
NATUNA UK (KAKAP 2) LIMITED
REGISTERED NUMBER 3115420
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2013
(THIS REPORT IS PREPARED IN UNITED STATES DOLLARS)

TUESDAY



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30/09/2014
COMPANIES HOUSE

NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

BOARD OF DIRECTORS

Rudy Suparman
Hendra Soetjipto Tan
James Patrick Johnston Fairrie
Spencer Saffer

SECRETARY AND REGISTERED OFFICE

TMF Corporate Secretarial Services Limited
5th Floor, 6 St Andrew Street,
London EC4A 3AE
United Kingdom

STATUTORY AUDITOR

Ernst & Young LLP
1 More London Place
London
SE1 2AF

REGISTERED IN ENGLAND NO: 3115420

NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

STRATEGIC REPORT

The directors present the strategic report, their report and the accounts for the year ended 31 December 2013.

Principal Activities

The principal activities of the Company remain unchanged and continue to comprise the exploration for and production of hydrocarbons in areas of Indonesia granted by the Kakap Production Sharing Contract ("Kakap PSC").

It is the intention of the directors that the above business will continue for the foreseeable future.

Business Review

The Company operates predominantly in one business, namely the exploration, development, production, transportation and marketing of hydrocarbons. Revenue is derived from the sale of gas and liquid hydrocarbons.

The Company operates in one geographical segment being Indonesia.

Oil and condensate gross production by the Kakap PSC, in the West Natuna Sea, Indonesia averaged 3,661 boepd in 2013 (3,498 boepd in 2012). Gas gross production averaged 4,708 boepd in 2013 (4,609 boepd in 2012).

Revenue in 2013 increased primarily due to increase in oil and gas production in 2013 compared to production per year 2012. The average oil price in 2013 was US\$107.71/bbl (2012: US\$113.40/bbl) and the average gas price in 2013 was US\$20.03/mscf (2012: US\$20.59/mscf).

The results for the years ended 31 December 2013 and 31 December 2012 (as restated) are summarised below:

	2013 US\$'000	2012 As restated - US\$'000
Revenue	13,689	13,576
Profit before tax	7,808	7,414
Taxation	(2,988)	(2,977)
Profit after tax for the year	4,820	4,437

On 14 December 2012, the Company declared and distributed a non cash dividend amounting to US\$5,000,000. The Company has not declared any dividends during the year. The management has proposed US\$ 7,000,000 non-cash dividend subject to approval of board of directors. The next board of directors meeting will be held on October 2014 to approve the amount of non-cash dividend.

As follow up to the deteriorations found in the hull envelope of the previous KN Floating Production Storage and Offloading ("KN FPSO") vessel, various efforts were initiated and carried out by the Contractors in order to remedy the situation, including implementing a medium-term solution by replacing the KN FPSO with a new FPSO namely East Fortune FSO ("EF FSO") under the contract signed in October 2009 with PT Pulau Kencana Raya ("PKR") as an agent on behalf of Songa Production Pte. Ltd. The contract with PKR was valid for a term of nine months up to September 2010 with a total contract value of US\$14,115,000.

NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

STRATEGIC REPORT (CONTINUED)

Business Review (continued)

On October 5, 2010, the Contractors extended the lease contract of the EF FSO up to 31 December 2010. On 1 December 2010, the lease contract was extended up to 31 January 2011. On 12 January 2011, the lease contract of EF FSO rental service was extended for a twelve months period starting 1 February 2011. However, since 9 March 2011, the EF FSO had been demobilized from Kakap field and was replaced with the new vessel MT. Barunawati. Originally, the vessel that was to replace EF FSO was MT. Badraini, which was modified.

In July 2011, the Operator used MT. Badraini in its first oil lifting for 2011 since the vessel was then ready for use.

Based on its letter No. 0622/BPA4000/2010/S1 dated 9 June 2010, SKK Migas requested the Contractors to re-utilize KN FPSO for the next five to ten years, and the related Authorization For Expenditures (AFE) for the reutilization of the KN FPSO, which covered the dry-docking project and the operation cost for KN FPSO for the seven years had been approved by SKK Migas in its letter dated 4 April 2011 amounting to US\$66,937,000.

The dry docking of KN FPSO was completed on 31 July 2012. After completing the dry docking process, Kakap Natuna changed its name to become Kakap Natuna Floating Storage and Offloading ("KN FSO") vessel and on 22 August 2012, KN FSO began its normal operation in the Kakap Natuna Block.

Key Performance Indicators

The Company's ultimate parent entity Star Energy Oil & Gas Pte. Ltd., is the parent entity in the consolidated Star Energy Group. The Company holds a 6.25% non-operator interest in the Kakap Production Sharing Contract. The Star Energy Group has strategic targets for its base business including production targets and safety performance levels. The Company contributed to the attainment of these overall Star Energy Group strategic targets. As the Company is not the operator, management meets regularly with the operator through operating and technical forums to monitor the progress of the PSC against its strategic targets.

Principal Risks and Uncertainties

The principal risks that the Company faces are:

Exploration and development risk

There is no assurance that the Company's exploration activities will be successful and statistically few properties that are explored are ultimately developed into producing hydrocarbon fields. Accordingly, the Company provides a risk analysis and range of outcomes to the Board for consideration prior to any prospect being drilled.

The Company's operations may also be curtailed, delayed or cancelled not only as a result of weather conditions but also as a result of shortage or delays in the delivery of drilling rigs and other equipment which, at times, are in short supply. As the Company only owns a non-operated asset, risk is mitigated to some extent by being in a joint venture with a number of other companies which have access to rigs and equipment.

NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

STRATEGIC REPORT (CONTINUED)

Principal Risks and Uncertainties (continued)

Competition

There is strong competition within the petroleum industry for the identification and acquisition of properties considered to have hydrocarbon potential. The Company competes with other exploration and production companies, some of which have greater financial resources than the Company, for the acquisition of properties, leases and other interests as well as for the recruitment and retention of skilled personnel. The challenge to management is to secure transactions without having to over pay.

Commodity prices, fiscal regimes and currency

The market price of hydrocarbon products is volatile and cannot be controlled. If the price of hydrocarbon products should drop significantly, or the fiscal regime change for the worse, the economic prospects of the projects in which the Company has an interest could be significantly reduced or rendered uneconomic. Currently the Company has an indexed gas contract to supply gas until 2023, which will minimise the commodity price risk.

Exposure to foreign currency and commodity price risks arises in the normal course of the Company's business.

Financing

The development of the Company's properties will depend upon the Company's ability to obtain financing through the joint venture of projects, debt financing through Star Energy Oil and Gas Pte Ltd., or its subsidiaries, farm downs or by other means. There is no assurance that the Company will be successful in obtaining the required financing or attracting farminees. If the Company is unable to obtain additional financing as needed through the attraction of suitable farm-in partners, some interests may be relinquished and/or the scope of the operations reduced.

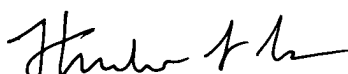
Credit risk

Credit risk arises from cash on hand and in banks, deposits with banks and financial institutions, as well as credit exposures from trade receivables. The Company is subject to concentration of credit risk as its entire sales are to two counterparties. Oil and gas sales are solely to BP Singapore Pte Ltd and SembCorp Gas Pte Ltd, respectively.

By order of the Board



Rudy Suparman
Director



Hendra Soetjipto Tan
Director

26 September 2014

NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

DIRECTORS' REPORT

The Directors present their directors' report for the year ended 31 December 2013.

Directors

The directors who served during the year and up to the date of the financial statements, unless otherwise noted, were:

Rudy Suparman
Hendra Soetjipto Tan
James Patrick Johnston Fairrie
Spencer Saffer

Future Developments

The directors aim to maintain the management policies which have resulted in the Company's stability in recent years. They believe that the Company is in a good position to take advantage of any opportunities which may arise in the future.

It is the intention of the directors that the business of the Company will continue for the foreseeable future.

Going Concern

After reviewing the Company's budget and plans, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis in preparing the financial statements.

Directors' statement as to disclosure of information to auditor

The directors who were members of the board at the time of approving the directors' report as listed above confirm that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the auditor in connection with preparing their report) of which the Company's auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

Events since the Balance Sheet Date

With respect to Provision for Branch Profit Tax disclosed in note 17e, the Company received two assessment letters in August 2014 from the Tax Office related to the underpayment of corporate tax and BPT (including its penalty) for fiscal year 2009 amounting to US\$40,771 and US\$565,094, respectively. The Company made the payment on 14 August 2014, and management is planning to send an objection letter to the tax office in October 2014.

Dividends

The Company has not declared any dividends during the year (2012: US\$5,000,000). The management has proposed US\$ 7,000,000 non-cash dividend subject to approval of board of directors. The next board of directors meeting will be held on October 2014 to approve the amount of non-cash dividend.

NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

DIRECTORS' REPORT (CONTINUED)

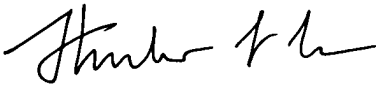
Auditor

Pursuant to board of director's resolution dated 26 July 2013, Ernst & Young LLP has been reappointed as the auditor of the Company for the ensuing year.

By order of the Board



Rudy Superman
Director



Hendra Soetjipto Tan
Director

26 September 2014

NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under Company law, the directors are required to prepare financial statements for each financial year which present fairly the financial position, the financial performance and cash flows of the Company for that period.

In preparing those financial statements the directors are required to:

- Present fairly the financial position, financial performance and cash flows of the Company;
- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial position and financial performance; and
- state that the Company has complied with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NATUNA UK (KAKAP 2) LIMITED

We have audited the financial statements of Natuna UK (Kakap 2) Limited for the year ended 31 December 2013 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement on page 7, the directors are responsible for the preparation of the 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 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.

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 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 and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NATUNA UK
(KAKAP 2) LIMITED (continued)**

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Ernst & Young LLP

Jacqueline Ann Geary (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory auditor
London
30 September 2014

NATUNA UK (KAKAP 2) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 US\$000	2012 As Restated - US\$000
Revenue	2	13,689	13,576
Cost of sales	3	(6,073)	(6,145)
Gross profit		7,616	7,431
Other income		271	73
Operating profit		7,887	7,504
Financial expenses	4	(79)	(90)
Profit before tax		7,808	7,414
Income tax expense	5	(2,988)	(2,977)
Net profit for the year		4,820	4,437
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Re-measurement gains/(losses) on defined benefit plans		323	(50)
Income tax effect	13	(119)	19
Other comprehensive income /(loss), net of tax		204	(31)
Total comprehensive income for the year		5,024	4,406

Total comprehensive income for the year is attributable to the equity holders.

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

NATUNA UK (KAKAP 2) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Share Capital	Share Premium	Retained Earnings	Equity
	US\$000	US\$000	US\$000	US\$000
Balance at 1 January 2012	–	10,208	5,141	15,349
Other comprehensive loss	–	–	(243)	(243)
Balance at 1 January 2012, as restated	–	10,208	4,898	15,106
Net profit for the year	–	–	4,437	4,437
Dividend to shareholders	–	–	(5,000)	(5,000)
Other comprehensive loss	–	–	(31)	(31)
Balance at 31 December 2012 (restated)	–	10,208	4,304	14,512
Net profit for the year	–	–	4,820	4,820
Other comprehensive income	–	–	204	204
Balance at 31 December 2013	–	10,208	9,328	19,536

NATUNA UK (KAKAP 2) LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2013 AND 2012

	Note	2013 US\$000	2012 As Restated - US\$000	As at 1 January 2012 As Restated - US\$000
Non-current assets				
Oil and gas assets	8	8,090	8,453	7,759
Other assets		8	11	15
Total non-current assets		8,098	8,464	7,774
Current assets				
Inventories	9	610	511	373
Cash in bank		—	1,469	—
Restricted cash in bank		58	—	1,498
Trade and other receivables	10	2,964	2,897	3,835
Amounts owing from related entities	16	15,288	10,785	10,955
Total current assets		18,920	15,662	16,661
Total assets		27,018	24,126	24,435
Equity				
Share capital	15	—	—	—
Share premium	15	10,208	10,208	10,208
Retained earnings		9,328	4,304	4,898
Total equity		19,536	14,512	15,106
Non-current liabilities				
Provisions	12	2,794	3,637	3,368
Deferred tax liabilities	13	1,336	840	945
Amount owing to related entities	16	461	861	828
Total non-current liabilities		4,591	5,338	5,141
Current liabilities				
Trade and other payables	11	2,535	3,794	3,880
Current tax liabilities		356	482	308
Total current liabilities		2,891	4,276	4,188
Total liabilities		7,482	9,614	9,329
Total equity and liabilities		27,018	24,126	24,435

These financial statements were approved by the Board of Directors on 26 September 2014 and were signed on its behalf by:



Rudy Suparman
Director



Hendra Soetjipto Tan
Director

The balance sheet is to be read in conjunction with the notes to the financial statements.

NATUNA UK (KAKAP 2) LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 US\$000	2012 As Restated - US\$000
Cash flows from operating activities		
Net profit for the year	4,820	4,437
Adjustments to reconcile profit for the year to net cash provided by operating activities:		
Depreciation and depletion	893	784
Pension cost	229	288
Deferred tax charge/(credit)	377	(86)
Cash flows from operating activities	6,319	5,423
Net (increase)/decrease in receivables	(67)	938
Net increase in inventories	(99)	(138)
Net decrease in payables	(1,259)	(86)
Net decrease in provisions	(868)	(50)
Net (decrease)/increase in income taxes payable	(7)	155
Net cash flows from operating activities	4,019	6,242
Cash flows from investing activities		
Payments for:		
Oil and gas assets expenditure	(527)	(1,474)
Net cash used in investing activities	(527)	(1,474)
Cash flows from financing activities		
Transfer to restricted cash-in bank	(58)	1,498
Payments to related entities	(4,903)	(5,000)
Receipts from related entities	-	203
Net cash used in financing activities	(4,961)	(3,299)
Net (decrease)/increase in cash and cash equivalents	(1,469)	1,469
Cash and cash equivalents at the beginning of the year	1,469	-
Cash and cash equivalents at the end of the year	-	1,469

The statement of cash flows is to be read in conjunction with the notes to the financial statements.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies

Natuna UK (Kakap 2) Limited ("the Company") is a Company incorporated and domiciled in the United Kingdom.

The Company is engaged in a joint venture involved in exploration and production of crude oil and natural gas in South Natuna Sea area, Indonesia, under a Production Sharing Contract ("PSC") with Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi ("SKK Migas"), the oil and gas regulatory agency of Indonesia. The Company's working interest in the joint venture is 6.25%.

The original PSC was signed on 22 March 1975. An amendment to the original PSC was signed on 15 January 1999 and became effective immediately. On the same date, an extension to the original PSC (The "Extended PSC") was signed and became effective on 22 March 2005. The PSC extension will expire on 22 March 2028. The Operator of the joint venture is Star Energy (Kakap) Limited, a related entity.

The financial report was authorised for issue by the Directors on 26 September 2014.

(a) Statement of compliance

The Company's financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs").

(b) Basis of preparation

The financial statements are prepared under the historical cost convention.

The financial statements are presented in thousands of United States dollars (U.S. dollar, USD or US\$) unless otherwise stated.

The Company's activities are conducted in Indonesia under a Production Sharing Contract ("PSC"). The Company accounts for PSC's on a net entitlements basis whereby hydrocarbon production, revenues and reserves are determined by reference to the terms of the PSC. Expenditure on exploration and development activities are capitalised and depleted as described in notes 1(e), 1(f) and 1(h). Production and other operating costs are expensed as incurred.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments effective as of 1 January 2013:

- IAS 19, Employee Benefits (Revised 2011)
The Company applied IAS 19, Employee Benefits (Revised 2011) retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. The opening balance sheet of the earliest comparative period presented (1 January 2012) and the comparative figures have been accordingly restated.

IAS 19 (Revised 2011) changes, amongst other things, the accounting for defined benefit plans. Some of the key changes that impact the Company include the following:

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

New and amended standards and interpretations (continued)

- IAS 19, Employee Benefits (Revised 2011)
 - All past service costs are recognized at the earlier of when the amendment/curtailment occurs or when the related restructuring or termination costs are recognized. As a result, unvested past service costs can no longer be deferred and recognized over the future vesting period. Previously, the Company had an unrecognized service cost of US\$9,059 (US\$5,707 net of tax) as at 1 January 2012. Upon transition to IAS 19 (Revised 2011), this balance was debited to equity (retained earnings) as at 1 January 2012 along with the consequential tax impact. Amortization on past service costs of US\$1,053 (US\$663 net of tax) and US\$1,123 (US\$708 net of tax) for the years ended 31 December 2012 and 2011, respectively, was reversed.
 - Interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net-interest amount under IAS 19 (Revised 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period. In view of this change, US\$241,734 and US\$31,557 was charged to the Company's profit and loss for years ended 31 December 2011 and 2012, respectively, with a consequential other comprehensive income ("OCI") loss.

IAS 19 (Revised 2011) has been applied retrospectively, with following permitted exceptions:

- The carrying amounts of other assets have not been adjusted for changes in employee benefit costs that were included before 1 January 2012.
- Sensitivity disclosures for the defined benefit obligation for comparative period (years ended 31 December 2012 and 2011) have not been provided.

As a result of such retrospective application, the Company restated its previous year financial statements for comparative purposes. As a result of such change, the following adjustments were made to the financial statements:

	2012 (Restated) US\$000	January 1, 2012 (Restated) US\$000
Increase/(decrease) in:		
<u>Balance sheet</u>		
Provisions and other liabilities	383	386
Deferred tax liabilities, net	(142)	(143)
Accumulated losses	(241)	(243)
 <u>Statement of comprehensive income</u>		
Profit for the year	33	
Actuarial loss	31	

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

- IAS 1, Presentation of Items of Other Comprehensive Income - Amendments to IAS 1

The amendment to IAS 1 changes the grouping of items presented in OCI. Items that will be reclassified (or 'recycled') to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendment affects presentation only and therefore has no impact on the Company's financial position or performance.

- IFRS 7, Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

This amendment requires an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also applied to recognize financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The amendment affects presentation only and therefore has no impact on the Company's financial position or performance.

- IFRS 13, Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Company re-assessed its policies for measuring fair values - in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

(c) Jointly controlled assets

The Company's exploration and production activities are often conducted through joint venture arrangements governed by joint operating agreements, production sharing contracts or similar contractual relationships.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies (continued)

(c) Jointly controlled assets (continued)

A joint venture characterised as a jointly controlled asset involves the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of expenses incurred. Each venturer has control over its share of future economic benefits through its share of jointly controlled assets.

The interests of the Company in unincorporated joint ventures are brought to account by recognising in the financial statements the Company's share of jointly controlled assets, share of expenses and liabilities incurred, and the income from the sale or use of its share of the production of the joint venture in accordance with the revenue policy in note 1(s).

(d) Currency translation

(i) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the Company operates ("functional currency"). The financial statements are presented in U.S. dollar, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are initially recorded in the functional currency at the respective spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of exchange in effect at the reporting date. All differences are taken to the statement of comprehensive income.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values were determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the dates of the initial transactions.

(e) Exploration and evaluation expenditure

Exploration and evaluation expenditures in respect of each area of interest are accounted for using the successful efforts method of accounting. The successful efforts method requires all exploration and evaluation expenditures to be expensed in the period it is incurred, except for the costs of successful wells, and the costs of acquiring interests in new exploration assets, which are capitalized as oil and gas property, and intangible exploration and evaluation, respectively. The costs of wells are initially capitalized pending the results of the well.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies (continued)

(e) Exploration and evaluation expenditure (continued)

The carrying amounts of the Company's exploration and evaluation assets are reviewed in conjunction with the impairment review at each of the reporting dates. The impairment review process referred to in Note 1(n) is to determine whether any of the following indicators of impairment exists:

- (i) Tenure over the license area has expired during the period/year or will expire in the near future, and is not expected to be renewed;
- (ii) Substantive expenditures on further exploration for and evaluation of mineral resources in the specific area is not budgeted or planned;
- (iii) Exploration for and evaluation of resources in the specific area has not led to the discovery of commercially viable quantities of resources, and the entity has decided to discontinue activities in the specific area; or
- (iv) Sufficient data exists to indicate that although a development is likely to precede the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or from sale.

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made and any resultant impairment loss is recognised in the statement of comprehensive income. When a discovered oil or gas field enters the development phase the accumulated exploration and evaluation expenditure are transferred to oil and gas assets - assets in development Note 1(f).

(f) Oil and gas assets

Oil and gas assets are usually single oil or gas fields being developed for future production or which are in the production phase. Where several individual oil or gas fields are to be produced through common facilities the individual oil or gas fields and the associated production facilities are managed and reported as a single oil and gas asset.

Assets under construction

When the technical and commercial feasibility of an undeveloped oil or gas field is being developed for future production, the costs of oil and gas assets in the development phase are separately accounted for as tangible assets and include past exploration and evaluation costs, development drilling and other sub-surface expenditures, surface plant and equipment and any associated buildings. When commercial operation commences, the accumulated costs are transferred to oil and gas assets - producing assets.

Producing assets

The costs of oil and gas assets in production are separately accounted for as tangible assets and include past exploration and evaluation costs, pre-production development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings. These costs are subject to depreciation and depletion in accordance with note 1(h).

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies (continued)

(f) Oil and gas assets (continued)

Title of assets

Under the terms of the PSC, the Operator and the participants, including the Company, have no ownership interest in the oil and gas assets or in the oil and gas reserves, but rather have the right to operate the assets and receive production and/or revenues from the sale of oil and gas in accordance with the PSC. Proved reserves have therefore been determined on a net entitlement basis, which takes into account projections of the host government's share of future production calculated with certain price and expenditure assumptions. As the participants paid for and have the right to recover the costs for oil and gas assets through cost recovery, via Operator of the PSC, these balances have been recorded as assets in the Company's financial statements based on its working interest in the PSC.

(g) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any cost directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within plant and equipment.

Subsequent expenditures related to an asset that has already been recognized are added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

An item of plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the statement of comprehensive income in the year the asset is derecognized.

Depreciation of plant and equipment is calculated in accordance with note 1(h).

(h) Depreciation and depletion

Depreciation of subsurface assets and some plant and equipment is calculated using a unit-of-production method based on barrels of oil produced over the total estimated proven reserves to be produced during the PSC term on net entitlement basis. No provision for depreciation is made on assets in development until such time as the relevant assets are completed and production commences. When the assets concerned are brought into use, the costs are transferred to the plant and equipment classification and depreciated in accordance with the stated policy.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies (continued)

(h) Depreciation and depletion (continued)

Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate depreciable amounts over their estimated useful lives. The estimated useful lives are as follows:

Plant and equipment

▪ Furniture and equipment	5 - 10 years
▪ Asset under finance lease	5 - 10 years

The residual values, estimated useful lives and depreciation method of the assets are reviewed at each balance sheet date, and adjusted prospectively, if appropriate. The effects of any revision are recognized in the statement of comprehensive income when the changes arise.

(i) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contracts are not measured at fair value with changes in fair value recognised in the statement of comprehensive income.

(j) Inventories

Under the terms of the PSC, inventory becomes the property of the host government upon landing in country. As the Company have paid for and have the right to use these assets and/or costs recover the costs, these balances have been reflected as assets in the Company's financial statements based on its working interest in the PSC.

Inventories are carried at the lower of cost and net realizable value.

Cost of materials and supplies, which include plant spares, consumables and maintenance and drilling tools used for ongoing operations, are valued at weighted average cost; crude oil produced and not sold is not recorded as inventory because title does not pass to the Subsidiaries until the oil is lifted or off-loaded into the crude tankers.

Management assesses the need for any allowance for slow-moving and obsolete inventories at each reporting date.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies (continued)

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value, which in practice is the equivalent of cost, less any impairment losses. Trade receivables are non-interest bearing and settlement terms are generally within 30 days.

Long-term receivables are discounted and are stated at amortised cost, less impairment losses.

Trade and other receivables are assessed for indicators of impairment at each balance sheet date. Where a receivable is impaired the amount of the impairment is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the receivable is reduced through the use of an allowance account. Changes in the allowance account are recognised in the statement of comprehensive income.

(l) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and short-term deposits that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and have an original maturity of three months or less.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

Cash in bank balances which are restricted for use as stipulated under the terms of the loan agreement are presented as "Restricted cash in Bank".

(m) Restricted cash in bank

Cash in banks which is restricted for use as stipulated under the terms of the loan agreement are presented as "restricted cash in bank" (Note 17f).

(n) Impairment

Property and equipment is tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of an asset's fair value less costs to sell and its value in use) is determined on an individual asset basis, unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the Cash Generating Unit ("CGU") to which the asset belongs.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies (continued)

(n) Impairment (continued)

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. In assessing value in use, an asset's estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For oil and gas assets, the estimated future cash flows are based on estimates of hydrocarbon reserves, future production profiles, commodity prices, operating costs and any development costs necessary to produce the reserves. Estimates of future commodity prices are based on contracted prices where applicable or based on forward market prices where available.

The difference between the carrying amount and recoverable amount is recognized as an impairment loss in the statement of comprehensive income if carrying amount is lower than recoverable amount.

An impairment loss for an asset is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated depreciation) had no impairment loss been recognized for the asset in prior years.

A reversal of impairment loss for an asset is recognized in the statement of comprehensive income.

(o) Provisions

Provisions are recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies (continued)

(o) Provisions (continued)

Decommissioning, site restoration and abandonment costs

Provisions for future environmental restoration are recognized where there is a present obligation as a result of exploration, development, production, transportation or storage activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligations, and include the costs of decommissioning, removing facilities, abandoning wells and restoring the affected areas, and a reliable estimate of the amount of obligation can be made.

The amount of the provision for future decommissioning, site restoration and abandonment costs relating to exploration, development and production facilities is capitalized and depleted as a component of the cost of those activities. The unwinding of the effect of discounting on the provision is recognized as finance expense in the statement of comprehensive income.

Future decommissioning, site restoration and abandonment costs are reviewed annually and any changes in the estimate are reflected in the present value of the provision at the reporting date with a corresponding change in the cost of the associated asset.

Employee compensation

(i) Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within twelve months from the reporting date represent present obligations resulting from employees' service provided to reporting date, and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date including related add on-costs.

(ii) Long-term employee benefits

Employee entitlements to service and compensation payments are recognized when they accrue to the employees. A provision is made for the estimated liability as a result of past services rendered by employees up to the reporting date and is calculated based on the Company's policy or a minimum amount of employee entitlements in accordance with Indonesia Labor Law No. 13 Year 2003, whichever is higher.

The defined benefits obligation is annually calculated by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Based on IAS 19 (Revised 2011), actuarial gains and losses are recognized in Other Comprehensive Income ("OCI") when they occur as part of remeasurement. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to profit or loss in subsequent periods.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies (continued)

(o) Provisions (continued)

(ii) Long-term employee benefits (continued)

Unvested past service costs previously recognized over the average vesting period is recognized immediately in profit or loss when incurred.

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Company recognizes restructuring related costs.

Net interest is calculated by applying the discount rate to the net defined liability or asset. The Operator recognizes the following changes in the net defined benefit obligation under "Pension Cost" in the statement of profit or loss (by function).

- Service cost comprising current service cost, past-service cost, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

The Operator also provides a defined contribution plan for all of its eligible permanent employees, which is managed by Dana Pensiun Lembaga Keuangan Tugu Mandiri. The pension plan was established based on the approval from the Ministry of Finance in its Decision Letter No. KEP.1100/KM.17/1998, No. KEP.231/KM.17/1994 and No. KEP.184/KM.17/1995. Contributions payable are charged to current year operations and the Company recognizes its share of such items.

(iii) Other long-term employee benefits ("OLTEB")

The Operator provides long services award for employees who attain certain number of services years with the Operator. A provision is made for the estimated liability as a result of past services rendered by the employees up to the reporting date and is calculated based on the Operator's policy and the Company recognizes its share of such items. Actuarial gains and losses for OLTEB are recognized in full in the period in which they occur in profit or loss.

(p) Deferred income

A liability is recorded for obligations under sales contracts to deliver natural gas in future periods for which payment has already been received.

(q) Trade and other payables

Trade and other payables are initially recognized at fair value, and subsequently carried at amortized cost using the effective interest method.

(r) Share capital

Ordinary share capital and share premium

Ordinary share capital and share premium are classified as equity.

Dividends

Dividends are recognised as a liability at the time the Directors resolve to pay or declare the dividend.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies (continued)

(s) Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is presented net of rebates and discounts.

The Company recognizes revenue when the amount of revenue and related costs can be reliably measured; it is probable that future economic benefits will flow to the entity and when the specific criteria for each of the Company's activities are met as follows:

- Crude oil and natural gas sales revenue is recognized on the basis of the Company's interest in a producing field ("entitlements" method), when the physical product and associated risks and rewards of ownership pass to the purchaser, which is generally at the time of ship or truck loading, or on the product entering the pipeline.
- Revenue earned under a production sharing contract ("PSC") is recognized on a net entitlements basis according to the terms of the PSC. Differences between the Company's actual lifting of crude oil and gas result in a receivable when entitlements exceed lifting of crude oil and gas (under lifting position) and in a payable when lifting of crude oil and gas exceeds entitlements (over lifting position). Under lifting and over lifting volumes are valued based on the annual weighted average sales price for crude (i.e. Indonesian Crude Price - "ICP") and gas (i.e. contract prices).

(t) Other Income

Other income is recognised in the statement of comprehensive income at the fair value of the consideration received or receivable, when the significant risks and rewards of ownership have been transferred to the buyer or when the service has been performed.

The gain or loss arising on disposal of a non-current asset is included as other income at the date control of the asset passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(u) Finance leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies (continued)

(u) Finance leases (continued)

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the statement of comprehensive income on a straight-line method over the lease term.

Contingent rents, if any, are recognized as an expense in the statement of comprehensive income in the financial year in which they are incurred.

(v) Income tax expenses

Current income tax is recognized at the amount expected to be paid to or recovered from the tax authorities, computed using the tax rates and tax laws that have been enacted or substantively enacted at respective reporting dates.

Deferred income tax is recognized using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Company's balance sheet, except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor tax profit or loss at the time of the transaction.

A deferred income tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilized.

Deferred income tax is measured:

- (i) at the tax rate that is expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the respective reporting dates; and
- (ii) Based on the tax consequence that will follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred taxes are recognized as income or expense in the statement of comprehensive income, except to the extent that the tax arises from a transaction which is recognized directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies (continued)

(w) Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates if different assumptions were used and different conditions existed.

In particular, the Company has identified the following areas where significant judgments, estimates and assumptions are required, and where if actual results were to differ, may materially affect the financial position or financial results reported in future periods. Further information on each of these and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements.

(i) Impairment and depreciation of oil and gas property

The amounts recorded for depletion, depreciation and amortization as well as the recovery of the carrying values of oil and gas properties depend on estimates of oil and gas reserves and the economic lives of future cash flows from related assets. The primary factors affecting these estimates are technical engineering assessments of producible quantities of oil and gas reserves in place and economic constraints such as the availability of commercial markets for the Company's production as well as assumptions related to anticipated commodity prices and the costs of development and production of the reserves.

(ii) Income taxes

The Company is subject to income taxes in several jurisdictions. Significant judgment is required in determining the capital allowances and deductibility of certain expenses during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the year in which such determination is made.

(iii) Provision for decommissioning, site restoration and abandonment costs

Decommissioning, site restoration and abandonment costs will be incurred at the end of the operating life of the Company's facilities and properties. The ultimate decommissioning, site restoration and abandonment costs are uncertain and cost estimates can vary in response to many factors including change in relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to change in reserves or change in laws and regulations and their interpretations. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies (continued)

(w) Significant accounting judgements, estimates and assumptions (continued)

(iii) Provision for decommissioning, site restoration and abandonment costs (continued)

The provision for future decommissioning, site restoration and abandonment costs is the best estimate of the present value of the future expenditure required to settle the obligation at the reporting date based on current legal requirements with the discount rate used based on the borrowing rate at the time of recognition of the provision.

(iv) Employee benefits

The cost of providing long-term employee benefits is determined using actuarial valuations. An actuarial valuation involves making various assumptions, which includes the determination of the discount rate, future salary increases, mortality rates, employee turn-over rate, disability rate, and the expected rate of return on plan assets. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, estimated liabilities for long-term employee benefits are highly sensitive to changes in these assumptions. All assumptions are reviewed at financial year-end.

In determining the appropriate discount rate, management considers the market yields (at year end) on Indonesian Rupiah government bonds with maturities corresponding to the expected duration of the obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on the PSC's long-term business plan which is also influenced by expected future inflation rates for the country.

While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experiences or significant changes in the assumptions may materially affect its estimated liabilities for employee benefits and net employee benefits expense.

(v) Contingencies

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events.

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Significant accounting policies (continued)

(x) Standards issued but not yet effective

The following standards, amendments and interpretations to existing standards relevant to the Company are not yet effective and have not been early adopted by the Company. The Company expects to adopt these standards in accordance with the effective dates. The adoption of these new standards, amendments and interpretations is not expected to have a material impact on the Company's financial statements:

- **IFRS 9, *Financial Instruments***
IFRS 9, as issued, reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to January 1, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.
- **IAS 32, *Financial Instruments: Presentation* and IFRS 7, *Financial Instruments: Disclosures***
Clarifying the requirements for offsetting financial assets and financial liabilities on the balance sheet;
- **IAS 36, *Impairment of Assets***
Effective for annual periods beginning on or after 1 January 2014. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal;

The Company is still evaluating the effects of the above-mentioned standards and expects that the adoption of these standards will not have a significant impact on the financial statements in the period of initial application.

2. Revenue

	2013 US\$000	2012 As restated - US\$000
Product sales:		
Crude oil	4,302	4,672
Gas and ethane	9,387	8,904
Total revenue	13,689	13,576

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

3. Cost of sales

	2013 US\$000	2012 As restated - US\$000
Included are the following items:		
Operating expenses	3,801	4,050
General and administrative expenses	827	902
Exploration expenses	323	121
Pension cost	229	288
Depreciation and depletion:		
Amortization of intangible assets	3	4
Depreciation and depletion of assets	890	780
Total cost of sales	6,073	6,145

Total lease expenses amounting to US \$722,485 (2012: US\$ 1,192,005) are recorded as part of operating expenses.

4. Financial expenses

	2013 US\$000	2012 As restated - US\$000
Unwind of the effect of discounting on provisions (Note 12)	(79)	(90)

5. Taxation

Tax on Profit for the year

The tax charge is made up as follows:

	2013 US\$000	2012 As Restated - US\$000
Current tax:		
UK Corporation tax on profits for the year	2,203	2,148
Double tax relief	(2,133)	(2,099)
Overseas taxation	2,541	3,014
Total current tax charge	2,611	3,063
Deferred tax:		
Origination and reversal of temporary differences	377	(86)
Total deferred tax charge/(credit) (Note 13)	377	(86)
Total tax charge	2,988	2,977

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

5. Taxation (continued)

Factors affecting the current tax charge for the year

The rate at which tax has been assessed for the year is higher than the standard rate of Corporation tax in UK. The differences are explained below:

	2013 US\$000	2012 As Restated - US\$000
Profit before tax	7,808	7,414
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24% for the period up to 31 March 2013 and 23% for the period to 31 December 2013 and 26% for the period up to 31 March 2012 and 24% for the period to 31 December 2012.	1,815	1,816
Effect of:		
Permanent differences	69	49
Impact of higher foreign taxes	1,104	1,112
Total tax charge for the year	2,988	2,977

6. Employees and directors emoluments

Other than Directors, the Company has no employees in 2013 and 2012.

The Company entered in an agreement with Aspect Financial Limited ("Aspect") (previously ATC Corporate Services (UK) Limited) under a contract for the provision of director services for two (2) directors. The fees paid to Aspect during 2013 amounted to US\$7,580 (2012: US\$7,434).

Two (2) of the directors of the Company received remuneration from Star Energy (Kakap) Ltd., the operator of Kakap PSC. The portions of remuneration which represents a fair allocation to the Company, based on the working interest in Kakap PSC, amounts to US\$67,688 in 2013 (2012: US\$67,125). As at the date of the financial statements, the two directors agreed to provide director services to the Company without receiving any remuneration from the Company.

7. Auditor's remuneration

	2013 US\$000	2012 US\$000
Audit of these financial statements	47	38
Total fees	47	38

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

8. Oil and gas assets

	2013			2012		
	Subsurface assets US\$'000	Plant and equipment US\$'000	Total US\$'000	Subsurface assets US\$'000	Plant and equipment US\$'000	Total US\$'000
Cost at 31 December	30,322	10,668	40,990	29,800	10,663	40,463
Less accumulated depreciation, depletion and impairment	(25,526)	(7,374)	(32,900)	(24,637)	(7,373)	(32,010)
Balance at 31 December	4,796	3,294	8,090	5,163	3,290	8,453
Reconciliation of movements						
Producing assets						
Balance at 1 January	5,163	3,290	8,453	4,474	3,285	7,759
Additions	522	5	527	1,441	5	1,446
Change in restoration asset	—	—	—	28	—	28
Depreciation and depletion expense (Note 3)	(889)	(1)	(890)	(780)	—	(780)
Balance at 31 December	4,796	3,294	8,090	5,163	3,290	8,453

9. Inventories

	2013 US\$000	2012 US\$000
Drilling and maintenance stocks	610	511
Total inventories at the lower of cost and net realisable value	610	511

10. Trade and other receivables

	2013 US\$000	2012 US\$000
Current		
Trade receivables	1,815	1,466
VAT receivables	512	529
Prepayments	111	77
Deposit	46	35
Other	480	790
Total trade and other receivables	2,964	2,897

Trade receivables are neither past due nor impaired and relate to independent customers for whom there is no recent history of default.

The Company believes that the carrying amounts are a reasonable approximation to the fair value.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

10. Trade and other receivables (continued)

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Company does not hold any collateral security.

The carrying amount of the Company's trade and other receivables are denominated in the following currencies:

	2013 US\$000	2012 US\$000
US dollars	2,858	2,639
Indonesian rupiah	105	258
Singapore dollar	1	-
	<u>2,964</u>	<u>2,897</u>

11. Trade and other payables

	2013 US\$000	2012 US\$000
Current		
Deferred revenue	580	645
Trade payables	161	416
Non-trade payables and accrued expenses	<u>1,794</u>	<u>2,733</u>
Total trade and other payables	<u>2,535</u>	<u>3,794</u>

The Company believes that the carrying amounts are a reasonable approximation to the fair value.

12. Provisions

Reconciliation of movements in provisions during the year:

	Employee Benefits US\$'000	Restoration US\$'000	Branch Profits Tax US\$'000	Total US\$'000
Balance at 1 January 2012	1,081	504	1,783	3,368
Unwinding of discount	-	90	-	90
Provisions made during the year	255	28	-	283
Escrow account	-	(104)	-	(104)
Balance at 31 December 2012	1,336	518	1,783	3,637
Unwinding of discount	-	79	-	79
Expected return on plan assets	(387)	-	-	(387)
Provision reversals during the year	(427)	-	-	(427)
Escrow account	-	(108)	-	(108)
Balance at 31 December 2013	<u>522</u>	<u>489</u>	<u>1,783</u>	<u>2,794</u>

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

12. Provisions (continued)

	2013 US\$000	2012 As Restated - US\$000
Non-current		
Employee benefits (Note 1o)	522	1,336
Restoration	489	518
Provision for branch profits tax (Note 17e)	1,783	1,783
	<u>2,794</u>	<u>3,637</u>

Employee benefits

Net employee defined benefit liability:

	2013 US\$000	2012 As Restated - US\$000
Pre-retirement benefit	20	50
Other long-term benefit	12	19
Post-employment benefit	490	1,267
	<u>522</u>	<u>1,336</u>

The Operator has a defined benefit pension plan covering substantially all employees. Plan benefits are primarily based on years of service and employees' compensation near retirement or voluntary resignation.

The Operator has a defined benefit pension plan in post-employment benefit (funded). The program designed as a form of appreciation or post-employment fund benefit program, which program has been approved by Ministry of Finance of the Republic Indonesia and registered under the name Program Asuransi Jiwa Kumpulan Jangka Waktu Sementara. The Operator appointed PT Asuransi Allianz Life Indonesia to underwrite and administer a management program of post-employment fund benefit for the employees of the Operator through the program.

The Operator also provides pre-retirement benefit (unfunded) and other long-term benefit (unfunded) to employees.

The employees' benefits liability was calculated by an independent actuary, PT Padma Radya Aktuaria, for the years ended 31 December 2013 and 2012, in its reports dated 21 April 2014 and 18 April 2013, respectively, using the "Projected Unit Credit" method with the following assumptions:

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

12. Provisions (continued)

Employee benefits (continued)

	<u>2013</u>	<u>2012</u>
Salary increment rate	10% p.a.	10% p.a.
Discount rate	8.75% p.a.	5.5% p.a.
Mortality rate	100% TMI** 3	100% TMI** 3
Disability rate	5% TMI 3	5% TMI 3
Resignation rate	2.5% p.a. until age 35 then decrease linearly into 0% at age 58*	2.5% p.a. until age 35 then decrease linearly into 0% at age 58*
Proportion of normal retirement	100%	100%

* Starting 2010, the Operator, Star Energy (Kakap) Limited, used retiring age of 58 in compliance with SKK Migas letter No. KEP-058/BP00000/ 2010/SO issued in 2010.

** Table Mortalita Indonesia

The following tables summarize the components of net benefit expense recognized in the statement of comprehensive income and the funded status and amounts recognized in the balance sheet for the respective benefits:

Pre-retirement benefits

Net benefit expense (recognized in profit or loss):

	<u>2013</u>	<u>2012</u>
	<u>US\$000</u>	<u>As Restated - US\$000</u>
Current service cost	4	9
Interest cost	2	2
Net benefit expense	6	11

Changes in the present value of the defined benefit obligation are as follows:

	<u>2013</u>	<u>2012</u>
	<u>US\$000</u>	<u>As Restated - US\$000</u>
Defined benefit obligation at 1 January	50	39
Current service cost	4	9
Interest cost	2	2
Actuarial changes arising from experience adjustment	(20)	(2)
Actuarial changes arising from changes in financial assumptions	(6)	4
Foreign exchange	(10)	(2)
Defined benefit obligation at 31 December	20	50

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

12. Provisions (continued)

Employee benefits (continued)

Other long-term benefits

Net benefit expense (recognized in profit or loss):

	2013 US\$000	2012 As Restated - US\$000
Current service cost	3	3
Interest cost	1	1
Actuarial changes arising from experience adjustment	(3)	-
Actuarial changes arising from changes in financial assumptions	(3)	1
Net benefit expense	(2)	5

Changes in the present value of the defined benefit obligation are as follows:

	2013 US\$000	2012 As Restated - US\$000
Defined benefit obligation at 1 January	19	16
Current service cost	3	3
Interest cost	1	1
Actuarial changes arising from experience adjustment	(3)	-
Actuarial changes arising from changes in financial assumptions	(3)	1
Foreign exchange	(5)	(2)
Defined benefit obligation at 31 December	12	19

Post-employment benefits

Net benefit expense (recognized in profit or loss):

	2013 US\$000	2012 As Restated - US\$000
Current service cost	181	212
Interest cost	44	60
Net benefit expenses	225	272

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

12. Provisions (continued)

Employee benefits (continued)

Post-employment benefits (continued)

2013 changes in the defined benefit obligation and fair value of plan assets:

	Defined benefit obligation	Fair value of plan assets	Benefit liability
Defined benefit obligation at 1 January	1,267	—	1,267
Current service cost	181	—	181
Interest cost	55	(11)	44
Foreign currency exchange rate (gain)/loss	(255)	70	(185)
Benefits paid	(71)	—	(71)
Return on plan assets (excluding amounts included in net interest expenses)	—	2	2
Actuarial changes arising from experience adjustment	(8)	—	(8)
Actuarial changes arising from changes in financial assumptions	(292)	3	(289)
Contribution by employer	—	(451)	(451)
Defined benefit obligation at 31 December	877	(387)	490

2012 changes in the defined benefit obligation and fair value of plan assets:

	Defined benefit obligation	Fair value of plan assets	Benefit liability
Defined benefit obligation at 1 January	1,027	—	1,027
Current service cost	212	—	212
Interest cost	60	—	60
Foreign currency exchange rate (gain)/loss	(63)	—	(63)
Benefits paid	(16)	—	(16)
Return on plan assets (excluding amounts included in net interest expenses)	—	—	—
Actuarial changes arising from experience adjustment	(33)	—	(33)
Actuarial changes arising from changes in financial assumptions	80	—	80
Contribution by employer	—	—	—
Defined benefit obligation at 31 December	1,267	—	1,267

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

12. Provisions (continued)

Employee benefits (continued)

The sensitivity analysis below has been determined based on the reasonably possible changes of each significant assumption on the defined pension plan as at the end of the reporting period, assuming if all other assumptions were held constant. A quantitative sensitivity analysis for significant assumptions as at December 31, 2013 is as shown below:

Pre-retirement benefits

		Impact on the net defined benefit obligation (USD\$000)
Discount rates	+1%	(2)
	-1%	2
Future salary increases	+1%	2
	-1%	(2)

Other long-term benefits

		Impact on the net defined benefit obligation (USD\$000)
Discount rates	+1%	(1)
	-1%	1
Future salary increases	+1%	2
	-1%	(2)

Post-employment benefits

		Impact on the net defined benefit obligation (USD\$000)
Discount rates	+1%	(69)
	-1%	77
Future salary increases	+1%	76
	-1%	(69)

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

12. Provisions (continued)

Employee benefits (continued)

The following payments are expected contributions to be made in the next five years and the aggregate for five years, thereafter out of the defined benefit plan obligation are as follows:

Pre-retirement benefit

	Amount (USD\$000)
Within the next 12 months (next annual reporting period)	-
Between 2 and 5 years	3
Beyond 5 years	42
Total expected payments	45

The average duration of the defined benefit pension plan at the end of the reporting period is 10.11 years.

Other long-term benefit

	Amount (USD\$000)
Within the next 12 months (next annual reporting period)	4
Between 2 and 5 years	4
Beyond 5 years	23
Total expected payments	31

The average duration of the defined benefit pension plan at the end of the reporting period is 10.11 years.

Post-employment benefit

	Amount (USD\$000)
Within the next 12 months (next annual reporting period)	33
Between 2 and 5 years	302
Beyond 5 years	1,005
Total expected payments	1,340

The average duration of the defined benefit pension plan at the end of the reporting period is 10.13 years.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

12. Provisions (continued)

The defined contribution plan is contributed by both employees and the Company for a fixed contribution of 6% from the Company and a contribution of 2%-14% from the employees. During the years of 2013 and 2012, the Company has contributed the funds amounted to US\$29,821 and US\$27,702, respectively, and charged to current year operations and presented as "employee compensation and benefits" under operating expenses.

The plan assets are quoted in active market (money market investments) and the Company portion amounted to US\$387,123.

Restoration

Provision for decommissioning, site restoration and abandonment costs represents present value of restoration costs of oil and gas property and equipment arising from the acquisition or use of assets, which are expected to be incurred up to 2020. These provisions have been computed based on internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability.

Accretion charge to finance expenses for the period 31 December 2013 amounted to US\$79,000 (2012: US\$89,000).

The discount rates of 4.78% and 5.50% were used in the calculation of the provisions as at 31 December 2013 and 31 December 2012 respectively.

In accordance with Standard Operating Procedure No. 040/PTK/XI/2010 dated 24 November 2010 concerning Abandonment and Site Restoration ("ARO"), the Operator is required to have an escrow account with SKK Migas to fund the ARO relating to oil and gas operations in Indonesia.

As at 31 December 2013 and 31 December 2012, the above escrow account was placed in PT Bank Mandiri (Persero) Tbk.

Branch profits tax (BPT)

Provision for BPT is the additional tax imposed in lieu of dividends withholding tax on the excess of taxable income over ordinary corporate income tax.

In December 2008, the Finance and Development Supervisory Agency (Badan Pengawasan Keuangan dan Pembangunan or referred to as "BPKP") concluded the audit result of Natuna UK for the years 1994 to 2004. As a result, the Company was required to pay additional BPT of 10% amounting to US\$2,389,000. This amount was paid by the Company prior to its acquisition by Star Energy Group. With the payment of this additional 10%, the Company effectively paid BPT of 20% for those years. Further, the Company recorded provision for the additional 10% rate on the BPT for years 2005 to 2007 amounting to US\$1,783,000 (Note 17e).

The management is of the opinion that the Company (established in the United Kingdom) is subject to BPT at the rate of 10% based on the 1993 tax treaty between the Government of the Republic of Indonesia and United Kingdom.

Prior to the acquisition of the Company by SEHL from Star Energy Holdings Pte. Ltd. ("SEHPL"), in May 2009, PT Medco Energi Internasional Tbk ("Medco") had reached an agreement with Santos (SPV) Pty Limited ("Santos SPA") to acquire from Santos the total issued share capitals of Natuna UK and Novus Nominees. Santos SPA included indemnification of tax exposure arising from those years when Natuna UK was owned by Santos.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

12. Provisions (continued)

Branch profits tax (BPT) (continued)

This indemnification was valid for 7 years after the enforcement of SPA. Such indemnification is still applicable even with the transfer of ownership in Natuna UK from Medco to SEHPL and from SEHPL to SEHL.

With the above indemnification, as at 31 December 2011, the Company recorded the underpayment of BPT under "Trade and other receivables" as amount due from Santos and "Current taxes liabilities". Subsequently on 17 February 2012, Santos paid the underpayment of the BPT directly to the Tax Office and provided the management with the transfer receipt. The Company has reported such payment to the Tax Office.

On February 2012, Natuna UK filed an objection letter to the Tax Office regarding the basis for the issuance of tax assessment letters since Natuna UK believes that the rate applied by Natuna UK is supported by the Indonesian - UK Treaty, which reduced the tax rate to 10%. In addition, Natuna UK received confirmations from UK HM Revenue and Custom (UK HMRC) that it is entitled to apply the 10% treaty rate since Natuna UK is a UK tax resident. On February 19, 2013, the Tax office has declined the objection letter and on 13 May 2013, Natuna UK submitted an appeal letter to the Tax Court. On 26 March 2014, Natuna UK gave the closing statement in the Tax Court, and at the completion date of the financial statements, no decision letter has been received from the tax court.

The management continues to believe that the Company is subject to BPT at the rate of 10%. Accordingly, no further accrual was made for the additional 10% rate on the BPT for years 2009 to 2013 totalling to US\$2,709,000 (Note 17e).

13. Deferred tax liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred taxes relate to the same tax authority.

The movement of the deferred tax assets and liabilities during the reporting period is as follows:

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

13. Deferred tax liabilities (continued)

2013	1 January 2013 (restated) US\$'000	Charged to profit or loss US\$'000	Charged to OCI US\$'000	31 December 2013 US\$'000
Deferred income tax assets:				
- Provision for decommissioning, site restoration and abandonment costs	188	(11)	—	177
- Estimated liabilities for long-term employee benefits	310	(15)	(119)	176
- Others	257	(24)	—	233
	755	(50)	(119)	586
Deferred income tax liabilities:				
- Oil and gas properties and other property and equipment, net	(1,590)	(330)	—	(1,920)
- Others	(5)	3	—	(2)
	(1,595)	(327)	—	(1,922)
Deferred tax liabilities, net	(840)	(377)	(119)	(1,336)

2012	1 January 2012 (restated) US\$'000	Credited to profit or loss US\$'000	Credited to OCI US\$'000	31 December 2012 (restated) US\$'000
Deferred income tax assets:				
- Provision for decommissioning, site restoration and abandonment costs	186	2	—	188
- Estimated liabilities for long-term employee benefits	213	78	19	310
- Others	252	5	—	257
	651	85	19	755
Deferred income tax liabilities:				
- Oil and gas properties and other property and equipment, net	(1,590)	—	—	(1,590)
- Others	(6)	1	—	(5)
	(1,596)	1	—	(1,595)
Deferred tax liabilities, net	(945)	86	19	(840)

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

14. Obligations under operating lease agreement and capital commitments

The Company has an interest in the following unincorporated joint venture:

<i>Joint Venture</i>	<i>Principal Activities:</i>	<i>% Interest:</i>
West Natuna Basin	Oil and gas exploration and production	6.25

2013	2012
US\$000	US\$000

The amount of capital expenditure commitments and lease commitments in respect of the Company's unincorporated joint venture are:

Capital expenditure commitments	-	3,558
Lease commitments	3,420	3,939
	<u>3,420</u>	<u>7,497</u>

Total future minimum rentals payable under non-cancellable leases relating to FSO contracts for each of the following periods are as follows:

Not later than one year	579	579
After one year but not more than five years	2,841	3,360
	<u>3,420</u>	<u>3,939</u>

15. Share capital

2013	2012
US\$000	US\$000

Authorised and issued capital

Share capital

251 (2012: 251) fully paid US\$1 ordinary shares	-	-
Share Premium	<u>10,208</u>	<u>10,208</u>

Share Capital and Share Premium

The balance of share capital and share premium includes the total net proceeds (both nominal and share premium) on issue of the Company's equity share capital, comprising 251 ordinary shares of US\$1 each.

Based on the minutes of meeting of the Board of Directors held on 16 November 2012, the Company's Board of Directors declared non cash dividend amounting to US\$5,000,000 to the shareholder, SEKHL. The Company agreed to waive an intercompany balance amounting to \$5,000,000 which has been treated as a non-cash dividend between the Company and its shareholder.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

15. Share capital (continued)

Capital risk management

The Company's objective when managing capital is to safeguard the ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an efficient capital structure.

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

The gearing ratios at 31 December 2013 and 31 December 2012 were as follows:

	2013 US\$000	2012 US\$000
Trade and other payables	2,535	3,794
Less:		
Cash in bank	-	1,469
Restricted cash in bank	58	-
Net debt	2,477	2,325
Equity	19,536	14,512
Total capital	22,013	16,837
Gearing ratio	11.25%	13.81%

16. Related parties

(a) Related party balances:

<i>Payable</i>	Relationship with the related parties	2013 US\$000	2012 US\$000
- Kakap Holdings Pte Ltd	The same ultimate shareholder	461	461
- Star Energy (Kakap) Limited	The same ultimate shareholder	-	400
		461	861
<i>Receivable</i>			
- Star Energy Kakap Holdings Limited	Parent entity	15,200	10,549
- Star Energy (Kakap) Limited	The same ultimate shareholder	4	-
- Novus Petroleum Canada (Kakap) Limited	The same ultimate shareholder	-	170
- Star Energy (Sekayu) Limited and Star Energy (Sebatik) Limited	The same ultimate shareholder	5	3
- Star Energy Geothermal (Wayang Windu) Limited	The same ultimate shareholder	79	63
		15,288	10,785

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

16. Related parties (continued)

(a) Related parties balances (continued)

Loans receivable from/payable to other related entities are interest-free, have no fixed terms and are repayable on demand.

Receivables from related parties are current receivables that are unsecured, non-interest bearing and are to be settled in form of cash or non cash within the next twelve months from the reporting date.

Receivables from related parties are neither past due nor impaired and relate to counterparties for whom there is no recent history of default.

The Company has not engaged in any other related party transactions in the current year.

(b) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including the Directors of the Company.

The following were Directors of the Company and therefore key management personnel of the Company for the periods shown:

Name	Position
Rudy Suparman	Director
Hendra Soetjipto Tan	Director
James Patrick Johnston Fairrie	Director
Spencer Saffer	Director

The Company employs no permanent staff.

17. Commitments and contingencies

a. Government audit claim

The accounting policies specified in the PSC are subject to interpretation by SKK Migas and the Government of the Republic of Indonesia. Annually, the accounting records and reports of the Joint Venture are subjected to an audit by SKK Migas and/or the Government. Claims arising from these audits are either agreed by the management of the Company and recorded in its accounting records, or are disputed. Resolution of disputed claims may require a lengthy negotiation process extending over a number of years. As of the completion date of these financial statements, the joint venture has various disputed claims outstanding amounting to US\$98,654 for the periods up to 2012. The claims consist of AFE overrun matters, which are still under discussion between the Operator and the auditors.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

17. Commitments and contingencies (continued)

a. Government audit claim (continued)

If these claims materialize, the Company's entitlement will be reduced by approximately US\$34,442 and will lead to exposure for underpayment of tax amounting to US\$12,775. Management believes that the claims are without merit, therefore no accrual has been recognized in relation to the claims in the financial statements.

b. Significant disputes

The following disputes are current contingencies and may result in any future liabilities on a net basis to the Company.

- (i) The Operator is facing a legal dispute with Tripatra-Sarku Consortium ("Vendor") regarding the flexible flow line incident of KRA South Gas Development Subsea Tie-In project that occurred in 2007. The value of the claim against the Operator amounted to US\$1,500,000. On the other hand, the Operator counterclaimed against the Vendor for the excess cost of US\$1,000,000 to complete the project.
- (ii) The Operator also has a legal dispute with Seabulk Offshore Vessel Holding Inc. ("SOVH"), owner of the vessel MU Seabulk Plover. On 14 August 2008, the Operator received a letter from SOVH claiming damages sustained by the Frontier Duchess oil rig as a result of a collision that occurred on 25 June 2007. The claim amounted to Singaporean dollar S\$13,218,265, which is equivalent to US\$10,441,000 as at 31 December 2013 (2012: US\$10,835,000).

As of the completion date of these financial statements, there is no further progress on the above cases No. (i) and (ii), and that any final settlement on such cases is uncertain. Management believes that the disputes will be resolved with no material impact on the Company's financial statements, accordingly no provision has been recognized at the reporting date.

c. Gas supply agreement

The Operator, Pertamina and other gas producers entered into a Gas Supply Agreement under which each supplier agreed to make gas available for sale and delivery by Pertamina under a Gas Sales Agreement between Pertamina and Buyer. The future contract quantity for the Company is 63.18 Btu with the following annual amount to be delivered.

<u>Year</u>	<u>Btu</u>
2014	5.74
2015-2023	57.44

The contract price is based on Index High Sulphur Fuel Oil ("HSFO").

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

17. Commitments and contingencies (continued)

d. Contract for provision of FSO rental services

As follow up of the deteriorations found in the hull envelope of the previous KN Floating Production Storage and Offloading ("KN FPSO") vessel, various efforts have been initiated and carried out by the Contractors in order to remedy the situation, including implementing a medium-term solution by replacing the KN FPSO with a 'new FPSO, namely East Fortune FSO ("EF FSO") under the contract signed in October 2009 with PT Pulau Kencana Raya ("PKR") as an agent on behalf of Songa Production Pte. Ltd. The contract with PKR was valid for a term of nine months up to September 2010 with a total contract value of US\$14,115,000.

On 5 October 2010, Operator of the Kakap PSC had extended the lease contract of the EF FSO up to 31 December 2010. On 1 December 2010, the lease contract was extended up to 31 January 2011. On 12 January 2011, the lease contract of EF FSO rental service was further extended for a twelve months period starting 1 February 2011. However, since 9 March 2011, the EF FSO has been demobilized from Kakap field and was temporarily replaced by a new vessel MT. Barunawati. Originally, the vessel that was to replace EF FSO was MT. Badraini which was under modification until July 2011. In July 2011, the Operator used MT. Badraini for its first oil lifting for 2011.

Based on its letter dated 9 June 2010, No. 0622/BPA4000/2010/S1, SKK Migas has requested the Contractors to re-utilize KN FPSO for the next five to ten years, and the related Authorization For Expenditures (AFE) for the reutilization of the KN FPSO which covers the dry docking project and the operation cost for KN FPSO for the seven years has been approved by SKK Migas in its letter dated 4 April 2011 amounting to US\$66,937,000.

The dry docking of KN FPSO was completed on 31 July 2012, after which Kakap Natuna changed name to become Kakap Natuna Floating Storage and Offloading ("KNFSO") vessel and as at 22 August 2012, KN FSO began its normal operations in the Kakap Natuna block.

e. Provision for Branch Profit Tax ("BPT")

Provision for BPT is the additional tax imposed in lieu of dividends withholding tax on the excess of taxable income over ordinary corporate income tax.

In December 2008, the Finance and Development Supervisory Agency (Badan Pengawasan Keuangan dan Pembangunan or referred to as "BPKP") concluded the audit result of Natuna UK for the years 1994 to 2004. As a result, the Company was required to pay additional BPT of 10% amounting to US\$2,389,000. The Company already paid US\$2,389,000 prior to its acquisition by Star Energy Group. With the payment of this additional 10%, the Company ended paying BPT of 20% for those years. Further, the Company recorded provision for the additional 10% rate on the BPT for year 2005 to 2007 amounting to US\$1,783,000 (Note 12).

In November 2011, Natuna UK received tax assessment letters from the Tax Office related to the underpayment of BPT for fiscal year 2008 resulting from the difference between the tax rate and treaty rate, including the tax penalty, amounting to US\$1,392,000. Since the indemnification from Santos SPA is still valid and applicable for 7 years after the effectivity of Santos SPA, as at 31 December 2011, the Company recorded the underpayment of BPT under "Trade and Other Receivables" as amount due from Santos and "Current taxes liabilities".

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

17. Commitments and contingencies (continued)

e. Provision for Branch Profit Tax ("BPT") (continued)

Subsequently, on 17 February 2012, Santos paid the underpayment of the BPT directly to the Tax Office and provided the management with the transfer receipt. The Company has reported such payment to the tax office.

In February 2012, Natuna UK filed an objection letter to the Tax Office regarding the basis for the issuance of tax assessment letters since Natuna UK believes that the rate applied by Natuna UK is supported by the Indonesian - UK Treaty, which reduced the tax rate to 10%. In addition, Natuna UK received confirmations from UK HM Revenue and Custom (UK HMRC) that it is entitled to apply the 10% treaty rate since Natuna UK is a UK tax resident. On 19 February 2013, the Tax office has declined the objection letter and on 13 May 2013, Natuna UK submitted an appeal letter to the Tax Court. On 26 March 2014, Natuna UK gave the closing statement in the Tax Court, and at the completion date of the financial statements, no decision letter has been received from the tax court.

The management continues to believe that the Company is subject to BPT at the rate of 10% based on the 1993 tax treaty between the Government of Republic of Indonesia and United Kingdom. Accordingly, no further accrual was made for the additional 10% rate on the BPT for years 2009 to 2013 totalling to US\$2,709,000.

f. Senior term loan facility agreement

On 7 December 2012, the ultimate shareholders of the Company, Star Energy Investment Ltd. ("SEIL") entered into a US\$121,000,000 Acquisition Bridge Facilities Agreement ("Bridge Loan Facility") with DBS Bank Ltd. ("DBS") ("Lender") for the purposes of financing the acquisition of 100% shares in Star Energy Holdings Limited, which own 40% shares in Star Energy Group Holdings Pte. Ltd.

On 1 February 2013, part of the Bridge Loan Facility amounting to US\$58,000,000 ("Bridge Loan Facility A") has been pushed down and novated to the Star Energy (Kakap) Limited ("SEKL") and Star Energy (Kakap) Holdings Limited ("SEKHL").

On 1 February 2013, SEKL and SEKHL (or together referred to as "the Borrowers") have entered into a US\$60,000,000 Senior-Term Loan Facility Agreement ("New Loan") with DBS Bank Ltd. ("DBS") ("Lender"). The initial utilization was made on 8 February 2013 amounting to US\$60,000,000.

The purpose of the loan is to repay Bridge Loan facility A and any fees, stamp and expenses in connection with the Facility or Finance documents. The New Loan will be repaid on quarterly basis with the initial repayment date in May 2013 and the latest repayment date in February 2018. Interest is charged at 4.5% plus LIBOR.

The New Loan is guaranteed by the following related parties:

- Novus UK (Indonesian Holdings) Limited (Original Guarantor)
- Novus Petroleum Canada (Indonesian Holdings) Limited (Original Guarantor)
- Star Energy Kakap Holdings Limited (Original Guarantor)
- Star Energy (Kakap) Ltd. (Original Guarantor)
- Natuna UK (Kakap 2) Limited (Original Guarantor)
- Novus UK (Kakap) Limited (Original Guarantor)
- Novus Petroleum Canada (Kakap) Ltd. (Original Guarantor)
- Novus Nominees Pty. Ltd. (Original Guarantor)
- Kakap Holdings Pte. Ltd. (Original Guarantor)

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

17. Commitments and contingencies (continued)

f. Senior term loan facility agreement (continued)

The loan will be repaid on a quarterly basis with the initial repayment date in May 2013 and the latest repayment date in February 2018. Subsequently, on 12 February 2014, the Borrowers made a voluntary repayment of US\$10,000,000. After the voluntary repayment, the last repayment date of the New Loan will be in August 2017.

g. Contractual commitment

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

18. Financial risk management

The Company's activities expose it to market risk (which consists of currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Company's overall risk management strategy seeks to minimize adverse effects from unpredictability of financial markets on the Company's financial performance.

Risk management is carried out by the corporate finance department under supervision by the Company's Board of Directors. Corporate finance identifies, evaluates and hedges financial risks.

(a) Foreign currency risk

The Company is not materially exposed to foreign currency risk as it principally trades in US dollars through the sale of liquid petroleum products denominated in US dollars, incurs expenditure in US dollars and has US dollar borrowings from a related entity.

(b) Interest rate risk

As the Company has no interest-bearing liabilities the Company is not exposed to changes in market interest rates.

(c) Commodity price risk exposure

The Company is exposed to commodity price fluctuations through the sale of petroleum product. The Company may enter into commodity crude oil price swap and option contracts to manage the Company's commodity price risk.

At 31 December 2013, the Company had no open oil price swap contracts (2012: \$ nil), and is therefore not exposed to movements in commodity prices on financial instruments. The Company continues to monitor oil price volatility and to assess the need for commodity price hedging.

(d) Credit risk

Credit risk represents the potential financial loss if counterparties fail to perform as contracted. The Company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

18. Financial risk management (continued)

(d) Crédit risk (continued)

Credit risk arises from cash on hand and in banks, deposits with banks and financial institutions, as well as credit exposures from trade receivables. The Company is subject to concentration of credit risk as its entire sales are to two counterparties. Oil and Gas sales are solely to BP Singapore Pte Ltd and SembCorp Gas Pte Ltd, respectively (Note 10).

(e) Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Company's business activities may not be available. The Company believes it has access to sufficient funding to meet currently foreseeable borrowing requirements primarily through access to support from group companies.

Effective management of the liquidity risk has the objective of ensuring the availability of adequate funding to meet short term requirements and due obligations as well as the objective of ensuring a sufficient level of flexibility in order to fund the development plans of the Company's businesses.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments (Note 11):

As at 31 December	Less than one year	More than one year
	US\$000	US\$000
2013		
Trade and other payables (Note 11)	2,535	-
2012		
Trade and other payables (Note 11)	3,794	-

(f) Fair values

The financial assets and liabilities of the Company are recognised on the balance sheet at their fair value in accordance with the accounting policies in Note 1.

The significant methods and assumptions used in estimating the fair values of financial instruments are:

Trade and other receivables

The carrying value less impairment provision of trade receivables is a reasonable approximation of their fair values due to the short-term nature of trade receivables.

Trade and other payables

The carrying value of trade payables is a reasonable approximation of their fair values due to the short-term maturities such instruments.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

19. Parent entities

Star Energy Oil and Gas Pte Ltd., a newly incorporated holding company in Singapore, which the directors regard as the Company's ultimate parent undertaking with respect to the financial year ended 31 December 2013, is the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and to which the Company is a member.

In April 2012, Star Energy Group has completed a group restructuring. As part of the Group restructuring, Star Energy Geothermal Pte Ltd ("SEGPL") (formerly known as Star Energy Holdings Pte Ltd) transferred its 100% ownership interest in the Company to Star Energy Oil and Gas Pte Ltd., ("SEOGPL") and SEOGPL became the new holding company for entities in the oil and gas industry.

Star Energy Kakap Holdings Limited, a company incorporated in Bermuda, is the parent undertaking of the smallest group of undertakings for which group financial statements are drawn up and for which the Company is a member.

20. Events after the reporting period

With respect to Provision for Branch Profit Tax disclosed in note 17e, the Company received two assessment letters in August 2014 from the Tax Office related to the underpayment of corporate tax and BPT (including its penalty) for fiscal year 2009 amounting to US\$40,771 and US\$565,094, respectively. The Company made the payment on 14 August 2014, and management is planning to send an objection letter to the tax office in October 2014.