rate
LPG	Liquefied Petroleum Gas
LTI	Lost Time Injuries
Mbbl	Thousand barrels
Mboe	Thousand barrels of oil equivalent
Mcf	Thousand cubic feet
MMcfd	Million cubic feet per day
MMbbl	Million barrels
MMboe	Million barrels of oil equivalent
PPC	Poltava Petroleum Company
Roubles	The lawful currency of Russia
sq km	Square kilometre
TD	Total depth
$	United States Dollars
US	United States
VAT	Value Added Tax
YGE	Yuzhgazenergie LLC

Conversion factors 6 000 standard cubic feet of gas = 1 boe

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