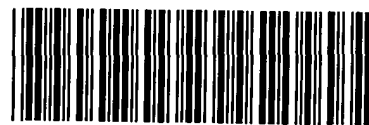


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NATUNA UK (KAKAP 2) LIMITED  
REGISTERED NUMBER 3115420  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
31 DECEMBER 2014  
(THIS REPORT IS PREPARED IN UNITED STATES DOLLARS)

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COMPANIES HOUSE

**NATUNA UK (KAKAP 2) LIMITED**

**REGISTERED NUMBER 3115420**

**BOARD OF DIRECTORS**

Rudy Suparman  
Hendra Soetjipto Tan  
James Patrick Johnston Fairrie  
Spencer Harry 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 2014.

**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 3,906 boepd in 2014 (3,661 boepd in 2013). Gas gross production averaged 4,309 boepd in 2014 (4,708 boepd in 2013).

Revenue in 2014 increased primarily due to increase in oil production in 2014 compared to production per year 2013. The average oil price in 2014 was US\$101.38/bbl (2013: US\$107.71/bbl) and the average gas price in 2014 was US\$18.09/mscf (2013: US\$20.03/mscf).

The results for the years ended 31 December 2014 and 2013 are summarised below:

	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Revenue</b>	<b>13,729</b>	<b>13,689</b>
<b>Profit before tax</b>	<b>5,417</b>	<b>7,808</b>
<b>Taxation</b>	<b>(4,437)</b>	<b>(2,988)</b>
<b>Profit after tax for the year</b>	<b>980</b>	<b>4,820</b>

In October 2014, the Board of Directors of the Company approved the distribution of non-cash dividend amounting to US\$7,000,000 (2013: \$nil).

In 2014, Kakap PSC as the Operator has completed the drilling activities for KRA South - 1 Reactivation and KRA - South 2 wells. Subsequently, in January 2015, the drilling activities for KRA - South 3 well were completed. As the results of KRA South - 1 Reactivation and KRA - South 3 were not economically favorable to the Company, management decided to suspend the reactivation activities in KRA South - 1 well, and plug and abandon KRA - South 3 well. Total costs incurred in 2014 for KRA South - 1 and KRA - South 3 wells amounting to US\$1,537,000 were charged to cost of sales.

**NATUNA UK (KAKAP 2) LIMITED**

**REGISTERED NUMBER 3115420**

**STRATEGIC REPORT (CONTINUED)**

**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 PSC. 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, the management of the Company meets regularly with the Operator through operating and technical forums to monitor the progress of the Kakap 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 of Directors 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 a partner with a number of other companies which have access to rigs and equipment.

*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 potential farm-in partners. 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.

**NATUNA UK (KAKAP 2) LIMITED**  
**REGISTERED NUMBER 3115420**  
**STRATEGIC REPORT (CONTINUED)**

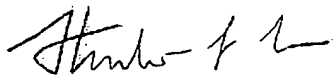
*Credit risk*

Credit risk arises from cash on hand and in banks, time 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 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

28 September 2015

**NATUNA UK (KAKAP 2) LIMITED**

**REGISTERED NUMBER 3115420**

**DIRECTORS' REPORT**

The Directors present their directors' report for the year ended 31 December 2014.

**Directors**

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

Rudy Suparman  
Hendra Soetjipto Tan  
James Patrick Johnston Fairrie  
Spencer Harry 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.

**Dividends**

On 6 October 2014, the Board of Directors of the Company declared non-cash dividends amounting to US\$7,000,000 (2013: \$nil) to the shareholder. The non-cash dividends were recorded in November 2014 by offsetting the Company's outstanding receivables from its immediate parent company, Star Energy Kakap Holdings Limited.

**Events since the Balance Sheet Date**

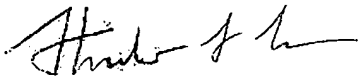
On 6 August 2015, the Company received tax assessment letters from the Tax Office related to the underpayment of the BPT for fiscal year 2010, 2011, 2012 and 2013 resulting from the difference between the tax rate and treaty rate, including the tax penalty, amounting to US\$3,434,000. Subsequently on 3 September 2015, the Company made payment to the Tax Office.

NATUNA UK (KAKAP 2) LIMITED  
REGISTERED NUMBER 3115420  
DIRECTORS' REPORT (CONTINUED)

By order of the Board



Rudy Suparman  
Director



Hendra Soetjipto Tan  
Director

28 September 2015

**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 2014 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 8, 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 2014 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

**29** September 2015

**NATUNA UK (KAKAP 2) LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

	Note	2014 US\$'000	2013 US\$'000
Revenue	2	13,729	13,689
Cost of sales	3	(8,148)	(6,073)
Gross profit		5,581	7,616
Other (expense)/income		(166)	271
<b>Operating profit</b>		<b>5,415</b>	<b>7,887</b>
Financial income/(expense)	4	2	(79)
<b>Profit before tax</b>		<b>5,417</b>	<b>7,808</b>
Income tax expense	5	(4,437)	(2,988)
<b>Net profit for the year</b>		<b>980</b>	<b>4,820</b>
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Re-measurement (losses)/gains on defined benefit plans		(63)	323
Income tax effect	13	23	(119)
<b>Other comprehensive (loss)/income, net of tax</b>		<b>(40)</b>	<b>204</b>
<b>Total comprehensive income for the year</b>		<b>940</b>	<b>5,024</b>

All of the Company's activities during the year are in respect of continuing operations. Total comprehensive income for the year is attributable to the sole equity holder of the Company.

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

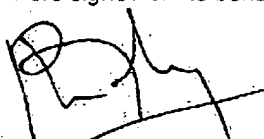
**NATUNA UK (KAKAP 2) LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

	Share Capital	Share Premium	Retained Earnings	Equity
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Balance at 1 January 2013</b>	–	10,208	4,304	14,512
Net profit for the year	–	–	4,820	4,820
Other comprehensive income	–	–	204	204
<b>Balance at 31 December 2013</b>	–	10,208	9,328	19,536
Dividend to the shareholder	–	–	(7,000)	(7,000)
Net profit for the year	–	–	980	980
Other comprehensive loss	–	–	(40)	(40)
<b>Balance at 31 December 2014</b>	–	10,208	3,268	13,476

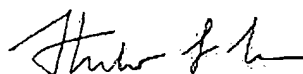
**NATUNA UK (KAKAP 2) LIMITED**  
**BALANCE SHEET**  
**AS AT 31 DECEMBER 2014 AND 2013**

	Note	2014 US\$'000	2013 US\$'000
<b>Non-current assets</b>			
Oil and gas assets	8	9,801	8,090
Other assets		4	8
<b>Total non-current assets</b>		<b>9,805</b>	<b>8,098</b>
<b>Current assets</b>			
Inventories	9	1,116	610
Restricted cash in bank		12	58
Trade and other receivables	10	3,751	2,964
Amounts owing from related entities	16	9,917	15,288
<b>Total current assets</b>		<b>14,796</b>	<b>18,920</b>
<b>Total assets</b>		<b>24,601</b>	<b>27,018</b>
<b>Equity</b>			
Share capital	15	-	-
Share premium	15	10,208	10,208
Retained earnings		3,268	9,328
<b>Total equity</b>		<b>13,476</b>	<b>19,536</b>
<b>Non-current liabilities</b>			
Provisions	12	1,076	2,794
Deferred tax liabilities	13	2,018	1,336
Amount owing to related entities	16	491	461
<b>Total non-current liabilities</b>		<b>3,585</b>	<b>4,591</b>
<b>Current liabilities</b>			
Trade and other payables	11	4,106	2,535
Taxes payables	17	3,434	356
<b>Total current liabilities</b>		<b>7,540</b>	<b>2,891</b>
<b>Total liabilities</b>		<b>11,125</b>	<b>7,482</b>
<b>Total equity and liabilities</b>		<b>24,601</b>	<b>27,018</b>

These financial statements were approved by the Board of Directors on 28 September 2015 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 2014

	2014 US\$'000	2013 US\$'000
<b>Cash flows from operating activities</b>		
Net profit for the year	980	4,820
Adjustments to reconcile profit for the year to net cash provided by operating activities:		
Depreciation and depletion	1,119	893
Dry hole cost	1,537	-
Pension cost	168	229
Deferred tax charge	705	377
<b>Cash flows from operating activities</b>	<b>4,509</b>	<b>6,319</b>
Net increase in receivables	(2,417)	(67)
Net increase in inventories	(506)	(99)
Net increase/(decrease) in payables	1,601	(1,259)
Net decrease in provisions	(1,949)	(868)
Net increase/(decrease) in taxes payables	3,078	(7)
<b>Net cash from operating activities</b>	<b>4,316</b>	<b>4,019</b>
<b>Cash flows from investing activities</b>		
Payments for:		
Oil and gas assets expenditure	(4,363)	(527)
<b>Net cash used in investing activities</b>	<b>(4,363)</b>	<b>(527)</b>
<b>Cash flows from financing activities</b>		
Transfer from/(to) restricted cash in bank	47	(58)
Payments to related entities	-	(4,903)
<b>Net cash from/(used in) financing activities</b>	<b>47</b>	<b>(4,961)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-</b>	<b>(1,469)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>-</b>	<b>1,469</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>-</b>	<b>-</b>

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 2014**

**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 Extended PSC 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 28 September 2015.

**(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. dollars, USD or US\$) unless otherwise stated.

The Company's activities are conducted in Indonesia under a 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 in the current financial year, the Company has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2014. The adoption of these standards did not have any effect on the financial performance or position of the Company.

**(c) Joint Arrangements**

The Company's exploration and production activities are often conducted through joint 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 2014**

**1. Significant accounting policies (continued)**

**(c) Joint arrangements (continued)**

A joint arrangement is a contractual arrangement whereby two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is classified either as joint operation or joint venture, based on the rights and obligations of the parties to the arrangement. To the extent the joint arrangement provides the Company with rights to the assets and obligations for the liabilities relating to the arrangement, the arrangement is a joint operation. To the extent the joint arrangement provides the Company with rights to the net assets of the arrangement, the arrangement is a joint venture.

• **Joint operations**

The Company recognises in relation to its interest in a joint operation,

- (i) Its assets, including its share of any assets held jointly;
- (ii) Its liabilities, including its share of any liabilities incurred jointly;
- (iii) Its revenue from the sale of its share of the output arising from the joint operation;
- (iv) Its share of the revenue from the sale of the output by the joint operation; and
- (v) Its expenses, including its share of any expenses incurred jointly.

The Company accounts for the assets, liabilities, revenues and expenses relating to interest in a joint operation in accordance with the accounting policies applicable to the particular assets, liabilities, revenues and expenses.

• **Joint ventures**

The Company recognises its interest in a joint venture as an investment and accounts for the investment using the equity method.

**(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. dollars, 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.



**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

**1. Significant accounting policies (continued)**

**(d) Currency translation (continued)**

**(ii) Transactions and balances (continued)**

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.

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(m) 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 proceed 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.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

1. Significant accounting policies (continued)

(f) Oil and gas assets (continued)

**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 oil and gas 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 oil and gas 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).

**Title of assets**

Under the terms of the Kakap 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 Kakap 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 Kakap PSC, these balances have been recorded as assets in the Company's financial statements based on its working interest in the Kakap 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.

**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**1. Significant accounting policies (continued)**

**(g) Plant and equipment (continued)**

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 Kakap 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.

Depreciation of 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) Inventories**

Under the terms of the Kakap 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 recover the costs, these balances have been reflected as assets in the Company's financial statements based on its working interest in the Kakap PSC.

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

Costs 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 Company 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.

**(j) 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.

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

**1. Significant accounting policies (continued)**

**(j) Trade and other receivables (continued)**

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.

**(k) 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.

**(l) Restricted cash in bank**

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" (Note 17e).

**(m) Impairment**

Oil and gas assets are 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.

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.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

1. Significant accounting policies (continued)

(m) Impairment (continued)

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.

(n) 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.

***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.

**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**1. Significant accounting policies (continued)**

**(n) Provisions (continued)**

***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.

For defined benefit plans, all actuarial gains and losses are recognized in other comprehensive income ("OCI") as part of remeasurement and unvested past service costs are recognized immediately in profit or loss when incurred. For long-term service benefits, the Company recognized the net total of the amounts in profit or loss.

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.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation (derived using a discount rate based on high quality corporate bonds) at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**1. Significant accounting policies (continued)**

**(n) Provisions (continued)**

**(ii) Long-term employee benefits (continued)**

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are recognized in retained earnings within equity and are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

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.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

1. Significant accounting policies (continued)

(o) 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.

(p) 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.

(q) 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.

(r) 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 the Kakap PSC is recognized on a net entitlements basis according to the terms of the Kakap 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).

(s) 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.



**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

**1. Significant accounting policies (continued)**

**(s) Other income (continued)**

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.

**(t) 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.

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.

**(u) 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.

**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**1. Significant accounting policies (continued)**

**(u) Income tax expenses (continued)**

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.

**(v) 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.

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

**1. Significant accounting policies (continued)**

**(v) Significant accounting judgements, estimates and assumptions (continued)**

**(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.

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.

**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**1. Significant accounting policies (continued)**

**(v) Significant accounting judgements, estimates and assumptions (continued)**

**(iv) Employee benefits (continued)**

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.

**(w) Standards issued but not yet effective**

The Company has not applied the following new and revised standards that have been issued but are not yet effective:

		Effective for annual periods beginning on or after
IFRS 9	<i>Financial Instruments</i>	1 January 2018
IFRS 10, IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	1 January 2016
IFRS 15	<i>Revenue from Contracts with Customers</i>	1 January 2017
IAS 19 Amendments	<i>Defined Benefit Plans: Employee Contributions</i>	1 July 2014
IAS 27 Amendments	<i>Equity Method in Separate Financial Statements</i>	1 January 2016
Annual Improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle (issued in December 2013)		1 July 2014
Annual Improvements to IFRSs 2012-2014 cycle (issued in September 2014)		1 January 2016

These changes are not expected to affect materially the financial statements of the Company.

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

**2. Revenue**

	2014 US\$'000	2013 US\$'000
Product sales:		
Crude oil	4,501	4,302
Gas and ethane	9,228	9,387
<b>Total revenue</b>	<b>13,729</b>	<b>13,689</b>

**3. Cost of sales**

	2014 US\$'000	2013 US\$'000
Included are the following items:		
Operating expenses	4,204	3,801
Dry hole cost	1,537	-
General and administrative expenses	967	827
Exploration expenses	153	323
Pension cost	168	229
Depreciation and depletion:		
Amortization of intangible assets	4	3
Depreciation and depletion of assets	1,115	890
<b>Total cost of sales</b>	<b>8,148</b>	<b>6,073</b>

Total lease expenses amounting to US\$750,000 (2013: US\$722,000) are recorded as part of operating expenses.

**4. Financial income/(expense)**

	2014 US\$'000	2013 US\$'000
Unwind of the effect of discounting on provisions (Note 12)	2	(79)

**5. Taxation**

**Tax on Profit for the year**

The tax charge is made up as follows:

	2014 US\$'000	2013 US\$'000
Current tax:		
UK Corporation tax on profits for the year	1,891	2,203
Double tax relief	(1,899)	(2,133)
Foreign tax under provision	2,258	-
Overseas taxation	1,482	2,541
<b>Total current tax charge</b>	<b>3,732</b>	<b>2,611</b>

**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**5. Taxation (continued)**

**Tax on Profit for the year (continued)**

	2014 US\$'000	2013 US\$'000
Deferred tax:		
Origination and reversal of temporary differences	705	377
<b>Total deferred tax charge (Note 13)</b>	<b>705</b>	<b>377</b>
<b>Total tax charge</b>	<b>4,437</b>	<b>2,988</b>

**Factors affecting the 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:

	2014 US\$'000	2013 US\$'000
<b>Profit before tax</b>	<b>5,417</b>	<b>7,808</b>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23% for the period up to 31 March 2014 and 21% for the period to 31 December 2014 and 24% for the period up to 31 March 2013 and 23% for the period to 31 December 2013.	1,164	1,815
Effect of:		
Imputed interest income	(7)	69
Foreign tax under provision	2,258	-
Impact of higher foreign taxes	1,022	1,104
<b>Total tax charge for the year</b>	<b>4,437</b>	<b>2,988</b>

**6. Employees and directors emoluments**

Other than Directors, the Company has no employees in 2014 and 2013.

The Company entered in an agreement with Aspect Financial Limited ("Aspect") (formerly ATC Corporate Services (UK) Limited) under a contract for the provision of director services for two (2) directors. The fees paid to Aspect during 2014 amounted to US\$8,000 (2013: US\$8,000).

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\$143,000 in 2014 (2013: US\$175,000). 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.

**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**7. Auditor's remuneration**

	2014 US\$'000	2013 US\$'000
Audit of these financial statements	37	47
<b>Total fees</b>	<b>37</b>	<b>47</b>

**Oil and gas assets**

**8.**

	2014			2013		
	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	33,119	10,696	43,815	30,322	10,668	40,990
Less accumulated depreciation, depletion and impairment	(26,636)	(7,378)	(34,014)	(25,526)	(7,374)	(32,900)
<b>Balance at 31 December</b>	<b>6,483</b>	<b>3,318</b>	<b>9,801</b>	<b>4,796</b>	<b>3,294</b>	<b>8,090</b>
<b>Reconciliation of movements</b>						
<b>Producing assets</b>						
Balance at 1 January	4,796	3,294	8,090	5,163	3,290	8,453
Additions	4,335	28	4,363	522	5	527
Dry hole cost	(1,537)	-	(1,537)	-	-	-
Depreciation and depletion expense (Note 3)	(1,111)	(4)	(1,115)	(889)	(1)	(890)
<b>Balance at 31 December</b>	<b>6,483</b>	<b>3,318</b>	<b>9,801</b>	<b>4,796</b>	<b>3,294</b>	<b>8,090</b>

**9. Inventories**

	2014 US\$'000	2013 US\$'000
Drilling and maintenance stocks	1,116	610
<b>Total inventories</b>	<b>1,116</b>	<b>610</b>

**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**10. Trade and other receivables**

	2014 US\$'000	2013 US\$'000
<b>Current</b>		
Trade receivables	1,874	1,815
VAT receivables	772	512
Prepayments	128	111
Deposit	45	46
Others	932	480
<b>Total trade and other receivables</b>	<b>3,751</b>	<b>2,964</b>

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.

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 amounts of the Company's trade and other receivables are denominated in the following currencies:

	2014 US\$'000	2013 US\$'000
US dollars	2,951	2,858
Indonesian rupiah	800	105
Singapore dollars	-	1
	<b>3,751</b>	<b>2,964</b>

**11. Trade and other payables**

	2014 US\$'000	2013 US\$'000
<b>Current</b>		
Deferred revenue	208	580
Trade payables	1,021	161
Non-trade payables and accrued expenses	2,877	1,794
<b>Total trade and other payables</b>	<b>4,106</b>	<b>2,535</b>

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



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**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 2013	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	522	489	1,783	2,794
Unwinding of discount	-	(2)	-	(2)
Expected return on plan assets	(412)	-	-	(412)
Provision additions / (deduction) during the year	586	-	(1,783)	(1,197)
Escrow account	-	(107)	-	(107)
Balance at 31 December 2014	696	380	-	1,076

**Non-current**

Employee benefits  
Restoration  
Provision for branch profits tax (Note 17d)  
**Total provisions**

2014 US\$'000	2013 US\$'000
696	522
380	489
-	1,783
<b>1,076</b>	<b>2,794</b>

**NATUNA UK (KAKAP 2) LIMITED**  
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**12. Provisions (continued)**

**Employee benefits**

**Net employee defined benefit liability:**

	2014 US\$'000	2013 US\$'000
Pre-retirement benefit	24	20
Other long-term benefit	10	12
Post-employment benefit	662	490
	<u>696</u>	<u>522</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 is designed as a form of appreciation or post-employment fund benefit program, which has been approved by Ministry of Finance of the Republic of Indonesia and registered under the name Program Asuransi Jiwa Kumpulan Jangka Waktu Sementara. In 2013, 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 2014 and 2013, in its reports dated 17 February 2015 and 21 April 2014, respectively, using the "Projected Unit Credit" method with the following assumptions:

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**12. Provisions (continued)**

***Employee benefits (continued)***

	<u><b>2014</b></u>	<u><b>2013</b></u>
Salary increment rate	10% p.a.	10% p.a.
Discount rate	8.00% p.a.	8.75% 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><b>2014</b></u> <u><b>US\$'000</b></u>	<u><b>2013</b></u> <u><b>US\$'000</b></u>
Current service cost	3	4
Interest cost	2	2
<b>Net benefit expense</b>	<b>5</b>	<b>6</b>

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

	<u><b>2014</b></u> <u><b>US\$'000</b></u>	<u><b>2013</b></u> <u><b>US\$'000</b></u>
Defined benefit obligation at 1 January	20	50
Current service cost	3	4
Interest cost	2	2
Actuarial changes arising from experience adjustment	(1)	(20)
Actuarial changes arising from changes in financial assumptions	1	(6)
Foreign exchange	(1)	(10)
<b>Defined benefit obligation at 31 December</b>	<b>24</b>	<b>20</b>

**NATUNA UK (KAKAP 2) LIMITED**  
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**12. Provisions (continued)**

***Employee benefits (continued)***

**Other long-term benefits**

Net benefit expense (recognized in profit or loss):

	2014 US\$'000	2013 US\$'000
Current service cost	2	3
Interest cost	1	1
Actuarial changes arising from experience adjustment	(1)	(3)
Actuarial changes arising from changes in financial assumptions	-	(3)
<b>Net benefit expense</b>	<b>2</b>	<b>(2)</b>

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

	2014 US\$'000	2013 US\$'000
Defined benefit obligation at 1 January	12	19
Current service cost	2	3
Interest cost	1	1
Actuarial changes arising from experience adjustment	(1)	(3)
Actuarial changes arising from changes in financial assumptions	-	(3)
Benefit payments	(4)	-
Foreign exchange	-	(5)
<b>Defined benefit obligation at 31 December</b>	<b>10</b>	<b>12</b>

**Post-employment benefits**

Net benefit expense (recognized in profit or loss):

	2014 US\$'000	2013 US\$'000
Current service cost	133	181
Interest cost	42	44
<b>Net benefit expense</b>	<b>175</b>	<b>225</b>

**NATUNA UK (KAKAP 2) LIMITED**  
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**12. Provisions (continued)**

***Employee benefits (continued)***

**Post-employment benefits (continued)**

2014 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	877	(387)	490
Current service cost	133	–	133
Interest cost	75	(33)	42
Foreign currency exchange rate (gain)/loss	(17)	5	(12)
Benefits paid	(54)	–	(54)
Return on plan assets (excluding amounts included in net interest expenses)	–	3	3
Actuarial changes arising from experience adjustment	(3)	–	(3)
Actuarial changes arising from changes in financial assumptions	63	–	63
<b>Defined benefit obligation at 31 December</b>	<b>1,074</b>	<b>(412)</b>	<b>662</b>

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)
<b>Defined benefit obligation at 31 December</b>	<b>877</b>	<b>(387)</b>	<b>490</b>

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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 31 December 2014 is as shown below:

**Pre-retirement benefits**

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

**Post-employment benefits**

		Impact on the net defined benefit obligation (US\$'000)
Discount rates	+1%	(82)
	-1%	92
Future salary increases	+1%	89
	-1%	(81)

**NATUNA UK (KAKAP 2) LIMITED**  
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**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 as follows:

**Pre-retirement benefit**

	<b>Amount (US\$'000)</b>
Within the next 12 months (next annual reporting period)	—
Between 2 and 5 years	11
Beyond 5 years	44
<b>Total expected payments</b>	<b>55</b>

The average duration of the defined benefit pension plan at the end of the reporting period is 9.69 years.

**Other long-term benefit**

	<b>Amount (US\$'000)</b>
Within the next 12 months (next annual reporting period)	.1
Between 2 and 5 years	9
Beyond 5 years	27
<b>Total expected payments</b>	<b>37</b>

The average duration of the defined benefit pension plan at the end of the reporting period is 9.69 years.

**Post-employment benefit**

	<b>Amount (US\$'000)</b>
Within the next 12 months (next annual reporting period)	39
Between 2 and 5 years	567
Beyond 5 years	962
<b>Total expected payments</b>	<b>1,568</b>

The average duration of the defined benefit pension plan at the end of the reporting period is 9.69 years.

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

**12. Provisions (continued)**

***Employee benefits (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 2014 and 2013, the Company has contributed the funds amounted to US\$27,000 and US\$30,000, 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\$412,000 (2013: US\$387,000).

***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 income (expenses) for the year ended 31 December 2014 amounted to US\$2,000 (2013: credit of US\$79,000).

The discount rate of 4.78% was used in the calculation of the provisions as at 31 December 2014 and 2013.

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 2014 and 2013, 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 the Company 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 and reversed it in 2014 as the statute of the limitation on the tax exposure has expired (Note 17d).

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.



**NATUNA UK (KAKAP 2) LIMITED**  
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**12. Provisions (continued)**

***Branch profits tax (BPT) (continued)***

Prior to the acquisition of the Company by SEHL from Star Energy Geothermal Pte. Ltd. ("SEGPL"), 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 the Company and Novus Nominees. Santos SPA included indemnification of tax exposure arising from those years when the Company was owned by Santos.

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

In February 2012, the Company filed an objection letter to the Tax Office regarding the basis for the issuance of tax assessment letters since the Company believes that the rate applied by the Company is supported by the Indonesian - UK Treaty, which reduced the tax rate to 10%. In addition, the Company received confirmations from UK HM Revenue and Custom ("UK HMRC") that it is entitled to apply the 10% treaty rate since the Company is a UK tax resident. On 19 February 2013, the Tax Office declined the objection letter and on 13 May 2013, the Company submitted an appeal letter to the Tax Court. On 26 March 2014, the Company 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.

In August 2014, the Company received tax assessment letters from the Tax Office related to the underpayment of corporate income tax and BPT for fiscal year 2009 resulting from the difference between the tax rate and treaty rate, including the tax penalty, amounting to US\$606,000. The Company made the payment on 14 August 2014 and sent an objection letter to the Tax Office on 3 October 2014. As at the completion date of the financial statements, no decision letter has been received from the Tax Office.

On 6 August 2015, the Company received tax assessment letters from the Tax Office related to the underpayment of the BPT for fiscal year 2010, 2011, 2012 and 2013 resulting from the difference between the tax rate and treaty rate, including the tax penalty, amounting to US\$3,434,000. Subsequently on 3 September 2015, the Company made payment to the Tax Office.

The Company has recognize a tax payable for BPT for fiscal year 2010 until 2013 amounting to US\$3,434,000 (Note 17d).

**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 2014

13. Deferred tax liabilities (continued)

**2014**

	1 January 2014	Charged to profit or loss	Charged to OCI	31 December 2014
	US\$'000	US\$'000	US\$'000	US\$'000
Deferred income tax assets:				
- Provision for decommissioning, site restoration and abandonment costs	177	(44)	-	133
- Estimated liabilities for long-term employee benefits	176	39	23	238
- Other	233	(137)	-	96
	586	(142)	23	467
Deferred income tax liabilities:				
- Oil and gas properties and other property and equipment, net	(1,920)	(564)	-	(2,484)
- Other	(2)	1	-	(1)
	(1,922)	(563)	-	(2,485)
Deferred tax liabilities, net	(1,336)	(705)	23	(2,018)

**2013**

	1 January 2013	Charged to profit or loss	Charged to OCI	31 December 2013
	US\$'000	US\$'000	US\$'000	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
- Other	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)
- Other	(5)	3	-	(2)
	(1,595)	(327)	-	(1,922)
Deferred tax liabilities, net	(840)	(377)	(119)	(1,336)

**NATUNA UK (KAKAP 2) LIMITED**  
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**14. Obligations under operating lease agreement**

	2014 US\$'000	2013 US\$'000
The amount of lease commitments in respect of the Company's unincorporated joint venture are:		
Lease commitments	2,829	3,420
	<u>2,829</u>	<u>3,420</u>
Total future minimum rentals payable under non-cancellable leases relating to floating storage and offloading ("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	2,250	2,841
	<u>2,829</u>	<u>3,420</u>

**15. Share capital**

	2014 US\$'000	2013 US\$'000
<b>Authorised and issued capital</b>		
<b>Share capital</b>		
251 (2013: 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.

On 6 October 2014, the Company's Board of Directors declared non-cash dividend amounting to US\$7,000,000 (2013: \$nil) to the shareholder, SEKHL. The non-cash dividend was settled in November 2014 by offsetting the intercompany balances between the Company and its shareholder.

**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.

**NATUNA UK (KAKAP 2) LIMITED**  
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**15. Share capital (continued)**

**Capital risk management (continued)**

The gearing ratios at 31 December 2014 and 31 December 2013 were as follows:

	2014 US\$'000	2013 US\$'000
Trade and other payables	4,106	2,535
Less:		
Restricted cash in bank	12	58
Net debt	4,094	2,477
Equity	13,476	19,536
Total capital	17,570	22,013
Gearing ratio	23.30%	11.25%

**16. Related parties**

**(a) Related party balances:**

		2014 US\$'000	2013 US\$'000
<i>Payable</i>	Relationship with the related parties		
- Star Energy Oil and Gas Pte Limited	The same ultimate shareholder	28	-
- Kakap Holdings Pte Ltd	The same ultimate shareholder	461	461
- Star Energy (Kakap) Limited	The same ultimate shareholder	2	-
		491	461
<i>Receivable</i>			
- Star Energy Kakap Holdings Limited	Parent entity	9,809	15,200
- Star Energy (Kakap) Limited	The same ultimate shareholder	-	4
- Star Energy (Sekayu) Limited and Star Energy (Sebatik) Limited	The same ultimate shareholder	6	5
- Star Energy Geothermal (Wayang Windu) Limited	The same ultimate shareholder	102	79
		9,917	15,288

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

**16. Related parties (continued)**

**(a) Related party 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:

<b>Name</b>	<b>Position</b>
Rudy Suparman	Director
Hendra Soetjipto Tan	Director
James Patrick Johnston Fairrie	Director
Spencer Harry Saffer	Director

The Company employs no permanent staff.

**17. Commitments and contingencies**

**a. Government audit claim**

The accounting policies specified in the Kakap 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 at 31 December 2013, the joint venture had various disputed claims outstanding for the periods up to 2012, consisting of severance payment and other matters amounting to US\$99,000. As at December 31, 2014, these disputed claims have been resolved with no impact to the financial statements.

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

**17. Commitments and contingencies (continued)**

**b. Significant disputes**

The following disputes are current contingencies and may result in 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 \$13,218,000, which is equivalent to US\$10,012,000 as at 31 December 2014 (2013: US\$10,441,000).

As of the completion date of these financial statements, there is no further progress on the above cases No. (i) and (ii), and 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**

On 15 January 1999, Pertamina entered into a Gas Supply Agreement ("GSA") with SembCorp Gas Pte. Ltd. as the buyer.

Under the GSA, Pertamina as the seller agreed to tender for the delivery and sale of gas at the delivery point in Singapore until the end of the GSA contract period in 2028 or until the cumulative gas delivery has reached contract quantity of 2,625 Trillion Btu (TBtu), whichever is earlier. Pursuant to the GSA, the buyer agreed to take or pay for, or pay if not taken, gas on and subject to the terms and conditions of the GSA.

On the same date, Pertamina, Kakap PSC and other gas suppliers entered into a Gas Supply Agreement ("GSuA") in which under such GSuA, each supplier agreed to make gas available to Pertamina based on each market share of the gas suppliers, to enable Pertamina fulfilling its commitment under the GSA. Kakap PSC's market share for year 2015 is 14.0% (2014: 14.52%).

**d. 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 1974, the Government of the Republic of Indonesia ("GoI") signed a tax treaty with the United Kingdom Government ("UK Government") which exempted BPT for UK permanent establishment/resident companies ("UK Companies") (Article 11 (8) of the 1974 tax treaty). In 1993, the GoI renewed the UK-Indonesia tax treaty ("New Treaty"). Under the New Treaty, a 10% BPT is applied for UK Companies which have signed Production Sharing Contract after 31 December 1983.

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

**17. Commitments and contingencies (continued)**

**d. Provision for Branch Profit Tax ("BPT") (continued)**

In December 2008, the Finance and Development Supervisory Agency (Badan Pengawasan Keuangan dan Pembangunan or referred to as "BPKP") concluded the audit result of the Company 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 and reversed it in 2014 as the statute of the limitation on the tax exposure has expired (Note 12).

The management is of the opinion that the Company (a 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.

In November 2011, the Company 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 effective date 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".

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, the Company filed an objection letter to the Tax Office regarding the basis for the issuance of tax assessment letters since the Company believes that the rate applied by the Company is supported by the Indonesian - UK Treaty, which reduced the tax rate to 10%. In addition, the Company received confirmations from UK HM Revenue and Custom ("UK HMRC") that it is entitled to apply the 10% treaty rate since the Company is a UK tax resident. On 19 February 2013, the Tax Office declined the objection letter and on 13 May 2013, the Company submitted an appeal letter to the Tax Court. On 26 March 2014, the Company 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.

In August 2014, the Company received tax assessment letters from the Tax Office related to the underpayment of corporate income tax and BPT for fiscal year 2009 resulting from the difference between the tax rate and treaty rate, including the tax penalty, amounting to US\$606,000. The Company made the payment on 14 August 2014 and sent an objection letter to the Tax Office on 3 October 2014. As at the completion date of the financial statements, no decision letter has been received from the Tax Office.

On 6 August 2015, the Company received tax assessment letters from the Tax Office related to the underpayment of the BPT for fiscal year 2010, 2011, 2012 and 2013 resulting from the difference between the tax rate and treaty rate, including the tax penalty, amounting to US\$3,434,000. Subsequently on 3 September 2015, the Company made payment to the Tax Office.

The Company has recognize a tax payable for BPT for fiscal year 2010 until 2013 amounting to US\$3,434,000 (Note 12).

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

17. Commitments and contingencies (continued)

e. 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 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") 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. 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.

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)

In 2014, the Borrowers made a total principal payment of US\$19,090,000 including voluntary repayment of US\$10,000,000 on 12 February 2014. After the voluntary repayment, the last repayment date of the New Loan will be in August 2017.

f. 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.



**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

**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 dollars 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 2014 and 2013, the Company had no open oil price swap contracts 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.

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).

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

18. Financial risk management (continued)

(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 US\$'000	More than one year US\$'000
<b>2014</b>		
Trade and other payables (Note 11)	4,106	-
<b>2013</b>		
Trade and other payables (Note 11)	2,535	-

(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 2014**

**19. Parent entities**

Star Energy Oil and Gas Pte. Ltd., a holding company in Singapore, which the directors regard as the Company's ultimate parent undertaking with respect to the financial year ended 31 December 2014, 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.

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**

On 6 August 2015, the Company received tax assessment letters from the Tax Office related to the underpayment of the BPT for fiscal year 2010, 2011, 2012 and 2013 resulting from the difference between the tax rate and treaty rate, including the tax penalty, amounting to US\$3,434,000. Subsequently on 3 September 2015, the Company made payment to the Tax Office.