

ICI PETROLEUM LIMITED

31 DECEMBER 1986

218019

Price Waterhouse



ICI PETROLEUM LIMITED
DIRECTORS' REPORT - 31 DECEMBER 1986

Directors :

Mr R N Hodge (Chairman) - (Appointed 1 August 1986)
Dr J F Watt
Mr P J Rogerson (Appointed 22 December 1986)
Mr D W G McGregor
Mr R J Peters
Mr G A Hudson (Appointed 1 April 1986)

Secretary :

Mr R J Peters

Registered Office :

Imperial Chemical House
Millbank
London
SW1P 3JF

Auditors :

Price Waterhouse
Corporation House
Albert Road
Middlesbrough
Cleveland TS1 2RU

The directors of ICI Petroleum Limited submit their report together with the accounts of the Company for the year ended 31 December 1986.

£000

Balance of profit for the year ended 31 December 1986	
after making the necessary provision for taxation is	15,973

The directors recommend that no dividend be paid and that the balance is carried forward.

The principal activities of the Company during the year were :

- (a) providing consultancy services in the field of industrial noise problems and the design, sale and erection of noise reducing structures; and
- (b) petroleum exploration and production, the purchase and sale of crude oil and petroleum products and the processing of crude oil.

DIRECTORS' REPORT (continued)

An operating profit of £26m was earned in 1986 (1985 £66m) after provision of Petroleum Revenue Tax of £37m (1985 £149m). The reduction in profit was primarily due to the collapse in oil prices, which fell from \$28/bbl in December 1985 to below \$9/bbl in the middle of 1986 before recovering to around \$15/bbl at the close of the year. The fall in prices was exacerbated somewhat by the weakness of the dollar. The average realisation for our 1986 Ninian disposals was slightly below £10/bbl compared with over £21/bbl in 1985. Production from the field averaged 199,000 barrels a day, 11% lower than in 1985. The drop in prices not only eroded Ninian profits but also caused significant stock losses in the refining area. In response to the harsher economic environment, costs were cut wherever possible and exploration expenditure in particular was sharply reduced.

At the end of 1986 the company's 18.5% share of the estimated remaining proved Ninian reserves is approximately 74½ million barrels of crude oil and 3½ million barrels of liquified petroleum gases.

The tentative partial recovery in oil prices has continued into the first month of 1987 with the Opec objective of a price of around \$18/bbl so far being borne out by the market. The real test will come, however, when oil demand falls off for the northern summer. A major objective for ICI Petroleum Ltd will be to progress the development of the Amethyst gas field which in turn depends on the successful conclusion of price negotiations with British Gas. The crude oil refining and trading activity, which ICI Petroleum took over from Imperial Chemical Industries PLC (ICI) in 1978 will be transferred back to ICI with effect from 1 January 1987 in anticipation of the completion of the ICI deal with Enterprise described in the final paragraph of this report. Largely, due to stock losses this activity resulted in an operating loss of some £2½m in 1986.

The directors whose names appear at the head of this report were directors of the Company at the date of this report. Mr D J Facey, H M Scopes and J A Donaldson resigned as directors on 1 April, 1 August and 12 December 1986 respectively.

DIRECTORS' REPORT (continued)

The interests of the directors in office at the end of the year in the shares, stock and debentures of the companies in the Imperial Chemical Industries PLC ("ICI") (Holding Company) Group were as follows :

Director	Class of Stock/Share/ Debenture	Holding at 1 Jan 1986 (or date of appointment if later)	Holding at 31 Dec 1986	ICI Ordinary Shares under Option at 1 Jan 1986 (or date of appointment if later)	ICI Ordinary Shares under Option at 31 Dec 1986
R N Hodge	ICI Ordinary Stock	15	594	62,257	61,678
J F Watt	ICI Ordinary Stock	507	507	41,100	23,400
P J Rogerson	ICI Ordinary Stock	789	789	19,948	19,948
D W G McGregor	ICI Ordinary Stock	N11	N11	N11	122
	ICI 11.375% Loan Stock	300	300	N11	N11
R J Peters	ICI Ordinary Stock	1,020	1,221	984	984
G A Hudson	ICI Ordinary Stock	713	685	378	378

Movements in fixed assets are shown in Note 9 to the Accounts.

The company is currently a wholly owned subsidiary of Imperial Chemical Industries PLC (ICI). On 16 December 1986 the directors of ICI and Enterprise Oil plc announced their intention to merge ICI's oil and gas interests (including ICI Petroleum Ltd) into Enterprise in exchange for new Enterprise shares. Completion of the deal is scheduled for 30 January 1987 but is contingent on a favourable vote by Enterprise shareholders at an Extraordinary General Meeting due on that day. On completion ICI has agreed to procure the resignation of the directors of ICI Petroleum Ltd (other than Dr J F Watt) and the resignation of Messrs Price Waterhouse as auditors with effect from their completion of the audit of the 1986 accounts. In these circumstances, the Notice calling the next Annual General Meeting and tabling the resolutions to be considered by it will be set out separately from this Report and Accounts.

By Order of the Board

R J Peters
Secretary

10 Great George Street
London, SW1

26 January 1987

Corporation House
Albert Road
Middlesbrough TS1 2RU

Telephone 0642 227341
Telex 58437
Telegraph 0642 225464

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF ICI PETROLEUM LIMITED

We have audited the financial statements on pages 5 to 18 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1986 and of the profit and source and application of funds for the year then ended and comply with the Companies Act 1985

Philip S. L. S. S.
PRICE WATERHOUSE

Chartered Accountants

26 January 1987

ICI PETROLEUM LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1986

	<u>1986</u> <u>£000</u>	<u>1985</u> <u>£000</u>
Turnover (Notes 1 and 3)	380,718	909,307
Cost of Sales (Note 4)	351,916	839,212
	<hr/>	<hr/>
Gross Profit	28,802	70,095
Administration and Distribution Expenses (Note 5)	5,261	4,313
	<hr/>	<hr/>
	23,541	65,782
Interest Receivable (Note 6)	2,419	501
	<hr/>	<hr/>
Operating Profit	25,960	66,283
Interest Payable (Note 6)	4,253	7,590
	<hr/>	<hr/>
Profit on Ordinary Activities Before Taxation	21,707	58,693
Taxation (Note 7)	5,734	21,959
	<hr/>	<hr/>
Profit on Ordinary Activities After Taxation	15,973	36,734
Dividends (Note 8)	-	45,000
	<hr/>	<hr/>
Transfer to/(from) Reserves (Note 17)	15,973	(8,266)
	<hr/>	<hr/>

ICI PETROLEUM LIMITED

BALANCE SHEET AT 31 DECEMBER 1986

	1986 £000	1985 £000
Fixed Assets (Note 9)		
Intangible Assets	6,776	6,866
Tangible Assets	110,830	132,959
	<hr/> 117,606	<hr/> 139,825
Current Assets		
Stocks (Note 10)	7,128	15,394
Debtors (Note 11)	84,838	294,997
Investments (Note 12)	12,186	14,824
Cash at Bank	1,521	2,907
	<hr/> 105,673	<hr/> 328,122
Less Current Liabilities		
Creditors - Amounts falling due within 1 year (Note 13)	63,938	225,562
	<hr/>	<hr/>
Net Current Assets	41,735	102,560
	<hr/>	<hr/>
Total Assets less Current Liabilities	159,341	242,385
	<hr/>	<hr/>
Creditors - Amounts falling due after more than 1 year (Note 14)	12,556	111,263
Provisions for Liabilities and Charges (Note 15)	120,356	120,286
Deferred Income - Government Grants	2,074	2,446
	<hr/> 24,355	<hr/> 8,390
	<hr/>	<hr/>
Represented by :		
Capital and Reserves		
Called up Share Capital (Note 16)	1,000	1,000
Profit and Loss Account (Note 17)	23,514	7,541
Other Reserves (Note 18)	(159)	(151)
	<hr/> 24,355	<hr/> 8,390
	<hr/>	<hr/>

The financial statements on pages 5 to 18 have been approved by the board of directors on 26 January 1987 and are signed on their behalf by :-

DIRECTOR

DIRECTOR

ICI PETROLEUM LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 1986

	<u>1986</u> £000	<u>1985</u> £000
SOURCE OF FUNDS		
Profit before tax	21,707	58,693
Adjustment for items not involving the movement of funds :		
Depreciation and Exploration costs written off	30,828	42,318
Provision for Abandonment costs	5,017	7,365
Provision for deferred PRT	(15,602)	(21,481)
Government Grants released	(372)	(423)
Exchange adjustments	<u>-</u>	<u>5</u>
	<u>19,871</u>	<u>27,784</u>
TOTAL GENERATED FROM OPERATIONS	41,578	86,477
FUNDS FROM OTHER SOURCES		
Assets sold	<u>4,828</u>	<u>5,646</u>
	46,406	92,123
APPLICATION OF FUNDS		
Corporation tax paid	30,319	47,309
ACT surrendered	10,161	6,769
Dividends paid	45,000	35,000
Capital expenditure	3,674	7,010
Exploration expenditure	9,771	19,076
Settlement of advance payment of oil	4,100	8,200
Repayment of ICI loan	<u>100,000</u>	<u>20,000</u>
	<u>203,025</u>	<u>143,364</u>
	(156,619)	(51,241)
(Decrease)/Increase in Working Capital		
Stocks	(8,266)	55
Debtors	(33,843)	(28,565)
Creditors	70,457	38,370
Short Term Deposits	(3,810)	(11,319)
ICI Group Balances	(18,608)	(12,353)
ICI PLC Current Account	<u>(161,163)</u>	<u>(40,196)</u>
	<u>(155,233)</u>	<u>(54,008)</u>
	(1,386)	2,767
Increase/(Decrease) in net liquid funds		
Movement in cash at bank	<u>(1,386)</u>	<u>2,767</u>

ICI PETROLEUM LIMITED

NOTES TO THE ACCOUNTS FOR THE
YEAR ENDED 31 DECEMBER 1986

1 ACCOUNTING POLICIES

The following paragraphs describe the main accounting policies of the company. The corresponding figures for the year ended 31 December 1985 are presented on the same bases.

The accounts have been prepared under the historical cost convention.

Turnover

Turnover represents the value, excluding value added tax, of products supplied and services provided during the year after deducting all trade rebates. Royalty oil taken in kind by HM Government is excluded from turnover.

Exploration and Development

Expenditure on the acquisition, exploration for and development of oil reserves is, in general, capitalised and depreciated over the life of the wells on the basis of the rate of production. However, immediate write-offs are made in the following circumstances :

Expenditure on concessions - to the extent that the value is considered to have been impaired by the absence of successful drilling results;

Exploration expenditure - if unsuccessful or if oil reserves are not determined to be commercially viable within one year of completion of drilling and further appraisal work is not firmly planned.

The foregoing method is known as the 'successful efforts' basis.

Fixed Assets

Fixed assets other than exploration and development costs are written off evenly over their estimated useful lives.

Abandonment Costs

On the permanent cessation of production from a field, the UK Government may require the company and its co-licencees to remove and make good the sites of their production facilities. Anticipated total costs arising from removal of production platforms and site restoration work are estimated each year at that year's price levels, and provision is made on the same production basis as is used for depreciation.

Stock Valuation

Stocks are valued at the lower of cost and net realisable value; in determining cost, selling and administrative overhead expenses are excluded.

NOTES TO THE ACCOUNTS (continued)

Petroleum Revenue Tax

This tax, which is levied on the value of oil produced, is charged against trading profit. Provision is made for deferred tax, on the difference between the 100 per cent tax allowances for capital expenditure and the amount of depreciation charged in the accounts except where it is considered that no liability will arise in the foreseeable future. For the purpose of calculating the charge for Petroleum Revenue Tax the uplift allowance on capital expenditure, the oil allowance exemption and the safeguard limitation are being taken into account in the period in which they are effective in affording relief from tax, and appropriate credit is taken for that part of the provision for abandonment cost which it is anticipated will be allowable against tax when the expenditure is ultimately incurred.

Deferred Taxation

Provision is made, using the liability method, for any deferred liability to corporation tax arising from timing differences between profits as computed for taxation purposes and profits as stated in the accounts, except where it is considered that no liability will arise in the foreseeable future.

Foreign Currencies

Assets and liabilities are generally translated into sterling at the rates of exchange ruling at the balance sheet date, profit and loss account items are translated at average rate. Differences arising from changes in exchange rates are taken to reserves where they relate to balance sheet items and to profits where they relate to items of a trading nature.

Government Grants

Government grants are credited to a reserve and released to profit and loss account on the basis of the rate of production.

Leases

All leases are accounted for as operating leases. The rentals due in each accounting period are charged to profit and loss account; no adjustments are made for notional depreciation or interest on leases of a capital nature.

2 SHARE OF NINIAN OILFIELD

The final redetermination of the Ninian oilfield confirmed the company's interest at 18.52%.

3 TURNOVER

		<u>1986</u>	<u>1985</u>
		£000	£000
Sales to external customers			
United Kingdom	173,453	511,666	
Europe	85,422	94,853	
USA	25,425	61,458	
Other	<u>43</u>	<u>12</u>	
		284,343	667,989
Sales to ICI Group			
United Kingdom	95,937	240,892	
Others	<u>438</u>	<u>426</u>	
		<u>96,375</u>	<u>241,318</u>
		<u>380,718</u>	<u>909,307</u>

NOTES TO THE ACCOUNTS (continued)

4 COST OF SALES

The following amounts have been charged/(credited) in cost of sales:

	<u>1986</u> <u>£000</u>	<u>1985</u> <u>£000</u>
Audit Fees and Expenses	20	20
Exploration Expenditure	9,861	16,659
Release of Provision	7,600	-
Depreciation (Net of disposals)	20,967	25,659
Provision for costs of abandonment of Ninian facilities	5,017	7,365
Petroleum Revenue Tax	52,187	171,004
Movement of provision for deferred Petroleum Revenue Tax	(15,602)	(21,481)
Wages and salaries	1,380	1,299
Social security costs	113	74
Pension costs	270	248
Non capitalised finance leases		
Hire of plant and machinery	911	942
Operating leases		
Hire of plant and machinery	144	107
Other	360	180
	<u>1,415</u>	<u>1,229</u>
Obligations under non capitalised finance leases		
Rentals due within one year	901	921
Rentals due from 1 to 5 years	3,605	3,684
Rentals due thereafter	1,877	2,840
Less : interest element	(2,186)	(2,798)
	<u>4,197</u>	<u>4,647</u>

Commitments under operating leases to pay rentals during the year following the year of these accounts are :-

	<u>1986</u> <u>£000</u>	<u>1985</u> <u>£000</u>
Land and Buildings - leases expiring after 31.12.91	360	360
Other leases - expiring 31.12.87	144	144
	<u>504</u>	<u>504</u>

NOTES TO THE ACCOUNTS (continued)

	<u>1986</u> <u>£</u>	<u>1985</u> <u>£</u>
Directors' emoluments were as follows:		
Directors Fees	70,000	78,000
Other emoluments (incl pension contributions of £16,045 (1985-£15,060)	108,200	106,100
Chairman - Mr A I H Pink (up to 31.10.85)	-	8,000
- Mr H M Scopes (from 01.11.85 to 01.08.86)	6,000	2,000
- Mr R N Hodge (from 01.08.86)	4,000	-
Highest paid director	40,590	50,260
Others (excluding pension contributions)		
	<u>Number</u>	<u>Number</u>
£0 - £5,000	1	-
£5,001 - £10,000	2	3
£10,001 - £15,000	1	-
£35,001 - £40,000	1	-
£40,001 - £45,000	1	2

The average number of employees during the year was 74 (1985-71)

The number of employees, excluding directors of the company, whose pre-tax emoluments exceeded £30,000 was:

	<u>1986</u>	<u>1985</u>
£30,001 - £35,000	4	2
£35,001 - £40,000	2	1
£40,001 - £45,000	-	2
£45,001 - £50,000	1	-

5 ADMINISTRATION AND DISTRIBUTION EXPENSES

	<u>1986</u> <u>£000</u>	<u>1985</u> <u>£000</u>
Administration expenses	5,261	4,313

6 INTEREST

a) Payable

	<u>1986</u> <u>£000</u>	<u>1985</u> <u>£000</u>
To Imperial Chemical Industries PLC		
re: advance payments for oil sales 225		1,145
re: loan account 4,026		6,443
Other 2		2
	4,253	7,590

NOTES TO THE ACCOUNTS (continued)

b) Receivable

Interest on Tax Reserve Certs	878	-	
Interest relief grant receivable	(83)	54	
Other	<u>1,624</u>	<u>447</u>	
	2,419		501
	<u>1,834</u>		<u>7,089</u>

7 TAXATION

The charge for taxation is made up as follows :-

	1986	1985
	£000	£000
Corporation tax payable at 36.25% (1985 41.25%) on profits for year	10,856	31,263
Group relief surrendered for the year	<u>(3,600)</u>	<u>(2,644)</u>
	7,256	28,619

Deferred taxation :

Capital Allowances	(3,775)	(5,705)
Petroleum Revenue Tax relief	5,680	8,526
Other timing differences	<u>3,339</u>	<u>(58)</u>
	5,244	2,763
Tax overprovided in previous years	<u>(6,766)</u>	<u>(9,423)</u>
	5,734	21,959

8 DIVIDENDS

Dividends are made up as follows :-

Proposed

For the year ended 31 December 1986	-	-
1985 interim dividend, confirmed as final	-	45,000
	-	45,000

NOTES TO THE ACCOUNTS (continued)

9 FIXED ASSETS

	Original Cost £000	Depreciation £000	Net Book Value £000
<u>Intangible Assets</u>			
<u>Concessions and Exploration Expenditure</u>			
At beginning of year	6,866	-	6,866
Capital expenditure	9,771	-	9,771
Exploration expenditure written off	(9,861)	-	(9,861)
Depreciation for year	-	(9,861)	(9,861)
Adjustment for assets written out of books	-	9,861	9,861
At end of year	<u>6,776</u>	<u>-</u>	<u>6,776</u>
<u>Tangible Assets</u>			
<u>Plant and Equipment</u>			
At beginning of year	316,520	(183,561)	132,959
Exchange adjustments	(8)	-	(8)
Capital expenditure	3,665	-	3,665
Depreciation for year	-	(20,967)	(20,967)
Adjustment for assets written out of books	(8,613)	3,794	(4,819)
At end of year	<u>311,564</u>	<u>(200,734)</u>	<u>110,830</u>
Total at end of year	<u>318,340</u>	<u>(200,734)</u>	<u>117,606</u>

10 STOCKS

	1986 £000	1985 £000
Raw Materials	7,029	15,330
Work in Progress	71	29
Finished Goods	28	35
	<u>7,128</u>	<u>15,394</u>

11 DEBTORS

	£000	£000
Trade debtors	19,268	52,811
Other debtors	7,730	8,834
Prepayments	835	31
Amounts due from ICI Group Companies	57,005	233,321
	<u>84,838</u>	<u>294,997</u>

NOTES TO THE ACCOUNTS (continued)

12 INVESTMENTS

	1986 £000	1985 £000
The investments shown in the balance sheet comprise:		
Tax Reserve Certificate	11,014	14,824
Loan to ICI Petroleum (Canada) Inc	<u>1,172</u>	<u>-</u>
	<u>12,186</u>	<u>14,824</u>

The loan to ICI Petroleum (Canada) Inc bears interest at 9% and is repayable on 30.6.87

13 CREDITORS - AMOUNTS FALLING DUE WITHIN 1 YEAR:

	£000	£000
External creditors		
- Trade creditors	24,776	65,831
- Other creditors	<u>39,125</u>	<u>89,511</u>
	63,901	155,342
Amounts due to ICI Group Companies	37	1,120
Dividend payable to ICI PLC	-	45,000
Loan repayable within 1 year (Note 21)	-	20,000
Proceeds from forward sales of oil	<u>-</u>	<u>4,100</u>
	<u>63,938</u>	<u>225,562</u>

Other creditors include taxation and social security amounting to £38,280,000 (1985 £87,372,000).

14 CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN 1 YEAR:

	£000	£000
Corporation Tax payable 1 September 1988	12,556	31,263
Loan accounts (Note 21)	<u>-</u>	<u>80,000</u>
	<u>12,556</u>	<u>111,263</u>

15 PROVISIONS FOR LIABILITIES AND CHARGES

	£000	£000
This balance is made up of :		
Deferred Corporation Tax (Note 19)	12,844	2,189
Deferred Petroleum Revenue Tax	59,741	75,343
Provision for costs of abandonment of Ninian facilities (See Note 23)	<u>47,771</u>	<u>42,754</u>
	<u>120,356</u>	<u>120,286</u>

16 CALLED UP SHARE CAPITAL

Authorised, Allotted and Fully paid 1,000,000 Ordinary Shares of £1 each	<u>£1,000,000</u>	<u>£1,000,000</u>
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NOTES TO THE ACCOUNTS (continued)

	1986 £000	1985 £000
17 PROFIT AND LOSS ACCOUNT		
At beginning of year	7,541	15,807
Profit/(loss) retained for year	15,973	(8,266)
	<hr/>	<hr/>
At end of year	23,514	7,541
	<hr/>	<hr/>
18 OTHER RESERVES		
Exchange Adjustments taken direct to reserves		
At beginning of year	(151)	34
Movement during the year	(8)	(185)
	<hr/>	<hr/>
At end of year	(159)	(151)
	<hr/>	<hr/>
19 DEFERRED CORPORATION TAX		
Deferred taxation is made up as follows :		
Deferments due to :		
Capital allowances	29,482	31,630
Deferred relief for Petroleum Revenue Tax	(20,909)	(26,589)
Other timing differences	4,271	(2,852)
	<hr/>	<hr/>
	12,844	2,189
	<hr/>	<hr/>

Tax relief on some £150 million of the company's fixed assets had been utilised by the previous owner. No provision is made for the future payment of corporation tax on the amount by which profits will be reduced by a charge for depreciation on these assets.

20 ADVANCE PROCEEDS FROM OIL SALES

Financing for part of the cost of the company's interest in the Ninian oilfield was arranged from the parent company as advance payment for a portion of the company's share of the oil to be extracted.

Discharge of the liability by way of deliveries of oil (to be repurchased by the company) was complete by June 1986.

21 LOANS

Loans are made up as follows :-	£000	£000
A loan from the parent company bearing interest at 0.5% above LIBOR repayable in equal half yearly instalments of £10m over the period 30 June 1982 to 31 December 1987.	-	40,000

NOTES TO THE ACCOUNTS (continued)

	<u>1986</u> £000	<u>1985</u> £000
21. LOANS (Continued)		
An interest free loan from the parent company repayable after 31 December 1987 but before 31 December 1995 at the parent company's request.	-	60,000
	-	100,000
Less : Repayable within one year	-	20,000
	-	80,000

Repayment of both loans was brought forward to 31.12.86 by agreement with the parent company.

22 CAPITAL COMMITMENTS

	<u>1986</u> £000	<u>1985</u> £000
Commitments for capital expenditure on fixed assets at 31 December amounted to :	NIL	NIL
In addition, capital expenditure authorised but not contracted for amounted to :	<u>10,319</u>	<u>6,057</u>

The commitments and residual capital authorised at 31 December 1986 are in terms of the company's share in the Ninian facilities at that date.

23 CONTINGENT LIABILITIES

ICI Petroleum has an interest of approximately 3¼% in the Sullom Voe Terminal which oil industry participants built on land owned by the Shetland Islands Council ("SIC"). There are several areas of dispute between the SIC and industry, the major one being over SIC's contention that it is entitled to a rental based on the fully developed value of the terminal rather than just the bare land which they supplied. In 1985 SIC issued a summons on industry claiming arrears of rent from 1978, on a developed land basis, together with interest at 5% over bank base rate on the amounts outstanding. ICI Petroleum's share of the gross cost of SIC's claims, accrued to 31 December 1986, is estimated at £40m (£14m net of Petroleum Revenue Tax and Corporation Tax). With the support of counsel's advice, industry is contesting the basis of the SIC claims in the belief that much lower sums are payable. The Directors of ICI Petroleum reject the assumptions underlying SIC claims and have made no provision for any settlement in excess of the bare land rental. A provision made in previous years for a negotiated settlement was reversed in 1986.

The company will be liable for its share of abandonment costs on termination of operations in the Ninian oilfield. The nature and extent of these costs cannot yet be accurately determined, but it is the company's policy to make provision for them during the producing life of the field and a total of £48m is so provided at 31 December 1986.

Other contingent liabilities arising in the ordinary course of business are not expected to result in any material financial loss.

NOTES TO THE ACCOUNTS (continued)

24 INVESTMENT IN SUBSIDIARY

Sound Engineering Limited, a subsidiary incorporated in England and acquired in 1980 has not been consolidated in these accounts because, in the opinion of the directors, to do so would be of no real value to the members in view of the insignificant amounts involved. ICI Petroleum Limited holds 98 of the 100 authorised, issued and fully paid ordinary shares of £1 each.

Sound Engineering Limited made a loss after taxation of £147,000 for the year ended 31 December 1986. Provision has not been made in these accounts for accumulated losses in the subsidiary of £277,000.

25 ULTIMATE HOLDING COMPANY

The company is a wholly-owned subsidiary of Imperial Chemical Industries PLC, a company incorporated in England.

26 CAPITALISED COSTS RELATING TO OIL AND GAS PRODUCTION ACTIVITIES AT 31 DECEMBER 1986

United Kingdom Continental Shelf (UKCS) Rest of World (ROW)

Total £000	1985			Total £000	1986	
	UKCS £000	ROW £000			UKCS £000	ROW £000
315,567	314,905	662	Gross Capitalised Costs: - proved properties	310,544	309,935	609
183,522	183,486	36	Accumulated depreciation, depletion and amortisation - proved properties	200,647	200,579	68
<u>132,045</u>	<u>131,419</u>	<u>626</u>		<u>109,897</u>	<u>109,356</u>	<u>541</u>

27 CAPITALISED PRE-PRODUCTION COSTS RELATING TO OIL AND GAS EXPLORATION ACTIVITIES FOR THE YEAR ENDED 31 DECEMBER 1986

United Kingdom Continental Shelf (UKCS) Rest of World (ROW)

Total £000	1985			Total £000	1986	
	UKCS £000	ROW £000			UKCS £000	ROW £000
4,449	4,449	-	Net capitalised costs 1 January	6,866	6,565	301
19,076	11,129	7,947	Exploration and appraisal costs	9,771	5,392	4,379
<u>23,525</u>	<u>15,578</u>	<u>7,947</u>	Total costs capitalised	<u>16,637</u>	<u>11,957</u>	<u>4,680</u>
16,659	9,013	7,646	Depreciation, depletion and amortisation	9,861	5,394	4,467
<u>6,866</u>	<u>6,565</u>	<u>301</u>	Net capitalised costs 31 December	<u>6,776</u>	<u>6,563</u>	<u>213</u>

NOTES TO THE ACCOUNTS (continued)

28 RESULTS OF OPERATIONS OF OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES
FOR THE YEAR ENDED 31 DECEMBER 1986

United Kingdom Continental Shelf (UKCS) Rest of World (ROW)

Total £000	1985 UKCS £000	ROW £000		Total £000	1986 UKCS £000	ROW £000
292,751	292,665	86	Turnover	119,751	119,708	43
178,994	178,929	65	Production costs	57,026	56,912	114
16,659	9,013	7,646	Depreciation			
25,311	25,278	33	Exploration and appraisal	9,861	5,394	4,467
7,365	7,365	-	Production	20,920	20,845	75
			Decommissioning provision	5,017	5,017	-
64,422	72,080	(7,658)	Profit (Loss) before allocable taxes	26,927	31,540	(4,613)
30,886	34,164	(3,278)	Allocable taxes	14,168	15,812	(1,644)
33,536	37,916	(4,380)	Results of operations from exploration and production	12,759	15,728	(2,969)

29 PROVED OIL AND GAS RESERVE QUANTITIES
FOR THE YEAR ENDED 31 DECEMBER 1986

	1986 OIL	1985 UKCS OIL
Proved reserves, 1 January		
- proved developed reserves	92	108
- proved undeveloped reserves	-	-
	92	108
Change during the year:		
- production	(14)	(16)
	(14)	(16)
Proved reserves, 31 December		
- proved developed reserves	78	92
- proved undeveloped reserves	-	-
	78	92

Oil reserves are stated in millions of barrels and are gross, before the UK Governments option to take Royalty in Kind, currently at the rate of 12½%.