

**ENI UKCS LIMITED**

**DIRECTORS' REPORT  
AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2007**

**Registered Number: 1019748**

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**COMPANIES HOUSE**

# **ENI UKCS LIMITED**

## **DIRECTORS AND REGISTERED OFFICE**

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### **BOARD OF DIRECTORS**

L Lusuriello  
M Talamonti  
J Michell

### **SECRETARY AND REGISTERED OFFICE**

F Dal Bello  
Eni House  
10 Ebury Bridge Road  
LONDON SW1W 8PZ

### **AUDITORS**

PricewaterhouseCoopers LLP  
32 Albyn Place  
ABERDEEN AB10 1YL

**REGISTERED IN ENGLAND NO. 1019748**

# **ENI UKCS LIMITED**

## **DIRECTORS' REPORT**

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The directors present their report and the audited financial statements of the company for the year ended 31 December 2007

### **Principal activities and business review**

The company's principal activity is the exploration for and production of oil and gas reserves. The principal area of activity is the United Kingdom Continental Shelf.

Management anticipates that the company will trade satisfactorily in the coming year.

### **Results for the year**

The results for the year are set out on page 6 of the financial statements. The company's profit for the year was £6,020,000 (2006 – £8,712,000).

### **Dividends**

Dividends of £23,000,000 were paid during 2007 to the ordinary shareholders (2006 – £nil).

### **Principal risks and uncertainties**

The management of the business and the execution of the company's strategy are subject to a number of risks set out in the notes. The company and its subsidiaries have adopted the most stringent standards, in accordance with Eni SpA group requirements, for the evaluation and management of industrial and environmental risks.

### **Key performance indicators**

Key Performance Indicators are established each year in a business plan which covers a number of strategic, operational, HSE and finance objectives for the operations of the Eni Group in the United Kingdom. The business plan is approved at Eni Group level, and Key Performance Indicators of the Eni Group are disclosed in the Group annual report, which is publicly available.

### **Directors**

The present directors of the company are listed on page 1 and have held office throughout the year with the following exceptions:

- On 9 November 2007, V Di Lorenzo was resigned as a director
- On 9 November 2007, L Lusuriello appointed as director

During 2007 the company secretary changed-

- On 6 July 2007, D Fagan resigned as a secretary
- On 6 July 2007, F Dal Bello was appointed as secretary

### **Statement of directors' responsibilities respect of the Annual Report and the financial statements**

The directors are responsible for preparing the Annual 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 International Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to 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.

**DIRECTORS' REPORT**

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In preparing those 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 that the financial statements comply with IFRSs as adopted by the European Union
- Prepare the financial statements on the ongoing concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that 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 1985 and the Companies Act 2006 where applicable. 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.

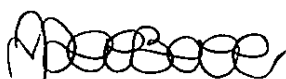
Each director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**Elective Regime**

An elective resolution to dispense with the obligation to appoint auditors on an annual basis pursuant to Section 386 of the Companies Act 1985 (as amended) was passed on 28 October 2003 and as this election was in force before 1 October 2007, under the Companies Act 2006 PricewaterhouseCoopers LLP is deemed reappointed as the company's auditors for the next financial year.

In addition, the company dispensed with the requirement to hold Annual General Meetings or to lay accounts before the company in General Meeting pursuant to Sections 366A and 252 of the Companies Act 1985 (as amended) respectively. Although these sections were repealed under the Companies Act 2006 from 1 October 2007, the provisions of the company prior to this date are not affected.

By order of the Board



**F. Dal Bello**  
Secretary

11 March 2008

**INDEPENDENT AUDITORS' REPORT**

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**Independent auditors' report to the members of Eni UKCS Limited**

We have audited the financial statements of Eni UKCS Limited for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the statement of changes in shareholders equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## ENI UKCS LIMITED

### INDEPENDENT AUDITORS' REPORT

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#### Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

  
**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
Aberdeen

11 March 2008

# ENI UKCS LIMITED

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	<i>Notes</i>	<u>2006</u> £'000	<u>2007</u> £'000
Revenue	2	16,289	<b>22,456</b>
Other service costs and expenses	4	(2,910)	<b>(6,336)</b>
Amortisation costs	8,9	<u>(4,492)</u>	<u><b>(5,958)</b></u>
<b>Operating profit</b>		8,887	<b>10,162</b>
Interest receivable and similar income	5	1,371	<b>1,455</b>
Interest payable and similar charges	6	(105)	<b>(148)</b>
Changes in fair value measurement of derivative financial instruments	16	5,066	<b>(2,120)</b>
		<u>15,219</u>	<u><b>9,349</b></u>
<b>Profit before taxation</b>		15,219	<b>9,349</b>
<b>Taxation</b>	7	<u>(6,507)</u>	<u><b>(3,329)</b></u>
<b>Profit for the year</b>		<u>8,712</u>	<u><b>6,020</b></u>

The current and prior year results have been derived wholly from continuing activities

## ENI UKCS LIMITED

### STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

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	Ordinary share capital £'000	Retained earnings £'000	Shareholder's equity £'000
Balance at 1 January 2006	15	14,873	14,888
Net Profit for 2006	-	8,712	8,712
Balance at 1 January 2007	15	23,585	23,600
Dividend Paid		(23,000)	(23,000)
Net profit for 2007	-	6,020	6,020
<b>Balance at 31 December 2007</b>	<b>15</b>	<b>6,605</b>	<b>6,620</b>



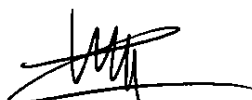
# ENI UKCS LIMITED

## BALANCE SHEET AS AT 31 DECEMBER 2007

	Notes	2006 £'000	2007 £'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	13	34,645	23,611
Trade and other receivables	12	3,256	4,585
Inventories	11	224	78
		<u>38,125</u>	<u>28,274</u>
<b>Non-current assets</b>			
Property, plant and equipment	9	10,862	7,732
Intangible assets	8	3,561	3,561
Investments	10	1	1
Deferred tax asset	17	944	936
		<u>15,368</u>	<u>12,230</u>
<b>Total assets</b>		<u>53,493</u>	<u>40,504</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Financial liabilities – derivative financial instruments	15	758	2,878
Trade and other payables	14	2,300	5,488
Current tax liabilities		1,905	3,051
		<u>4,963</u>	<u>11,417</u>
<b>Non-current liabilities</b>			
Provisions	18	1,962	1,912
Deferred tax liabilities	17	5,983	3,570
Financial liabilities – borrowings	16	16,985	16,985
		<u>24,930</u>	<u>22,467</u>
<b>Total liabilities</b>		<u>29,893</u>	<u>33,884</u>
<b>Shareholder's equity</b>			
Share capital	19	15	15
Retained earnings	20	23,585	6,605
<b>Total equity shareholder's funds</b>		<u>23,600</u>	<u>6,620</u>
<b>Total equity and liabilities</b>		<u>53,493</u>	<u>40,504</u>

The financial statements from page 6 to 29 were approved by the Board on 11 March 2008

On behalf of the Board



**M Talamonti**  
Director

# ENI UKCS LIMITED

## CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2006 £'000	2007 £'000
<b>Cash flow from operating activities</b>			
Net profit for the year		8,712	6,020
<b>Adjustments for:</b>			
Depreciation		4,492	5,958
Write-off of intangibles		31	-
Derivative – fair valuation		(5,066)	2,120
Interest income		(1,371)	(1,455)
Interest expense		105	148
Tax charge for the year		6,507	3,329
<b>Changes in working capital</b>			
Decrease in inventories		309	146
Increase in trade and other receivables		(1,504)	(1,329)
Increase in trade and other payables		366	3,188
Increase / (decrease) in provisions		31	72
<b>Cash generated from continuing operations</b>		<u>12,612</u>	<u>18,197</u>
Interest received		1,371	1,455
Interest paid		(15)	(148)
Tax paid		(2,395)	(4,588)
<b>Net cash flow from operating activities</b>		<u>11,573</u>	<u>14,916</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(4,434)	(2,890)
Purchase of intangible assets		(31)	(60)
<b>Net cash flow from investing activities</b>		<u>(4,465)</u>	<u>(2,950)</u>
<b>Net cash outflow from financing activities</b>			
Dividend paid to shareholder		-	(23,000)
<b>Cash flow from financing activities</b>		<u>-</u>	<u>(23,000)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>7,108</u>	<u>(11,034)</u>
<b>Cash and cash equivalents at 1 January</b>		<u>27,537</u>	<u>34,645</u>
<b>Cash and cash equivalents at 31 December</b>	13	<u>34,645</u>	<u>23,611</u>

## STATEMENT OF ACCOUNTING POLICIES

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The principal accounting policies adopted in the preparation of the financial statements are set out below

### **Financial statements**

The company is a participant in consortia involved in the exploration and exploitation of oil and gas in the UK sector of the North Sea and West of Shetland

As a participant, the company receives from the operators returns of income, expenditure, assets and liabilities of the consortia, the company's shares of which are incorporated into its accounting records

The financial statements reflect the company's share of each activity as a participant in consortia

### **Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC Interpretations endorsed by the European Union (EU) and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historic cost convention

#### **• Amendments to published standards effective in 2007**

IFRS 7, 'Financial Instrument Disclosures' and the complementary amendment to IAS 1 'Presentation of financial statements – capital disclosures', was adopted in 2007. IFRS introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the financial instruments

#### **• Standards, amendments and interpretations effective in 2007 but not relevant**

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the company's operations

- IFRS 4, 'Insurance contracts',
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies', and
- IFRIC 9, 'Re-assessment of embedded derivatives'

#### **• Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the company**

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the company's accounting periods beginning on or after 1 January 2008 or later periods, but the company has not early adopted them

- IAS 23 (Amendment), 'Borrowing costs',
- IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'

## STATEMENT OF ACCOUNTING POLICIES

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• **Interpretations to existing standards that are not yet effective and not relevant for the company's operations**

The interpretations to existing standards have been published and are mandatory for the company's accounting periods beginning on or after 1 January 2008 or later periods, but they are not relevant for the company's operations

- IFRIC 12, 'Service concessions arrangements',
- IFRIC 13, 'Customer Loyalty programmes'
- IFRS 8, 'Operating segments',

**Consolidation**

Consolidated financial statements have not been prepared for the company as it is a subsidiary of Eni SpA, a company incorporated in Italy, which will prepare consolidated financial statements

**Non-current assets**

*Property, plant and equipment*

Property, plant and equipment includes the company's share of expenditure in respect of exploration, appraisal and development costs of fields where a decision to exploit their reserves has been made, field development programme approval has been granted and capital expenditure incurred when the fields are in production. Interest costs incurred during the development stage of fields are capitalised from the date at which field development programme approval is granted until production commences.

These assets, except proven mineral interests, are depreciated using the unit of production method on a quarterly basis, using proved developed oil and gas reserves for each field in production as at the end of each quarter. Proven mineral interests are depreciated using the unit of production method on a quarterly basis, using proved developed and undeveloped oil and gas reserves for each field in production as at the end of each quarter. When there is a change in the estimated total recoverable proved developed reserves of a field, the undepreciated cost is written off over the revised remaining reserves.

An impairment review is carried out at each year end in accordance with International Accounting Standard (IAS) 36 – impairment of assets. This review is based on assessments of the future net cash flows for each field calculated by utilising the company's estimate of proved reserves at year end, together with the company's estimates of future oil prices, future capital and operating costs and future decommissioning costs, required for recovering these remaining proved reserves. The calculations are performed using year end exchange rates and a discount factor is applied based on the company's cost of capital. Reversals of previously recorded impairment deficits are recognised only if supported by permanent changes in estimates utilised in the impairment review process.

**Intangible assets – exploration and appraisal costs**

Exploration costs represent the company's share of expenditure by consortia and as operator on the exploration of the sea bed for oil and natural gas up to the date of any decision to exploit various finds.

Where no decision has been made by the balance sheet date to exploit a find, the costs are accounted for in accordance with the successful efforts method. The cost of drilling exploratory wells is carried forward as an intangible asset if in the opinion of the directors there is a reasonable prospect of development of the related fields commencing within three years of the completion of drilling. Costs of exploratory dry holes are written off at the time that the wells are determined to be dry and all licence fees, geological and geophysical expenses are written off as incurred.

**STATEMENT OF ACCOUNTING POLICIES**

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**Intangible assets – exploration and appraisal costs (continued)**

Where a decision has been made to exploit a find, the exploration costs are carried forward. In the period after a decision has been made to exploit a find but before field development programme approval has been granted, any pre-development costs that are incurred are also capitalised and carried forward. When field development programme approval is granted, the exploration and pre-development costs of that field are reclassified as tangible assets.

Exploration wells that are being drilled at the year end are included in fixed assets as drilling in progress until the results of the drilling are determined.

**Intangible assets – interests acquired**

The cost of acquisition of interests acquired in fields is allocated to tangible fixed assets and to intangible fixed assets depending on the nature of the assets acquired. The cost of interests in fields in production is depreciated using the unit of production method on a quarterly basis, using proved developed oil and gas reserves as at the end of each quarter. When there is a change in the estimated total recoverable reserves, the undepreciated cost is written off in proportion to the revised remaining reserves.

**Research and development**

Expenditure on research and development is charged to the income statement in the year in which it is incurred.

**Inventories**

Inventories are stated at the lower of cost and net realisable value and represent the company's share of stocks belonging to the consortia of which it is a member.

**Cash and cash equivalents**

Cash and cash equivalents include the company's current bank accounts and short-term deposits. Deposits held with the Eni Coordination Center SA are included in this classification.

**Proved oil and gas reserves**

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, that is, prices and costs as at the date that the estimate is made.

a) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation tests. The area of a reservoir considered proved includes (a) that portion delineated by drilling and defined by gas-oil or oil-water contacts, if any, or both, and, (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

b) Reserves that can be produced economically through the application of improved recovery techniques (such as fluid injection) are generally only included in the proved classification if successful testing by a pilot project, or the operation of an installed programme in the reservoir, provides support for the engineering analysis on which the project or programme was based.

## STATEMENT OF ACCOUNTING POLICIES

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### **Proved oil and gas reserves (continued)**

c) Estimates of proved reserves do not include the following (a) crude oil, natural gas and natural gas liquids that may become available from known reservoirs but are classified separately as indicated additional reserves, (b) crude oil, natural gas and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors, (c) crude oil, natural gas and natural gas liquids that may be recovered from oil shales, coal, gilsonite and other such sources

### **Proved developed oil and gas reserves**

Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection, or other improved recovery techniques, for supplementing the natural forces and mechanisms of primary recovery will generally be included as proved developed reserves only after testing by a pilot project, or after the operation of an installed programme, has confirmed through production response that increased recovery will be achieved.

### **Proved undeveloped reserves**

All other proved reserves which do not meet the definition of proved developed reserves

### **Probable reserves**

Probable reserves are those reserves which are not yet 'proved', but are estimated to have better than a 50% chance of being technically and economically producible.

### **Possible reserves**

Those reserves which at present cannot be regarded as 'probable', but which are estimated to have a significant but less than 50% chance of being technically and economically producible.

### **Decommissioning costs**

The estimated cost of dismantling and restoring the production and related facilities at the end of the economic life of each field is recognised in full at the commencement of oil and gas production. The amount recognised is the present value of the estimated future restoration cost. The discount of the provision is unwound in each period and taken to the profit and loss account as an interest expense. An offsetting tangible fixed asset is also recognised and is depreciated on a unit of production basis. Changes to the present value of the estimated future restoration cost are accounted for as adjustments to the provision and the fixed asset.

### **Foreign currencies**

Transactions denominated in a foreign currency are converted to sterling at rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated at the rates ruling at the balance sheet date. The resulting exchange gains or losses are dealt with through the income statement.

## STATEMENT OF ACCOUNTING POLICIES

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### **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable nor deductible. The current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged and credited to the income statement, except when it relates to items charged or credited directly to reserves, in which case the deferred tax is also dealt with within reserves.

### **Petroleum revenue tax**

Petroleum revenue tax payable is provided on the taxable profits of fields subject to petroleum revenue tax at a rate of 50%.

Provision for deferred petroleum revenue tax is made using the liability method. As petroleum revenue tax is largely specific to individual fields and field lives are finite, provision is made in full for those fields expected to pay significant tax. Provision is made for timing differences in respect of capital and revenue expenditure and the decommissioning and restoration provision.

### **Revenue**

Revenue is recognised when the amount can be reliably measured, and it is probable that the future economic benefits will flow to the company.

The company recognises turnover on its share of oil, condensates, and gas production sold when the product has reached the processing terminal. Turnover is stated exclusive of value added tax and similar levies.

Interest income is recognised on a time proportion basis.

## STATEMENT OF ACCOUNTING POLICIES

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### Financial Instruments

The Company classifies its financial assets in the following categories at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

*(c) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

*(d) Held-to-maturity*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the company has the positive intention and ability to hold to maturity.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

### Commodity instruments

Within the ordinary course of business the company routinely enters into sale and purchase transactions for commodities. The majority of these transactions take the form of contracts that were entered into and continue to be held for the purpose of delivery of the commodity in accordance with the entity's expected purchase, sale or usage requirements. These contracts are not within the scope of IAS 39.

Long-term gas sales contracts entered by the company contain embedded derivatives, and therefore fall within the scope of IAS 39. The pricing elements within these agreements are linked to indices which are not gas related. The embedded portion of the contracts is measured at fair value through profit and loss. Fair Value is determined and is all based on data related to active markets.

In addition, the company uses various commodity based derivative instruments to manage some of the risks arising from fluctuations in commodity prices. Such contracts include physical and net settled forwards, and therefore also fall within the scope of IAS 39.



## STATEMENT OF ACCOUNTING POLICIES

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### Commodity instruments (continued)

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and if so the nature of the item being hedged.

The company designates certain derivatives as either

a) Derivatives at fair value through profit and loss

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within net gains and losses on derivative financial instruments. These derivatives are classified within current assets and current liabilities.

b) Hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedge)

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity as cash flow hedge reserves. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within net gain and losses on derivative financial instruments.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within sales. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within changing fair value of derivative financial instruments.

Derivatives held for hedging purposes and qualify for hedge accounting are classified based on the maturity of the hedged item.

### Commodity Instruments valuation

Commodity contracts that meet the definition of a derivative and which are not used for own use purpose are initially recognised at fair value and are subsequently measured at fair value. The fair values of financial instruments measured at the fair value that are quoted in active markets are based on bid price for assets and offer prices for liabilities. When independent prices are not available the fair value are derived by using valuation techniques which refer to available market data. These include comparisons to other instruments where market observable prices exist, discounted cash flow analysis, option pricing models and often valuation techniques commonly used by market participant.

NOTES TO THE FINANCIAL STATEMENTS

**1 Parent undertakings**

The company's immediate parent undertaking is Eni UK Limited

The company's ultimate parent undertaking, Eni SpA, a company incorporated in Italy, will produce consolidated financial statements for the year ended 31 December 2007 which will be available from Eni SpA – Exploration & Production Division, Direzioni e Uffici, Via Emilia 1, 20097, San Donato Milanese, PO Box 12069, (20100) Milano

The parent company of the largest and smallest group into which the company is consolidated is Eni SpA

The audit fee for the year 2007 was £10,000 and is accounted for in the income statement, 2006 was borne by the immediate parent company, Eni UK Limited

**2 Revenue**

In the opinion of the directors the company's business is wholly in oil and gas exploration and production within the UK Continental Shelf

	2006 £'000	2007 £'000
Eni Trading B V	8,112	10,995
Eni UK Ltd	4,116	4,652
Eni Refining & Marketing Division	254	1,499
Third parties	3,807	5,310
	<u>16,289</u>	<u>22,456</u>

**3 Directors and employees**

None of the directors received any emoluments in respect of their services to the company during the year (2006 - nil) and the company had no employees (2006 – none)

**4 Other service costs and expenses**

	2006 £'000	2007 £'000
Eni SpA	189	427
Eni UK Ltd	1,123	1,684
Third parties	1,598	4,225
	<u>2,910</u>	<u>6,336</u>

NOTES TO THE FINANCIAL STATEMENTS

**5 Interest receivable and similar income**

	2006 £'000	2007 £'000
Interest receivable		
Eni Coordination Center S A	1,371	1,455
	<u>1,371</u>	<u>1,455</u>

**6 Interest payable and similar charges**

	2006 £'000	2007 £'000
Interest payable		
Banque Eni S A	-	33
Eni International Bank	1	-
Other financial charges payable	14	8
Discount unwind on decommissioning provision	90	107
	<u>105</u>	<u>148</u>

**7 Taxation**

	2006 £'000	2007 £'000
<b>Current tax:</b>		
UK corporation tax on profit for the year	-	6,049
Petroleum revenue tax	2,616	(315)
<b>Adjustment in respect of prior years:</b>		
Corporation tax	716	-
<b>Total current tax</b>	<u>3,332</u>	<u>5,734</u>
<b>Deferred tax</b>	<u>3,175</u>	<u>(2,405)</u>
Tax on profit	<u>6,507</u>	<u>3,329</u>

NOTES TO THE FINANCIAL STATEMENTS

**7 Taxation (continued)**

**Factors affecting tax charge for the year**

The current tax assessed for the period is lower (2006 – lower) than the standard rate of corporation tax applicable to oil and gas exploration and production companies in the UK (50% - 2006) The differences are explained below

	2006 £'000	2007 £'000
<b>Profit before taxation</b>	15,219	9,349
Profit multiplied by rate of corporation tax in the UK of 50% (50% -2006)	7,610	4,675
<b>Effects of:</b>		
Accelerated capital allowances and other timing differences	(4,028)	-
Increase tax rate on timing differences	466	-
Income not taxable	(274)	(290)
Expenditure not allowable (claimed)	107	28
Group relief surrendered for no consideration	550	(436)
PRT charge/credit for the period	2,616	(315)
PRT allowable for corporation tax	(1,256)	(333)
Adjustment in respect of prior years	716	-
<b>Total tax</b>	<u>6,507</u>	<u>3,329</u>

Other group companies have agreed to surrender, for no consideration, taxation losses under Section 402 Taxes Act 1988, sufficient to cover any UK taxable profits of the company for the year

**8 Intangible assets**

**Exploration and appraisal costs**

	2006 £'000	2007 £'000
<b>Cost</b>		
At 1 January	3,561	3,561
Additions	31	54
Exploration costs written off	(31)	(54)
<b>At 31 December</b>	<u>3,561</u>	<u>3,561</u>
<b>Net book value</b>		
At 31 December	<u>3,561</u>	<u>3,561</u>

NOTES TO THE FINANCIAL STATEMENTS

**9 Property, plant and equipment**

	Producing Assets 2006 £'000	Producing Assets 2007 £'000
<b>Cost</b>		
At 1 January	17,366	21,605
Additions	4,434	2,890
Change in decommissioning cost estimate (note 18)	(195)	(116)
<b>At 31 December</b>	<b>21,605</b>	<b>24,379</b>
<b>Depreciation</b>		
At 1 January	6,251	10,743
Charge for the year	4,492	5,904
<b>At 31 December</b>	<b>10,743</b>	<b>16,647</b>
<b>Net book value At 31 December</b>	<b>10,862</b>	<b>7,732</b>

**10 Investments**

	2006 £'000	2007 £'000
<b>Cost and net book value</b>		
At 1 January and 31 December	1	1

The company's investment in subsidiary undertakings throughout the year comprised 100% of the ordinary equity share capital of the following company

Company Name	Country of registration	Activity
Eni Forties Limited	England & Wales	Oil and gas exploration and production

**11 Inventories**

	2006 £'000	2007 £'000
Materials and supplies	224	78

NOTES TO THE FINANCIAL STATEMENTS

12 Trade and other receivables

	2006 £'000	2007 £'000
<b>Trade Receivables</b>		
Third parties	627	1,848
<b>Other Receivables</b>		
Amounts owed by related parties		
Eni UK Limited	795	2,511
Eni Trading B V	16	5
Eni Refining & Marketing	14	-
Eni International N A N V Sarl	1,747	-
<b>Prepayments and accrued income</b>		
Eni Coordination Center S A	57	39
Banque Eni S A	-	97
Eni Trading B V	-	85
	<b>3,256</b>	<b>4,585</b>

Trade receivables of £1,848k (2006 - £627k) were fully performing

As of 31 December 2007 related parties receivables of £2,516k (2006 £2,572k) were fully performing  
These relate to subsidiary undertaking for whom there is no history of default

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

	2006 £'000	2007 £'000
Pounds	3,226	4,498
US Dollars	30	87

The carrying amount of related parties receivables are denominated in the following currencies

	2006 £'000	2007 £'000
Pounds	2,542	2,511
US Dollars	30	5
	<b>2,572</b>	<b>2,516</b>

Credit risk is the potential exposure of the company and its subsidiary to loss in the event of non-performance by counterparties. The credit risk arising from the company's normal commercial operations is controlled according to guidelines established by the Eni SpA group. In addition, the company follows guidelines of the Eni SpA treasury department on the choice of highly credit-rated counterparties in their use of financial and commodity instruments, including derivatives. The company and its subsidiaries have not experienced material non-performance by any counterparty. As of 31 December 2007 the company and its subsidiaries have no significant concentrations of credit risk. The maximum exposure to credit risk is equal to the carrying amount of the trade and other receivables.

NOTES TO THE FINANCIAL STATEMENTS

13 Cash and cash equivalents

	2006 £'000	2007 £'000
<b>Cash at bank and in hand</b>		
Banque Eni S A	-	261
Eni International Bank	245	-
<b>Short term deposits</b>		
Eni Coordination Center S A	34,400	23,350
	<u>34,645</u>	<u>23,611</u>

There are no differences between the above amounts reported in the balance sheet and the amounts used for the purposes of the cash flow statement

Short term deposits are held with the Eni Coordination Center S A. These mature on 14 January 2008. Rates of interest earned in the year were between 5.01% - 5.29% (2006: 4.44% - 5.13%).

14 Trade and other payables

	2006 £'000	2007 £'000
<b>Trade creditors</b>		
Third parties	1,872	4,592
<b>Accruals and deferred income</b>		
Third parties	25	529
<b>Amounts owed to related parties</b>		
Eni UK Ltd	224	222
Other tax and social security payables	179	145
	<u>2,300</u>	<u>5,488</u>

15 Financial liabilities/assets – derivative financial instruments

Commodity instruments

Valuation

The amount for commodity contracts and commodity related derivatives is based on forward price curves and are shown below

Amounts recognised in respect of derivative financial instruments

	2006 Assets £'000	2006 Liabilities £'000	2007 Assets £'000	2007 Liabilities £'000
Long-term gas contracts	-	758	-	2,878
	<u>-</u>	<u>758</u>	<u>-</u>	<u>2,878</u>

NOTES TO THE FINANCIAL STATEMENTS

**15 Financial liabilities/assets – derivative financial instruments (continued)**

These amounts are disclosed in the financial statement as

	2006 Assets £'000	2006 Liabilities £'000	2007 Assets £'000	2007 Liabilities £'000
Current liabilities	-	758	-	2,878
	-	758	-	2,878

**Fair value adjustments on derivative financial instruments**

The following changes in fair value for derivative financial instruments are included within the income statement for the period

	2006 £'000	2007 £'000
Long-term UK gas contracts	5,066	2,120

The table below shows for each class of financial assets and financial liabilities its fair value/ carrying value and respective notional amount

	Notional amount		Fair value/ Carrying Value	
	2006 £'000	2007 £'000	2006 £'000	2007 £'000
Bank borrowings	16,985	16,985	16,985	16,985
Long-term UK gas contracts	-	-	758	2,878

Within the ordinary course of business the group routinely enters into sale and purchase transactions for commodities. The majority of these transactions take the form of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of the commodity in accordance with the group's expected sale, purchase or usage requirements. Such contracts are not within the scope of IAS39.

Long-term gas sales contracts entered by the company contain embedded derivatives and therefore fall within the scope of IAS 39.

Certain short-term market traded contracts for the purchase and subsequent resale of third-party commodities are within the scope of IAS 39 and are recognised in the balance sheet at fair value with movements in fair value recognised in the income statement. The Group uses various commodity based derivative instruments to manage some of the risks arising from fluctuations in commodity prices. Such contracts include physical and net-settled forwards.



NOTES TO THE FINANCIAL STATEMENTS

**15 Financial liabilities/assets – derivative financial instruments (continued)**

**Valuation**

The amount for commodity contracts and commodity related derivatives is based on forward price curves for the next 2 years for a number of gas contracts

**Amounts recognised in respect of derivative financial instruments**

	2006 Assets £'000	2006 Liabilities £'000	2007 Assets £'000	2007 Liabilities £'000
Long-term gas contracts	-	758	-	2,878
	-	758	-	2,878

These amounts are disclosed in the financial statements as current liabilities

**Fair value adjustments on derivative financial instruments**

The following fair value adjustments are included within the income statement for the period

	2006 £'000	2007 £'000
Long-term gas contracts	5,066	(2,120)

**Fair value of non-derivative financial assets and liabilities**

Financial assets and liabilities are included in the financial statements at their current market value, which is also deemed to be the fair value. It is the opinion of the directors that the book values stated in these financial statements are the approximate fair values

**16 Financial liabilities - borrowings**

	2006 £'000	2007 £'000
Authorised, allotted and fully paid £1 redeemable shares	16,985	16,985

The company has the right to redeem any or all of the 16,985,000 redeemable shares at any time at a sum equal to the nominal capital paid up

NOTES TO THE FINANCIAL STATEMENTS

**17 Deferred tax**

Deferred tax is calculated in full on temporary differences using a tax rate of 50%. The movement on the deferred tax amount is as shown below

	2006 £'000	2007 £'000
Net deferred tax liability at 1 January	1,864	5,039
Charge/(credit) to the income statement	3,175	(2,405)
Net deferred tax liability at 31 December	5,039	2,634

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balance sheet net. The movements in deferred tax assets and liabilities during the period are shown below

**Deferred tax liabilities**

**Accelerated capital allowances**

At 1 January 2007	6,399
Credit to income statement	(1,370)
<b>At 31 December 2007</b>	<b>5,029</b>

**Deferred tax assets**

	Financial Instruments £'000	Decommis- sioning £'000	Insurance £'000	Total £'000
At 1 January 2007	378	944	38	1,360
(Charge) / credit to the income statement	1,061	(8)	(18)	1,035
<b>At 31 December 2007</b>	<b>1,439</b>	<b>936</b>	<b>20</b>	<b>2,395</b>

The deferred tax assets on insurance and financial instruments are available for offset against the deferred tax liability. This gives a net deferred tax liability of £ 2,634,000 to be disclosed as a non-current deferred tax liability of £ 3,570,000 and a non-current deferred tax asset of £ 936,000 (2006 £5,983,000 and £944,000 respectively)

NOTES TO THE FINANCIAL STATEMENTS

18 Provisions

	Decommissioning	Other provisions	Total
	£'000	£'000	£'000
<b>Non-current provisions</b>			
<b>At 1 January</b>	1,886	76	1,962
Charge/(credit) to the income statement			
Additional provisions		(36)	(36)
Unwinding of discounts	108		108
Decrease in decommissioning cost estimate <sup>1</sup>	(122)		(122)
<b>At 31 December 2007</b>	<b>1,872</b>	<b>40</b>	<b>1,912</b>

- <sup>1</sup> - The change in decommissioning cost estimate is adjusted against the carrying amount of the related asset retirement cost included within property, plant and equipment (note 10)

**Decommissioning**

A provision of £1,872,000 (2006 - £1,886,000) has been recognised for decommissioning costs relating to producing oil and gas fields in which the company is a participant. The provision has been estimated using existing technology, existing life of field estimates, current decommissioning cost estimates and discounted using the directors' assessment of an appropriate risk adjusted discount rate ranging from 5.085% to 5.361% (2006 - 4.620% to 4.699%). The estimated lives of field interests are between 2014 and 2029.

**Other provisions**

During 2006, the company was informed of a reduction in insurance premiums to be imposed on the group by its oil insurance provider. A provision was established in 2005 for these additional costs, and has been updated in 2007 to reflect the latest estimated obligation of the company.

19 Share capital

	2006 £'000	2007 £'000
Authorised, allotted and fully paid £1 ordinary equity shares	15	15

The rights attaching to the ordinary shares are in all respects *pari passu* except as to redemption.

The company's objective when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for the shareholder and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to its shareholder.

The company regularly reviews its capital structure on the basis of its expected capital requirements in order to achieve the defined strategic objectives and manages its capital accordingly.

The company's capital structure fully satisfies its capital requirements and has no necessity or intention of altering the current position.

NOTES TO THE FINANCIAL STATEMENTS

**20 Retained earnings**

	2006 £'000	2007 £'000
At January	14,873	23,585
Dividend	-	(23,000)
<b>Total</b>	<b>14,873</b>	<b>585</b>
Profit for the year	8,712	6020
<b>At 31 December</b>	<b>23,585</b>	<b>6,605</b>

**21 Reconciliation of movements in shareholders' funds**

	2006 £'000	2007 £'000
Opening equity shareholder's funds	14,888	23,600
Dividends	-	(23,000)
Profit for the year	8,712	6020
<b>Closing equity shareholders' funds</b>	<b>23,600</b>	<b>6,620</b>

**22 Commitments**

The company has interests in various consortia engaged in exploration, development and production of oil and gas. As a member of these consortia, the company is committed to pay its share of the costs of development. It is anticipated that this will involve capital expenditure of £5 million in 2007 (2006 - £5.5 million).

In addition to development expenditure, the company is committed to pay its share of the costs of exploration, which is expected to involve capital expenditure of £0.1 in 2007 (2006 - £0.1 million).

**23 Market Risk**

**a) Price risk**

Eni's results of operations are affected by changes in the prices of commodities. A decrease in oil, gas and product prices generally has a negative impact on Eni's results of operations, and vice versa. In order to hedge commodity risk, Eni uses derivatives traded on the organized markets of ICE and NYMEX (futures and options) and derivatives traded over-the-counter (swaps, forwards and contracts for differences, with the underlying commodities being crude oil). Such derivatives are recognized at fair value on the basis of market prices provided from specialized sources such as broker and pricing service. At the balance sheet date the company holds swaps and option contracts in order to manage its commodity risk.

The guidelines of the Eni SpA group for the management of commodity risk contain limits to the price risk deriving from trading activities. Coordination in this area is carried out by a commodity risk assessment team operating at the Eni SpA group level.

At 31 December 2007, with reference to commodity risk a hypothetical negative change of 10% in gas prices with all other variables held constant, would imply post-tax profit for the year would have been £287,162 (2006 £247,147) higher. Other components of Equity would have been £287,162 (2006 £247,147) higher. This is due to favourable movement in long term gas derivatives.

## NOTES TO THE FINANCIAL STATEMENTS

### 23 Market Risk

#### b) Foreign Exchange rate risk

Exchange rate risk derives from the fact that the company's operations are conducted in currencies other than the GBP (in particular the US dollar) and by the time lag existing between the recording of costs and revenues denominated in currencies other than the functional currency and the actual time of the relevant monetary transaction (transaction exchange rate risk). The transaction exchange rate risk arising from payable, receivable and accruals in currency's denominated in currencies other than the functional currency, is not considered to be material as long as these will be realised within 30 days. Generally speaking, an appreciation of the US dollar versus the GBP has a positive impact on the company's results of operations, and vice-versa. Effective management of exchange rate risk is performed at the Group level, within the central finance department which matches opposite positions of the Group operating subsidiaries and hedges net positions using derivatives (such as currency swaps, forwards and options). At the balance sheet date the company does not hold any derivative instruments designed to manage exchange rate risk. Commodity derivatives based on currencies other than the functional currency are subject to exchange rate risk, as their realisation time scenario is greater than 30 days. An analysis of this risk is set out below.

At 31 December 2007, the company had no material exposure to the US Dollar market.

#### c) Liquidity Risk

Liquidity risk is the risk that suitable sources of funding for the company's business activities may not be available. The company has access to a wide range of funding at competitive rates through the capital markets and banks. The company believes it has access to sufficient funding to meet currently foreseeable borrowing requirements.

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 group financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet 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.

There are no balances over 12 months other than derivatives.

At 31 December 2006	Less than one year £ '000	More than one year £ '000
Long-term UK gas contracts	-	758
Trade and Other Payables	-	2,300
Borrowings	-	16,985

The above financial liabilities will be settled on a net basis with the exception of borrowings and trade and other payables, which will be settled on a gross basis.

NOTES TO THE FINANCIAL STATEMENTS

**23 Market Risk**

<b>At 31 December 2007</b>	<b>Less than one year</b>	<b>More than one year</b>
	£ '000	£ '000
Short-term gas contracts	2,878	-
Trade and Other Payables	5,488	-
Borrowings	-	16,985

The above financial liabilities will be settled on a net basis with the exception of borrowings and trade and other payables, which will be settled on a gross basis

**d) Operation risk**

The company's and its subsidiaries' activities present industrial and environmental risks and are therefore subject to extensive government regulations concerning environmental protection and industrial security. The broad scope of these activities involves a wide range of operational risks such as those of explosion, fire or leakage of toxic products, and production of non biodegradable waste.

All these events could possibly damage or even destroy wells as well as related equipment and other property, cause injury or even death to persons or cause environmental damage. In addition, since exploration and production activities may take place on sites that are ecologically sensitive, each site requires a specific approach to minimise the impact on the related ecosystem, biodiversity and human health.