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PEKO OIL NORTH SEA Plc

REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 1988

6 MAY 1989

87

PEKO OIL NORTH SEA Plc

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PEKO OIL NORTH SEA Plc

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the period ended 31 December 1988.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company continues to be the exploration for, and extraction and production of hydrocarbons.

CHANGE OF YEAR END

During the period the accounting reference date was changed from 30 June to 31 December, to coincide with the accounting reference date of the ultimate holding company, SANTOS LTD.

RESULTS AND DIVIDENDS

The net loss for the period amounted to £524,000 (18 months ended 30 June 1988 - £12,735,000 profit). It is recommended that this amount be transferred to reserves.

DIRECTORS

The Directors who held office during the period were as follows:

B.C. Rhodes
C.F. Woodhouse
K.W. Halkerston (Resigned 14 December 1988)
D. Beard

DIRECTORS' INTERESTS

None of the Directors have or have had a beneficial interest in the share capital of the Company.

CHANGES IN FIXED ASSETS

Changes in the period are shown in Note 6 to the financial statements. All the company's fixed assets have been revalued by the directors' consideration of their value.

PEKO OIL NORTH SEA Plc

DIRECTORS' REPORT

(continued)

AUDITORS

in accordance with Section 384 of the Companies Act 1985, a resolution proposing the appointment of Touche Ross & Co as auditors of the Company will be put to the Annual General Meeting.

BY ORDER OF THE BOARD



Secretary

London

**REPORT OF THE AUDITORS
TO THE MEMBERS OF PEKO OIL NORTH SEA Plc**

We have audited the financial statements on pages 4 to 12 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the Company's state of affairs at 31 December 1988 and of its loss and source and application of funds for the period then ended and comply with the Companies Act 1985.

Deville Hadden Smith

Chartered Accountants

London

22 March 1989

PEKO OIL NORTH SEA Plc

PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31 DECEMBER 1988

		6 Mths ended 31 December 1988 £'000	18 Mths ended 30 June 1988 £'000
	<u>Notes</u>		
TURNOVER		8	6,979
Production costs		(324)	(3,393)
Depletion		(8)	(1,037)
GROSS PROFIT		(324)	2,549
Administration costs		(234)	(395)
Contract termination fee		-	(400)
Loan forgiven		-	8,864
Exchange gain		10	790
Write off of oil and gas properties		-	(1,103)
Profit on sale of investments		-	39
Interest receivable		10	255
Interest payable		(2)	(341)
(LOSS)/PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS	3	(540)	10,258
Tax	4	16	(1,489)
(LOSS)/PROFIT BEFORE EXTRAORDINARY ITEMS		(524)	8,769
Extraordinary items	5	-	3,966
NET (LOSS)/PROFIT	10	£ (524)	£ 12,735

PEKO OIL NORTH SEA Plc

BALANCE SHEET
AT 31 DECEMBER 1988

	<u>Notes</u>	<u>31 December</u> <u>1988</u> <u>£'000</u>	<u>30 June</u> <u>1988</u> <u>£'000</u>
FIXED ASSETS			
Oil and gas properties	6	11,008	8,744
Tangible assets	6	<u>-</u>	<u>1</u>
		<u>11,008</u>	<u>8,745</u>
CURRENT ASSETS			
Debtors	7	766	1,130
Cash at bank and in hand		<u>1</u>	<u>671</u>
		767	1,801
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	8	<u>(115)</u>	<u>(235)</u>
NET CURRENT ASSETS		<u>652</u>	<u>1,566</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>£11,660</u>	<u>£ 10,311</u>
CAPITAL AND RESERVES			
Called up share capital	9	6,440	6,440
Profit and loss account	10	3,347	3,871
Revaluation reserve	10	<u>1,873</u>	<u>-</u>
		<u>£11,660</u>	<u>£ 10,311</u>

The financial statements on pages 4 to 12 were approved by the Board of Directors on *22nd March 1989* and are signed on its behalf by:

[Signature]
[Signature]

Directors

PEKO OIL NORTH SEA Plc

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE PERIOD ENDED 31 DECEMBER 1988

	6 Mths ended 31 December 1988 £'000	18 Mths ended 30 June 1988 £'000
Profit/(loss) before taxation and extraordinary items	(540)	10,258
Extraordinary items	<u>-</u>	<u>3,966</u>
	(540)	14,224
Adjustments for items not involving the movement of funds:		
Depreciation and depletion	8	1,042
Exploration costs written off	-	1,103
Abandonment provision	-	(1,136)
Loan forgiven	-	(8,864)
Release of foreign currency translation reserve	-	(674)
Revaluation of tangible assets	-	(14)
Revaluation of oil & gas assets	<u>-</u>	<u>(2,606)</u>
TOTAL GENERATED BY OPERATIONS	(532)	3,075
OTHER SOURCES OF FUNDS		
Disposal of fixed assets	<u>1</u>	<u>5,057</u>
	(531)	8,132
APPLICATION OF FUNDS		
Reduction in loan from holding company	-	6,249
Exploration and development costs	399	1,778
Additions to tangible fixed assets	-	39
Tax paid	-	1,572
Loan to holding company	<u>(299)</u>	<u>948</u>
NET (APPLICATION) OF FUNDS	<u>(631)</u>	<u>(2,454)</u>
THE NET APPLICATION OF FUNDS IS REPRESENTED BY THE FOLLOWING DECREASE IN WORKING CAPITAL:		
Debtors	(65)	(278)
Creditors	104	293
Stock	<u>-</u>	<u>(95)</u>
	39	(80)
Movement in net liquid funds:		
Cash at bank and in hand	<u>(670)</u>	<u>(2,374)</u>
	<u>(631)</u>	<u>(2,454)</u>

PEKO OIL NORTH SEA Plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 1988

1. ACCOUNTING POLICIES

- (a) The financial statements are prepared on the historical cost basis of accounting, with the exception of those fixed assets specifically stated to be at valuation and on the basis that the Company continues as a going concern with financial support being provided by the immediate holding company.

(b) Foreign currencies

Balances in foreign currencies are translated at the rate ruling at the balance sheet date. Transactions during the period are translated at the rate prevailing on the date of the transaction. Gains or losses on translation are credited or charged to the profit and loss account.

(c) Oil and gas interests

- (i) All costs relating to licence and data acquisition, exploration and appraisal costs are initially capitalised as general exploration costs. Expenditure incurred on other exploration activities which is not specifically directed to particular prospects is written off in the period in which incurred. If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are written off in the period in which that determination is made. If the prospects are deemed to be commercially viable such costs are carried forward. Administration costs are charged to expense as incurred.
- (ii) Capitalised costs are depleted using the unit of production method based on estimates of proven reserves on a field by field basis. Any changes in estimates are accounted for prospectively.
- (iii) The proceeds from sales or transfer of ownership of interests in oil and gas properties are deducted from capitalised costs, with no gain or loss recognised, unless a substantial portion of proven reserves is sold.
- (iv) Costs relating to well maintenance are charged to expense as incurred.
- (v) The excess, if any, of the net amount of oil and gas interests carried in the financial statements over the present value of estimated future net revenues from worldwide proven reserves is written off, except where the excess relates to projects in progress on unproven interests.

PEKO OIL NORTH SEA Plc

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 1988 (continued)

1. ACCOUNTING POLICIES

(d) Abandonment costs

Certain future liabilities for abandonment costs are covered by an insurance policy. The premiums on this policy are charged to the profit and loss account as they are incurred. Provision for other site restoration costs is made on a unit of production basis over the life of each field.

(e) Other assets

Fixed assets are stated at cost and are depreciated on a straight-line basis over their expected useful lives as follows:

Furniture, fittings and other equipment	10 years
Vehicles	4 years

(f) Taxes

(i) PRT

Petroleum Revenue tax is provided based on estimated current liabilities.

(ii) Corporate taxes

Corporate taxes are based on estimated current liabilities and are provided at current rates of taxation.

(g) Turnover

Sales of oil and gas production include royalties in kind and represent the Company's share of production for the period based on sales of crude oil adjusted for production underlift or overlift.

PEKO OIL NORTH SEA Plc

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 1988 (continued)**

2. EMPLOYEES	6 Mths ended 31 December 1988	18 Mths ended 30 June 1988
Directors' remuneration: Directors' emoluments (including pension contributions)	£ -	£ 15,100
The directors' remuneration disclosed above (excluding pension contributions) included amounts paid to: The Chairman	£ -	£ -
The highest paid director	£ -	£ 15,100
Number of other directors whose emoluments were within the range: £Nil - £5,000	Number 4	Number 9
The company had no employees during the six months ended 31 December 1988, or the 18 months ended 30 June 1988.		
3. PROFIT BEFORE TAX	6 Mths ended 31 December 1988	18 Mths ended 30 June 1988
Profit before tax is stated after charging:	£'000	£'000
Depreciation and depletion	8	1,042
Auditors' remuneration	7	5
4. TAXATION	6 Mths ended 31 December 1988	18 Mths ended 30 June 1988
UK corporation tax at 35%	-	16
Petroleum revenue tax	-	1,473
Adjustments to prior year provisions	(16)	-
	(16)	1,489

The corporation tax liability above represents the tax payable on the company's net interest income received in the period.

Cumulative losses of approximately £8,750,000 are available for offset against future profits.

PEKO OIL NORTH SEA Plc

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 1988 (continued)

5. EXTRAORDINARY ITEMS	6 Mths ended 31 December 1988 £'000		18 Mths ended 30 June 1988 £'000	
Release of abandonment provision no longer required	-		1,346	
Adjustment of oil & gas asset carrying values	-		2,606	
Adjustment of tangible assets values	-		14	
	-		3,966	
6. FIXED ASSETS - OIL AND GAS PROPERTIES AND TANGIBLE ASSETS				
	<u>Oil & gas proved properties</u> £'000	<u>Oil & gas unproved properties</u> £'000	<u>Total oil & gas properties</u> £'000	<u>Tangible assets</u> £'000
COST OR VALUATION				
At 1 July 1988	8,805	292	9,097	1
Additions	306	93	399	-
Disposals	-	-	-	(1)
Revaluation adjustment	<u>1,377</u>	<u>135</u>	<u>1,512</u>	-
At 31 Dec 1988	<u>10,488</u>	<u>520</u>	<u>11,008</u>	-
DEPLETION AND DEPRECIATION				
At 1 July 1988	353	-	353	-
Charges for the period	8	-	8	-
Revaluation adjustment	<u>(361)</u>	<u>-</u>	<u>(361)</u>	-
At 31 Dec 1988	<u>-</u>	<u>-</u>	<u>-</u>	-
NET BOOK VALUES				
At 31 Dec 1988	<u>10,488</u>	<u>520</u>	<u>11,008</u>	-
At 30 June 1988	<u>8,452</u>	<u>292</u>	<u>8,744</u>	1

The assets were revalued by the Directors of the Company, and the net book values of the assets prior to revaluation as at 31 December 1988 would have been:-

<u>8,750</u>	<u>385</u>	<u>9,135</u>	<u>-</u>
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PEKO OIL NORTH SEA PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 1988**

(continued)

7. DEBTORS

	31 December 1988 £'000	30 June 1988 £'000
Amounts falling due within one year:		
Trade debtors	98	139
Other debtors	-	15
Prepayments	19	28
	<u>117</u>	<u>182</u>
Amounts falling due after more than one year:		
Amounts owed by holding company	649	948
	<u>766</u>	<u>1,130</u>

**8. CREDITORS: Amounts falling
due within one year**

	31 December 1988 £'000	30 June 1988 £'000
Trade creditors	39	35
Amounts owed to holding company	-	163
Corporation tax	-	16
Accruals	76	21
	<u>115</u>	<u>235</u>

9. CALLED UP SHARE CAPITAL

	31 December 1988 £'000	30 June 1988 £'000
Authorised:		
12,175,000 Ordinary shares of £1 each	12,175	12,175
16,100,000 Ordinary shares of £0.40 each	6,440	6,440
	<u>18,615</u>	<u>18,615</u>
Allotted and called up:		
16,100,000 Ordinary shares of £0.40 each fully paid	6,440	6,440

PEKO OIL NORTH SEA Plc

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 1988 (continued)

10. RESERVES

Profit and Loss Account

£'000

Accumulated reserve at
1 July 1988

3,871

Retained loss for the period

(524)

Accumulated reserve at
31 December 1988

3,347

REVALUATION RESERVES

Accumulated reserve at
1 July 1988

0

Additions to reserve
during year

1,873

Accumulated reserve at
31 December 1988

1,873

11. CAPITAL COMMITMENTS

31 December

1988

£'000

30 June

1988

£'000

Amounts authorised and
contracted for

1,362

441

Amounts authorised but
not contracted for

450

1,081

12. ULTIMATE HOLDING COMPANY

The Company's ultimate holding company is SANTOS LTD, a company incorporated in Australia.