

Sojitz Oil & Gas (Egypt) Limited

Report and financial statements
31 December 2012

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COMPANIES HOUSE

Sojitz Oil & Gas (Egypt) Limited

Registered No 05558621

Directors

Tetsuo Haruna
Satoshi Aways
Hidenobu Saito

Secretary

Tetsuo Haruna

Auditors

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

Registered office

7th Floor, The Northern and Shell Building
10 Lower Thames Street
London
EC3R 6EQ

Directors' report

The directors present their report and financial statements for the year ended 31 December 2012

Results and dividends

The profit for the period after taxation was US\$9,606,548 (2011 – US\$6,022,450) During the year the company paid a dividend of US\$5,980,000 (2011 - US\$6,790,000)

Principal activity and review of the business

The company holds an interest in a joint venture ("JV"), with the principal activities during the year having comprised oil and gas exploration, development and production in the Yidma/Alamein area, Western Desert in the Arab Republic of Egypt

In September 2005 the company entered into a farm-out agreement with a third party company and became a participant to the operation, exploration and exploitation with the Arab Republic of Egypt and the Egyptian General Petroleum Corporation in December 2006

The company originally planned to drill four new wells in 2012, but drilled only two wells due to lack of rig availability The result of NEAL-4X was better than forecast, resulting in an increase of the oil reserves estimate of NEAL Field The company also conducted several work overs in 2012, and the result of Alex-2X had a positive impact on the production rate as well as oil reserves

On 22 February 2010 the company entered into a farm out agreement with its JV partner, IPRTOC to acquire an additional 5% interest in the JV, the approval of which was completed on 26 February 2012 The company paid US\$3 5million to IPRTOC as consideration upon completion of the transaction

On 31 October 2011, the company, IPRTOC and Apache Corporation entered into a farm out agreement where Yidma/Alamein Development Lease shall be divided into two areas (the Retained Block (Producing Area) and the Assigned Block (Exploration Area)) and Apache shall acquire 50% interests in the Assigned Block

On 1 September 2012, the below three companies entered into the first amendment of the Yidma Alamein farm out agreement Working interest in each block will be as follows

Retained Block (Producing Area)		Assigned Block (Exploration Area)	
IPR	60%	IPR	30%
SOG	40%	SOG	20%
Apache	0%	Apache	50%

Upon completion of the deal, in consideration of the assignment, Apache shall pay to the Company US \$0 4million and the cost for drilling two deep obligatory wells will be carried by Apache It is currently under discussion with EGPC/Government regarding this transaction and the Deed of Assignment is still pending official submission

Principal risks and uncertainties

The company aims to deliver sustainable value by identifying and responding successfully to risks Risk management is integrated into the process of planning and performance and performance management at a group level Monitoring and accountability for the management of these risks occur through performance reviews at a group level

The company's compliance and ethical risks derive from the fact the company operates in Egypt and the United Kingdom, and has shareholders in Japan The volume of rules and regulations of these three countries are quite large The legal department and internal audit department at the parent company, along with management and external consultants such as accountants, lawyer and advisors provide support to minimise the risk of non-compliance with these rules and regulations

In order to protect the company from fluctuations in oil prices, the directors entered into a put option agreement in 2010 in line with the financial risk management objectives and policies of the company As there was not a large fluctuation in oil price, the company has not exercised the put option

Directors' report

The company participates in operational management of the joint venture and works closely with other joint venture participants in order to manage and mitigate operating risks

Political, economical and social transition is taking place in the Arab Republic of Egypt. Some neighbouring Middle Eastern countries have experienced political instability, changes to the regulatory environment, expropriation or nationalisation of property, civil strife, strikes, acts of war and insurrections. The occurrence of any of these conditions could disrupt or terminate our operations, causing our development activities to be curtailed or terminated in these areas or our production to decline, and could cause us to incur additional costs. We will continue to monitor the situation of the country.

Going concern

The ability for the company to continue as a going concern is dependent upon Sojitz Corporation not demanding repayment of the loan, and providing additional funding to the extent that the operating inflows of the company are insufficient to meet future cash requirements. Sojitz Corporation has committed to provide this support at least until the end of 2014, and having reviewed the third quarter 2012 financial statements of Sojitz Corporation to determine that it is a going concern and can provide financial support if necessary, the directors have prepared the financial statement on the going concern basis.

Derivative financial instruments

During 2012 the company acquired new put options over 55,800 barrels of oil, expiring in the same year. A further put option was acquired at the end of 2012 which expires at the end of March, 2013 (prepayment of put options as at 31 December 2012 - US\$20,900, 2011 US\$ 13,200). None of the put options were exercised.

Future developments

The company is in a good position to take advantage of any opportunities which may arise in the future.

Key performance indicators

The key financial and other performance indicators during the year were as follows:

	2012 US\$	2011 US\$	Variance %
Turnover	25,830,800	21,770,553	19
Operating profit	15,712,453	11,914,023	32
Profit after taxation	9,606,548	6,022,450	60
Shareholders' funds	24,464,520	20,837,972	17
Current assets as % of current liabilities	81%	74%	7
Debtors collection days	230	210	20

Directors' report

Company licence interests

The Western Desert Concession Agreement

<i>Legislation</i>	<i>Block</i>	<i>Interest</i>	<i>Operator</i>
Law No 155 of 1963	The Western Desert	40%	IPR Transoil Corporation

Production and reserves - working interest basis

	boe
Reserves at 1 January 2012	2,301,285
Produced during the year	(414,309)
Adjustments	2,694,411
Reserves at 31 December 2012	4,581,387

Quantification of reserves is based on third party experts' estimates. The reserves in the table represent the company's share of commercial proven plus probable reserves as defined in the UK SORP, stated on a working interest basis.

Directors and their interests

The directors who served the company during the year and changes subsequent to the year end were as follows:

Daisuke Sugiyama (resigned 1 April 2012)

Hidenobu Saito (resigned 1 April 2012, reappointed 1 June 2012)

Suguru Kawabata (resigned 1 June 2012)

Satoshi Awaya (from 1 April 2012)

Tetsuo Haruna (from 1 April 2012)

There are no directors' interests requiring disclosure under the Companies Act 2006.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and Ernst and Young LLP will therefore continue in office.

Disclosure of information to the auditors

So as far as each person who was a director at the date of approval of this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

By order of the board on 16 May 2013



Tetsuo Haruna, Secretary

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 auditors' report

to the members of Sojitz Oil & Gas (Egypt) Limited

We have audited the financial statements of Sojitz Oil & Gas (Egypt) for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet, and the related note¹ 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 set out on page 5, 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 Report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in 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

Independent auditors' report

to the members of Sojitz Oil & Gas (Egypt) Limited

- 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

William Testa (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

21 May 2013

Profit and loss account

for the year ended 31 December 2012

	Note	2012 US\$	2011 US\$
Turnover - continuing operations	2	25,830,800	21,770,553
Cost of sales		<u>(9,757,541)</u>	<u>(9,499,307)</u>
Gross profit		16,073,259	12,271,246
Administrative expenses		<u>(360,806)</u>	<u>(357,224)</u>
Operating profit	3	15,712,453	11,914,022
Interest receivable and similar income	4	-	93
Interest payable and similar charges	6	<u>(728,479)</u>	<u>(634,074)</u>
Profit on ordinary activities before tax		14,983,974	11,280,041
Tax on profit on ordinary activities	7	<u>(5,377,426)</u>	<u>(5,257,592)</u>
Profit for the financial year		<u>9,606,548</u>	<u>6,022,449</u>

There are no recognised gains or losses attributable to the shareholders of the company other than the profit of US\$9,606,548 for the year ended 31 December 2012 (2011 profit of US\$6,022,450)

Balance sheet

at 31 December 2012

	Note	2012 US\$	2011 US\$
Fixed assets			
Tangible assets	9	29,692,577	27,354,326
Investment	10	614	614
		<u>29,693,191</u>	<u>27,354,940</u>
Current assets			
Stocks		2,564,558	2,914,548
Sales debtors	11	16,292,985	12,538,293
Prepayment to the operator		713,533	791,779
Other prepayments and deposit paid		20,900	13,202
Cash at bank and in hand	12	<u>2,657,462</u>	<u>2,135,388</u>
		22,249,438	18,393,210
Creditors amounts falling due within one year	13	<u>(27,478,109)</u>	<u>(24,910,178)</u>
Net current liabilities		<u>(5,228,671)</u>	<u>(6,516,968)</u>
Total assets less current liabilities		<u>24,464,520</u>	<u>20,837,972</u>
Net assets		<u>24,464,520</u>	<u>20,837,972</u>
Capital and reserves			
Called up share capital	14	13,001,000	13,001,000
Profit and loss account	15	<u>11,463,520</u>	<u>7,836,972</u>
Equity shareholders' funds		<u>24,464,520</u>	<u>20,837,972</u>



Tetsuo Haruna

Director

Date 16 May 2013

Notes to the financial statements

at 31 December 2012

1. Accounting policies

Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law)

In addition to the requirements of accounting standards, the accounting for exploration and production activities is governed by the Statement of Recommended Practice ('SORP') 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' issued by the UK Oil Industry Accounting Committee on 7 June 2001

The accounting policies adopted by the company are set out below and are consistent with those of the previous year

Statement of cash flows

The Group financial statements of the ultimate parent undertaking are publicly available. The Company has taken advantage of the exemption granted by the Financial Reporting Standard No. 1 (Revised), whereby it is not required to publish its own cash flow statement

Fixed Assets

The company follows the full cost method under which expenditure relating to the acquisition, exploration, appraisal and development of oil and gas interests, including an appropriate share of directly attributable overheads and relevant financing costs, is capitalised in cost pools based on geographic regions of activity. The cost of the carry arrangement entered into with IPR Transoil Corporation has been capitalised within fixed assets

At 31 December 2012, the company held assets in one regional cost pool: Egypt

The capitalised costs are depreciated on a unit of production basis using the ration of entitlement to oil in the current period to the total estimated probable reserves to which the company is entitled. Changes in factors which affect unit-of-production calculations are dealt with prospectively, not by immediate adjustment of prior years' amounts

Exploration and appraisal expenditure for which commerciality has yet to be determined is carried outside the full cost pools, as intangible costs, pending determination of commercial reserves or indications of impairment

Stock valuation

Stocks are valued at cost to the company, using the weighted average method or at net realisable value, whichever is the lower

Sales debtors

Sales debtors are recognised initially at fair value based on amounts exchanged when contractual entitlements arise to the company and subsequently at amortised cost less any impairment

Foreign currencies

Transactions in currencies other than dollars are recorded at the rate ruling at the date of the transaction. Assets and liabilities in currencies other than dollars are translated into dollars at closing rates of exchange. All exchange gains and losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of profit/loss for the year

Derivative financial instruments

The company had entered into certain derivatives to reduce exposure to changes in commodity prices resulting from its oil production. The company considers its derivatives instruments qualify for hedge accounting. In the case of put options, which are the instruments currently used by the company, the option premium is amortised over the exercise period, with the related charge recognised in Administrative expenses. Gains and losses arising on any exercise of the options are recognised at the time of the underlying sales transactions to which the options relate

Notes to the financial statements

at 31 December 2012

1. Accounting policies (continued)

Any profits from exercising options are included in sales, profits of US\$nil were recognised in 2012 (2011 - US\$nil)

Interest

Interest is capitalised gross during the period of construction where it relates either to the financing of major projects with long periods of development or to dedicated financing of other projects. All other interest is charged against income.

Revenue recognition

Revenue associated with the sale of oil is recognised when title passes to the customer. Revenues from the production of oil properties in which the company has an interest with other producers are recognised on the basis of the company's working interests in those properties (the entitlement method).

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates enacted or substantively enacted at the balance sheet date.

Leases

Assets held under leases which result in the company receiving substantially all risks and rewards of ownership (finance leases) are capitalised as tangible fixed assets at the estimated present value of underlying lease payments. The corresponding finance lease obligation is included with borrowings. Rentals under operating leases are charged on a straight line basis over the period of the lease.

Cash

Cash in hand, cash in the bank and cash equivalents are included in the category of cash. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

2. Turnover

Turnover, which is stated gross of foreign tax incurred in Egypt and net of value added tax, comprises amounts invoiced to third parties, all of which falls within the Egyptian geographic area. It also includes the company's entitlement to oil arising from the repayment of the carry.

Turnover is attributable to one continuing activity, the production and selling of petroleum products.

Differences between the production sold and the company's share of production are not significant.

Notes to the financial statements

at 31 December 2012

	2012 US\$	2011 US\$
Turnover (Net)	20,453,374	16,512,962
Turnover (Tax Gross Up)	5,377,426	5,257,592
	<u>25,830,800</u>	<u>21,770,554</u>

3. Operating profit

This is stated after charging

	2012 US\$	2011 US\$
Audit of the financial statements	48,504	54,329
Other fees to auditors		
- Taxation services	26,799	43,150
Depreciation of owned fixed assets	4,360,090	5,354,375
Put option premium amortisation	55,800	54,000
	<u></u>	<u></u>

4. Interest received and similar income

	2012 US\$	2011 US\$
Money market interest received	-	93
	<u>-</u>	<u>93</u>

5. Directors and employees

None of the directors received any fees or remuneration for services as a director of the company during the financial year (2011 - US\$nil)

There were no employees apart from the directors

6. Interest payable and similar charges

None of the directors received any fees or remuneration for services as a director of the company during the financial year (2011 - US\$nil)

There were no employees apart from the directors

Notes to the financial statements

at 31 December 2012

	2012 US\$	2011 US\$
Interest expense on		
Loans from parent and associated companies	703,354	611,121
Guarantee fees for the above loans	25,125	22,953
	<u>728,479</u>	<u>634,074</u>

Notes to the financial statements

at 31 December 2012

7. Taxation

(a) Taxation on profit on ordinary activities

	2012 US\$	2011 US\$
UK corporation tax		
UK corporation tax on profit of the period	2,414,437	1,771,343
Foreign Branch Exemption	(2,414,437)	(1,771,343)
	<u>-</u>	<u>-</u>
Foreign tax		
Current year	5,377,426	5,257,592
Adjustments in respect of previous periods	-	-
	<u>5,377,426</u>	<u>5,257,592</u>
Total current tax	<u>5,377,426</u>	<u>5,257,592</u>

(b) Factors affecting current tax charge

The tax assessed on the profit/(loss) on ordinary activities for the period is different from the standard rate of corporation tax in the UK of 24.50% (2011: 26.49%). The differences are reconciled below:

	2012 US\$	2011 US\$
Profit on ordinary activities before tax	14,983,974	11,280,042
	<u>14,983,974</u>	<u>11,280,042</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.50% (2011: 26.49%)	3,671,074	2,988,422
Effect of:		
Non-taxable income	(1,309,645)	(1,392,894)
Depreciation in excess of capital allowances	(125,469)	175,816
Unrelieved tax losses carried forward	178,477	-
Higher taxes on overseas earnings	2,962,990	3,486,249
	<u>5,377,426</u>	<u>5,257,592</u>
Total current tax	<u>5,377,426</u>	<u>5,257,592</u>

Notes to the financial statements

at 31 December 2012

7. Taxation (continued)

	2012 US\$	2011 US\$
Accelerated Capital Allowances	-	-
UK tax losses	2,021,826	-
Foreign Tax Credits	-	-
	<u>2,021,826</u>	<u>-</u>

At 31 December 2012, a potential deferred tax asset of US\$2,021,826 (2011 - \$ nil) in respect of unrelieved foreign tax credits has not been recognised on the basis that the company suffers overseas tax on its profits at a higher rate than the standard rate of UK corporation tax. Accordingly, it is not considered probable that the company will have suitable taxable profits against which the foreign tax credits or losses can be used.

The UK corporation tax rate was reduced to 24.5% effective 1 April 2012 in accordance with UK Finance Act 2012.

It is followed by a further tax rate reduction to 23% effective as from 1 April 2013. An additional tax rate decrease to 22%, announced in the Budget 2012, was not included in the Finance Act 2012, and, therefore has not been enacted.

8. Dividends

	2012 US\$	2011 US\$
Interim current year dividend paid	5,980,000	6,790,000
Final current year dividend paid	-	-
	<u>5,980,000</u>	<u>6,790,000</u>

Notes to the financial statements

at 31 December 2012

9. Tangible fixed assets

	Oil assets US\$
Cost	
At 1 January 2012	48,827,236
Additions	6,698,341
At 31 December 2012	55,525,577
Depreciation	
At 1 January 2012	(21,472,910)
Charge for the year	(4,360,090)
At 31 December 2012	(25,833,000)
Net book amount	
At 31 December 2012	29,692,577
At 1 January 2012	27,354,326

10. Investments

Principal group investment

	Country of registration	Principal activity and country of operation	Proportion of ordinary share capital held by the company
Associate undertakings			
El Hamra Oil Company	Egypt	Services	17.5%

Investment in associate undertaking amounts to US\$614 (2011 US\$614) stated at cost and net book value for the company

11. Sales debtors

One of our sales debtors is Egyptian General Petroleum Corporation, US\$15,806,577 (2011 US\$12,538,293) and the other is IPR Transoil Corporation, US\$486,408 (2011 US\$nil) which is related to the adjustment of 5% additional farm-in

12. Cash at bank and in hand

Cash at bank and in hand comprises \$2,657,462 held in the company's bank accounts (2011 -\$2,135,388)

Notes to the financial statements

at 31 December 2012

13. Creditors: amounts falling due within one year

	2012 US\$	2011 US\$
Interest payable	52,175	84,588
Trade creditors	1,415,246	35,006
Dividends payable	-	-
Accruals	110,688	90,584
Group company loans from Sojitz UK PLC (Variable rates based on LIBOR, payable on demand)	25,900,000	24,700,000
	<u>27,478,109</u>	<u>24,910,178</u>

14. Share capital

		2012 US\$	Authorised 2011 US\$
Ordinary shares of \$1 each		30,000,000	30,000,000
		<u>30,000,000</u>	<u>30,000,000</u>
		Allotted, called up and fully paid	
		2012 US\$	2011 US\$
	No	No	US\$
Ordinary shares of \$1 each	13,001,000	13,001,000	13,001,000
		<u>13,001,000</u>	<u>13,001,000</u>

Notes to the financial statements

at 31 December 2012

15. Reconciliation of shareholders' funds and movements on reserves

	Equity share capital US\$	Profit and loss account US\$	Total US\$
At 31 December 2011	13,001,000	7,836,972	20,837,972
Profit for the year	-	9,606,548	9,606,548
Dividends paid	-	(5,980,000)	(5,980,000)
At 31 December 2012	<u>13,001,000</u>	<u>11,463,520</u>	<u>24,464,520</u>

16. Capital expenditure

Estimated future capital expenditure as a JV is estimated at \$37,330,121 and the company's share is \$14,932,048

17. Related party transactions

The company has taken advantage of the exemption contained within Financial Reporting Standard No 8 "Related Party Disclosures", and has not disclosed transactions with companies which are members of the Sojitz Corporation group. There were no other related party transactions in the year.

18. Immediate and ultimate parent undertaking

The immediate and ultimate parent undertaking of the company is Sojitz Corporation, a company registered in Japan. The smallest and largest group of undertakings for which group financial statements are drawn up, and of which the company is a member, is Sojitz Corporation. Copies of Sojitz Corporation financial statements can be obtained from 1-1, Uchisaiwaicho 2-chome, Chiyoda-ku, Tokyo 100-8691, Japan. The directors consider Sojitz Corporation to be the controlling party.