

ENI ELGIN/FRANKLIN LIMITED

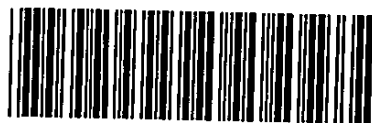
**DIRECTORS' REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2010**

REGISTERED OFFICE

**Eni House
10 Ebury Bridge Road
LONDON SW1W 8PZ**

Registered Number: 3772746

MONDAY



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COMPANIES HOUSE

ENI ELGIN/FRANKLIN LIMITED

DIRECTORS AND REGISTERED OFFICE

BOARD OF DIRECTORS

F Polo
M Talamonti
M Trezza

SECRETARY AND REGISTERED OFFICE

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

STATUTORY AUDITOR

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

REGISTERED IN ENGLAND NO. 3772746

ENI ELGIN/FRANKLIN LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the year ended 31 December 2010

Principal activity

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. The company's principal asset is a share of 21.867% in the Elgin/Franklin field.

Results and dividends

The results for the year are set out on page 6 of the financial statements. A profit for the year to 31 December 2010 of £150 million (2009 profit - £118 million) was transferred to reserves.

Dividends of £238 million were paid during 2010 to the ordinary shareholders (2009 – £150 million).

Business review and future company developments

The operational performance of Eni Elgin/Franklin Limited has been satisfactory and management anticipates that this will continue to be the situation in the coming year.

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 has adopted the most stringent standards, in accordance with Eni S.p.A. Group requirements, for the evaluation and management of industrial and environmental risks.

Key performance indicators

Key performance indicators of the company are set out below.

	2009 £'000	2010 £'000	Variance
Revenue	406,739	417,212	3%
Operating profit	251,553	275,644	10%
Net profit after tax	118,427	150,474	27%
Net assets	338,970	268,426	-21%

The directors consider the performance of the company to be in line with the expectations. Operating profits have increased in FY2010 mainly due to increased revenues and lower depreciation charge for the year. Net profit after tax also benefited from a favourable movement on derivative financial instruments. Net assets have decreased due to a dividend payment of £238 million offset by the profit for the year.

Post balance sheet events

There have been no events after the balance sheet date.

DIRECTORS' REPORT

Directors

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

- F Polo was appointed as director on 14 July 2010
- M Trezza was appointed as director on 15 November 2010
- F Castiglioni resigned as director on 14 July 2010
- N Keenan resigned as director on 15 November 2010
- M J Michell resigned as director on 22 January 2010

Certain directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report

Financial instruments

Details on the use of financial instruments and financial risk management are included in the relevant notes in the financial statements

Statement of directors' responsibilities in respect of the Directors' Report and 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). 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 accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the EU 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Provision of information to auditor

The directors, as at the date of this report, have 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 auditor is 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 auditor is aware of that information.

ENI ELGIN/FRANKLIN LIMITED

DIRECTORS' REPORT

Auditor

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

By the order of the Board


F Dal Bello
Secretary

1 March 2011

ENI ELGIN/FRANKLIN LIMITED

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Eni Elgin/Franklin Limited

We have audited the financial statements of Eni Elgin/Franklin Limited for the year ended 31 December 2010 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Shareholders' Equity, the Statement of Accounting Policies and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, 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

As explained more fully in the Directors' Responsibilities Statement set out on page 3, 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.

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 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

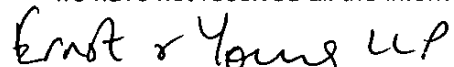
Opinion on other matter prescribed by the Companies Act 2006

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
- 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.



William Testa (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

1 March 2011

ENI ELGIN/FRANKLIN LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2009 £'000	2010 £'000
Revenue	3	378,205	386,571
Other service costs and expenses	4	(51,074)	(57,183)
Amortisation and depreciation	8/9	(75,578)	(53,744)
Operating profit		251,553	275,644
Net gain / (loss) on derivative financial instruments	17	(15,576)	7,443
Interest payable and similar charges	6	(3,935)	(2,169)
Interest receivable and similar income	5	924	1,949
Profit before taxation		232,966	282,867
Taxation	7	(114,539)	(132,393)
Profit for the year		118,427	150,474

All results are from continuing operations and are attributable to the equity holders

ENI ELGIN/FRANKLIN LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

	<i>Notes</i>	<u>2009</u> £'000	<u>2010</u> £'000
Profit for the year		118,427	150,474
Cash flow hedge reserves gross of tax		(44,660)	33,964
Deferred tax on cash flow hedge reserves	14	22,330	(16,982)
Total comprehensive income		<u>96,097</u>	<u>167,456</u>

Total comprehensive income for the year is attributable to the equity holders

ENI ELGIN/FRANKLIN LIMITED

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010**

	<i>Retained Earnings</i>	<i>Cash Flow Hedge Reserve</i>	<i>Shareholders' Equity</i>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Balance at 1 January 2009	387,525	5,348	392,873
Profit for the year	118,427	-	118,427
Movement in cash flow hedge reserve – net of tax	-	(22,330)	(22,330)
Dividends paid to equity shareholders	<u>(150,000)</u>	<u>-</u>	<u>(150,000)</u>
Balance at 31 December 2009	355,952	(16,982)	338,970
Profit for the year	150,474	-	150,474
Movement in cash flow hedge reserve-net of tax	-	16,982	16,982
Dividends paid to equity shareholders	<u>(238,000)</u>	<u>-</u>	<u>(238,000)</u>
Balance at 31 December 2010	<u>268,426</u>	<u>-</u>	<u>268,426</u>

**BALANCE SHEET
AS AT 31 DECEMBER 2010**

	Notes	2009 £'000	2010 £'000
Assets			
Current assets			
Cash and cash equivalents	11	122,082	142,023
Trade and other receivables	10	198,756	69,323
Financial assets - Derivative financial instruments	17	302	176
		<u>321,140</u>	<u>211,522</u>
Non-current assets			
Property, plant and equipment	8	331,915	324,329
Intangible assets	9	1,079	829
Deferred tax assets	14	17,630	24,854
		<u>350,624</u>	<u>350,012</u>
Total assets		<u>671,764</u>	<u>561,534</u>
Liabilities			
Current Liabilities			
Financial liabilities - Derivative financial instruments	17	41,533	-
Trade and other payables	12	73,402	50,679
Current tax liabilities		43,768	35,161
		<u>158,703</u>	<u>85,840</u>
Non-current liabilities			
Provisions	13	37,235	51,331
Deferred tax liabilities	14	136,856	155,937
		<u>174,091</u>	<u>207,268</u>
Total Liabilities		<u>332,794</u>	<u>293,108</u>
Shareholders' equity			
Share capital	15	-	-
Cash flow hedge reserve	19	(16,982)	-
Retained earnings	18	355,952	268,426
Total equity shareholders' funds		<u>338,970</u>	<u>268,426</u>
Total liabilities and equity shareholders' funds		<u>671,764</u>	<u>561,534</u>

The financial statements from page 6 to 31 were approved by the Board on 1 March 2011

On behalf of the Board


M Talamonti
Director

ENI ELGIN/FRANKLIN LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Notes	2009 £'000	2010 £'000
Cash flow from operating activities			
Net profit		118,427	150,474
Adjustments for:			
Depreciation	8	74,621	53,448
Exploration costs written off	9	957	296
Interest receivable and similar income		(1,139)	(1,397)
Interest payable and similar charges		-	69
Fair value gain/ (loss) on derivative financial instruments	17	15,576	(7,443)
Tax charge for the year	7	114,539	132,393
Changes in working capital excluding acquisitions / disposals:			
Decrease/ (increase) in trade and other receivables		(115,887)	129,433
(Increase) / decrease in trade and other payables		48,325	(22,723)
Decrease in provisions		(694)	-
Cash generated from continuing operations		254,725	434,550
Interest received	5	924	1,396
Interest paid	6	(35)	(47)
Tax paid		(87,322)	(146,126)
Net cash generated from operating activities		168,292	289,773
Cash flows from investing activities			
Purchase of property, plant and equipment		(35,107)	(31,764)
Purchase of exploration assets	9	(60)	(46)
Net cash used in investing activities		(35,167)	(31,810)
Cash flows from financing activities			
Dividends paid to shareholders		(150,000)	(238,000)
Net cash used in financing activities		(150,000)	(238,000)
Net increase / (decrease) in cash and cash equivalents		(16,875)	19,962
Cash and cash equivalents at 1 January	11	138,707	122,082
Effects of exchange rate on cash and cash equivalent		250	(21)
Cash and cash equivalents at 31 December	11	122,082	142,023

STATEMENT OF ACCOUNTING POLICIES

A summary of the principal accounting policies which have been applied throughout the year is 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. The company is a limited company which is incorporated and domiciled in the UK.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 as applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The financial statements have been prepared on a going concern basis.

Adoption of new and revised Standards

- The following standards, amendments and interpretations to existing standards, issued by the International Accounting Standards Board (IASB) and endorsed by the EU, are effective for the first time in the current year but are not relevant to the company.
- IAS 1, 'Presentation of Financial Statements' - current/non-current classification of convertible instruments,
- IAS 27, 'Consolidated and separate financial statements' - consequential amendments arising from amendments to IFRS 3,
- IAS 36, 'Impairment of Assets' - unit of accounting for goodwill impairment test,
- IAS 38, 'Intangible Assets' - additional consequential amendments arising from revised IFRS 3,
- IAS 39, 'Financial Instruments: Recognition and Measurement' - treating loan prepayment penalties as closely related embedded derivatives and scope exemption for business combination contracts,
- IAS 39, 'Financial Instruments: Recognition and Measurement' - amendments to clarify how to apply existing principles in determining eligible hedged risks and portions,
- IFRS 1, 'First-time Adoption of International Financial Reporting Standards' - additional exemptions for First-time Adopters (Amendments),
- IFRS 2, 'Share-based payments' - amendments to clarify Group cash-settled share based payment arrangements and to confirm that common control transactions and contribution of a business on formation of a JV are both outside the scope of IFRS,
- IFRS 3, 'Business Combinations' - comprehensive revision on applying the acquisition method,
- IFRS 8, 'Operating Segments' - disclosure about information about segment assets,
- IFRIC 9, 'Reassessment of Embedded Derivatives' - embedded derivatives in contracts acquired in business combinations, joint venture formations and common control transactions remain outside the scope of IFRIC 9,
- IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation' - amended to remove restriction that prevented the hedging instrument being held by the foreign operation,
- IFRIC 12, 'Service Concession Arrangements' - sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements,
- IFRIC 17, 'Distributions of Non-Cash Assets to Owners' - provides guidance in respect of distributions of non-cash assets to owners by focusing on the measurement of the dividend payable, and
- IFRIC 18, 'Transfers of Assets from Customers' - clarifies the accounting for contributed property, plant and equipment by "access providers" (i.e., by the entity receiving the contribution).

STATEMENT OF ACCOUNTING POLICIES

Adoption of new and revised Standards (continued)

The following standards, amendments and interpretations to existing standards, issued by the IASB and endorsed by the EU, are applicable to the company for the first time in the current year and have been adopted by the company with no impact on the company's accounting policies or on its results or net assets included within these financial statements

- IAS 7, 'Statement of Cash Flows' – only expenditure that results initially in the recognition of an asset may be classified as a cash flow from investing activities,
- IAS 17, 'Leases' – lease of land with an indefinite economic life need not be classified as an operating lease,
- IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations' – amendments to required disclosures for non-current assets classified as held for sale or discontinued operations, and
- IAS 39, 'Financial Instruments Recognition and Measurement' - amended to state that gains or losses on a hedged instrument should be reclassified from equity to profit or loss during the period that the hedged forecast cash flows affect profit or loss

The following standards, amendments and interpretations to existing standards relevant to the company are not yet effective and have not been early adopted by the company in these financial statements

- IAS 24, 'Related Party Disclosures' - amendments mainly clarify the definition of a related party to simplify the identification of related party transaction and partially exempt related party disclosures for government-related entities, effective for annual periods beginning on or after 1 January 2011, and
- IFRS 7, 'Financial Instruments Disclosures' – amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments, effective for accounting periods beginning on or after 1 January 2011,

The following standards and interpretations have been issued by the IASB, but have not been adopted by the European Commission (and published in the EU Official Journal) for their application to become mandatory

- IAS 1, 'Presentation of Financial Statements' – amended to clarify that for each component of equity a reconciliation from opening to closing balances is required to be presented in the statement of changes in equity, effective for accounting periods beginning on or after 1 January 2011, and
- IFRS 9 'Financial Instruments', effective for annual accounting periods beginning on or after 1 January 2013. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value

Other new interpretations and amendments to existing standards not relevant to the company that have been issued but are not yet effective are

- IAS 32, 'Financial Instruments Presentation – Classification or Rights issues' – amendments to the definition of financial liabilities to classify rights issues as equity instruments under certain conditions, effective from annual periods beginning on or after 1 February 2011,
- IFRIC 14, 'Prepayment of a Minimum Funding Requirement' – amendments effective for annual periods beginning on or after 1 January 2011,
- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments' Instruments' – new interpretation effective for annual periods on or after 1 July 2010, and
- Further amendments of IAS 27, IAS 34, IFRS1, IFRS 3 and IFRIC 13 as part of the Improvement to IFRS (issued 2010) – effective for periods beginning on or after 1 January 2011

STATEMENT OF ACCOUNTING POLICIES

Property, plant and equipment

Property, plant and equipment includes oil and gas properties representing 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.

Intangible assets – exploration and appraisal costs

Exploration costs represent the company's share of expenditure by consortia and previously 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 commencement 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.

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 exploration and appraisal costs until the results of the drilling are determined.

Impairment of assets

At the end of each reporting period, the company reviews the carrying amounts of its property, plant and equipment, its investments in jointly controlled entities and those investments measured at cost, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell and value in use.

In assessing value in use, future net cash flows for each field are 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. These estimated future cash flows are then discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

At the end of each reporting period, an assessment is made to determine whether there is any indication that an impairment loss recognised in prior periods may no longer exist or has decreased. Where such an indication exists, an impairment loss is reversed to the extent that the asset's carrying value does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

STATEMENT OF ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents comprise the company's current bank accounts and cash short-term deposits with an original maturity of three months or less. Deposits held with the Eni Coordination Center S A are included in this classification.

Foreign currencies

The company's functional and presentation currency is sterling. 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 recognised in the Income Statement.

Related party transactions

The company has complied with the requirements of International Accounting Standard ("IAS") 24 – Related party transactions in these financial statements. Transactions with related parties are disclosed in each relevant note.

Dividends

Dividends are recognised at the date of the general Shareholders' Meeting in which they were declared, or in the case of an interim dividend when declared by the Board, except when the sale of shares before the ex-dividend date is certain.

Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due, according to the original terms. The amount of the provision is recognised in the income statement.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when (i) there is a current obligation (legal or constructive), as a result of a past event, (ii) it is probable that the settlement of that obligation will result in an outflow of resources embodying economic benefits, and (iii) the amount of the obligation can be reliably estimated.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date or to transfer it to third parties at that time.

Decommissioning provision

The estimated cost of dismantling the production and related facilities and site restoration at the end of the economic life of each field is recognised in full at the commencement of oil and gas production as a decommissioning provision. The amount recognised is the present value of the estimated future restoration cost, and an offsetting tangible fixed asset is also recognised. The increase in the provision with the passage of time (unwinding of discount) is recognised as interest expense. The asset 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.

STATEMENT OF ACCOUNTING POLICIES

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Revenue

Revenue represents the company's share of oil, condensate and gas production sold and is stated exclusive of value added tax and similar levies. Revenue is recognised when the amount can be reliably measured, and it is probable the future economic benefits will flow to the company. The company recognises revenue on its share of oil, condensates, and gas production sold when the product has reached the processing terminal.

Revenues from crude oil and natural gas production from properties in which the company has an interest together with other producers are recognised on the basis of the company's net working interest in those properties (entitlement method). Differences between the company's net working interest volume and actual production volumes are recognised at current prices at period end. Revenues received under take-or-pay sales contracts in respect of undelivered volumes are accounted for as deferred income.

Interest income is recognised on a time proportion basis.

Over/underlift

Lifting or offtake arrangements for oil and gas produced in certain of the company's oil and gas properties are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative production less stock is 'underlift' or 'overlift'. Underlift and overlift are valued at market value and included within debtors and creditors respectively. Movements during an accounting period are adjusted through cost of sales and revenue for overlift and underlift respectively.

STATEMENT OF ACCOUNTING POLICIES

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 productivity 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.
- (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 additional reserves that are less likely to be recovered than proved reserves but more certain to be recovered than Possible Reserves. These reserves are estimated to have equal to or more than 50% chance of being technically and economically producible.

Possible reserves

Possible reserves are additional reserves which analysis and geoscience and engineering data suggest are less likely to be recovered than Probable Reserves. These reserves are estimated to have a significant but equal to or less than 10% chance of being technically and economically producible.

STATEMENT OF ACCOUNTING POLICIES

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 and cash and cash equivalents in the balance sheet.

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.

Derivative financial 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 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.

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

STATEMENT OF ACCOUNTING POLICIES

Derivative financial instruments (continued)

(a) Derivatives at fair value through profit or 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.

Derivative 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 values 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.

Use of accounting estimates, judgements and assumptions

The company's financial statements are prepared in accordance with IFRS. These require the use of estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Estimates made are based on complex or subjective judgements, past experience and other assumptions deemed reasonable in consideration of the information available at the time. The accounting policies and areas that require the most significant judgements and estimates to be used in the preparation of the financial statements are in relation to the accounting for oil and natural gas activities, specifically in the determination of proved and proved developed reserves, impairment of fixed assets, intangible assets, asset retirement obligations, and recognition of environmental liabilities. Although the company uses its best estimates and judgements, actual results could differ from the estimates and assumptions used. A summary of significant estimates follows.

STATEMENT OF ACCOUNTING POLICIES

Use of accounting estimates, judgements and assumptions (continued)

a) Oil and gas activities

Engineering estimates of the Company's oil and gas reserves are inherently uncertain. Although there are authoritative guidelines regarding the engineering criteria that must be met before estimated oil and gas reserves can be designated as "proved", the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgement.

Oil and natural gas reserves have a direct impact on certain amounts reported in the financial statements. Estimated proved reserves are used in determining depreciation and depletion expenses and impairment expense. Depreciation rates on oil and gas assets using the units of production basis are determined from the ratio between the amount of hydrocarbons extracted in the quarter and proved developed reserves existing at the end of the quarter increased by the amounts extracted during the quarter.

b) Impairment of assets

Eni assesses its property, plant and equipment, intangible assets, for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets are not recoverable. Such indicators include changes in the company's business plans, changes in commodity prices leading to unprofitable performance and, for oil and gas properties, significant downward revisions of estimated proved reserve quantities.

Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation and technology improvements on operating expenses, production profiles and the outlook for global or regional market supply and demand conditions for crude oil, natural gas, commodity chemicals and refined products, and the discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

c) Decommissioning provision

Obligations to remove tangible equipment and restore land or seabed require significant estimates in calculating the amount of the obligation and determining the amount required to be recorded at present value in the financial statements. Estimating future asset retirement obligations is complex. It requires management to make estimates and judgements with respect to removal obligations that will come to term many years into the future and contracts and regulations are often unclear as to what constitutes removal.

In addition, the ultimate financial impact of environmental laws and regulations is not always clearly known as asset removal technologies and costs constantly evolve in the countries where Eni operates, as well as political, environmental, safety and public expectations.

The subjectivity of these estimates is also increased by the accounting method used that requires entities to record the fair value of a liability for asset retirement obligations in the period when it is incurred (typically, at the time, the asset is installed at the production location).

The recognised asset retirement obligations are based on future retirement cost estimates and incorporate many assumptions such as expected recoverable quantities of crude oil and natural gas, abandonment time, future inflation rates and the discount rate.

d) Contingencies

Eni accrues for all contingencies that are both probable and estimable. These other contingencies are primarily related to litigation and tax issues. Determining appropriate amounts for accrual is a complex estimation process that includes subjective judgements.

ENI ELGIN/FRANKLIN LIMITED
NOTES TO THE FINANCIAL STATEMENTS

Parent undertakings

The company's immediate parent undertaking is Eni UK Limited

The company's ultimate parent undertaking, Eni S p A, a company incorporated in Italy, will produce consolidated financial statements for the year ended 31 December 2010 which will be available from Eni S p A – 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 S p A

2 Directors and employee information

None of the directors received any emoluments in respect of their services to the company during the year (2009 - nil) and the company had no employees (2009 – none)

3 Revenue

	2009 £'000	2010 £'000
Parent companies		
Eni UK Limited	142,093	119,972
Eni S p A – Corporate – cash flow hedge settlements	7,832	(38,308)
Affiliate company		
Eni Trading & Shipping B V	217,913	268,469
Third parties	10,367	36,439
	<u>378,205</u>	<u>386,571</u>

4 Other service costs and expenses

	2009 £'000	2010 £'000
Operating costs		
Parent company		
Eni UK Limited	4,201	3,740
Affiliate company		
Eni Trading & Shipping B V	99	-
Third parties	49,519	53,795
Revision of provision	(2,745)	(352)
	<u>51,074</u>	<u>57,183</u>

During 2010 auditors remuneration was borne by Eni UK Limited and for the purpose of disclosure a fair allocation of the audit fees to the company would be £9,216 (2009 - £ 8,000)

ENI ELGIN/FRANKLIN LIMITED
NOTES TO THE FINANCIAL STATEMENTS

5 Interest receivable and similar income

	2009 £'000	2010 £'000
Affiliate companies		
Eni Coordination Center S A	924	511
Foreign exchange gain	-	553
Third parties	-	885
	<u>924</u>	<u>1,949</u>

6 Interest payable and similar charges

	2009 £'000	2010 £'000
Affiliate companies		
Banque Eni S A	2	3
Eni Coordination Center S A	5	4
Accretion in relation to decommissioning provision (Note 13)	2,051	2,122
Foreign exchange loss	1,849	-
Third parties	28	40
	<u>3,935</u>	<u>2,169</u>

ENI ELGIN/FRANKLIN LIMITED
NOTES TO THE FINANCIAL STATEMENTS

7 Taxation

	2009 £'000	2010 £'000
Current tax:		
UK corporation tax on profits for the year	142,012	144,198
Adjustment in respect of prior years	(3,330)	(6,680)
Total current tax	138,682	137,518
Deferred tax		
Current year	(24,143)	(5,125)
Total deferred tax	(24,143)	(5,125)
Tax on profit	114,539	132,393

Factors affecting tax charge for the year

The tax assessed for the period is lower (2009- lower) than the standard rate of corporation tax applicable to oil and gas exploration and production companies in the UK of 50% (2009- 50%) The differences are explained below

	2009 £'000	2010 £'000
Profit before taxation	232,966	282,867
Taxation on profit before tax @ 50% (2009 - 50%)	116,483	141,434
Effects of:		
Accelerated capital allowances and other timing differences	1,885	147
Income not taxable	(244)	(1,078)
Adjustment to current tax in respect of prior periods	(3,330)	(6,680)
Other permanent differences	-	(59)
Group relief claimed for no consideration	(255)	(1,372)
Total taxation	114,539	132,393

ENI ELGIN/FRANKLIN LIMITED
NOTES TO THE FINANCIAL STATEMENTS

8 Property, plant and equipment

	Oil and gas properties 2009 £'000	Oil and gas properties 2010 £'000
Cost		
At 1 January	875,421	909,216
Additions	33,795	33,535
Revision of decommissioning estimate	-	12,327
At 31 December	909,216	955,078
Depreciation		
At 1 January	502,680	577,301
Charge for the year	74,621	53,448
At 31 December	577,301	630,749
Net Book Value		
At 31 December	331,915	324,329

9 Intangible assets

Exploration and appraisal costs

	2009 £'000	2010 £'000
Cost and net book value		
At 1 January	1,976	1,079
Additions	60	46
Exploration costs written off	(957)	(296)
Net book value at 31 December	1,079	829

ENI ELGIN/FRANKLIN LIMITED
NOTES TO THE FINANCIAL STATEMENTS

10 Trade and other receivables

	2009 £'000	2010 £'000
Amounts owed by related parties		
Eni UK Limited	10,533	20,173
Eni Trading & Shipping B V	24,549	29,604
Accruals owed by related parties		
Eni UK Limited	115,143	12,813
Other receivables	48,531	6,733
	<u>198,756</u>	<u>69,323</u>

As of 31 December 2010, no trade receivables (2009 - £nil) were impaired. There are no impairment provisions as of 31 December 2010 (2009 - £nil).

There were no past due trade receivables from related parties during 2010 (2009 - £nil). The company receivables from related parties that are less than three months past due are not considered impaired.

There were no past due other receivables during 2010 (2009 - £nil). These relate to associated companies for whom there is no history of default.

	2009 £'000			2010 £'000		
	Fully performing	Past due but not impaired	Impaired	Fully performing	Past due but not impaired	Impaired
Related Parties	35,082	-	-	49,777	-	-
Other debtors	48,531	-	-	6,733	-	-

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

	2009 £'000	2010 £'000
Pounds	173,686	39,174
US Dollars	25,070	30,149

The maximum exposure to credit risk at the reporting date is the fair values of each class of receivable mentioned above. The group does not hold any collateral security.

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

ENI ELGIN/FRANKLIN LIMITED
NOTES TO THE FINANCIAL STATEMENTS

10 Trade and other receivables (continued)

Credit risk is the potential exposure of the company to loss in the event of non-performance by a counter party. The credit risk arising from the company's normal commercial operations is controlled according to guidelines established by the Eni S p A Group. In addition, the company follows guidelines of the Eni S p A treasury department on the choice of highly credit-rated counterparties in their use of financial and commodity instruments, including derivatives. The company has not experienced material non-performance by any counterparty. As of 31 December 2010 the company has no significant concentrations of credit risk. The maximum exposure to credit risk is equal to the carrying amount of the trade and other receivables.

11 Cash and cash equivalents

	2009 £'000	2010 £'000
Affiliate company		
Banque Eni S A	1,302	23
Short term deposit – Affiliate company		
Eni Coordination Center S A	120,780	142,000
	<u>122,082</u>	<u>142,023</u>

Short term deposits are held with Eni Coordination Center S A. These are repayable within 3 months, and carry interest rates which vary in-line with market rates.

During 2010 the effective rate has been between 0.035% and 0.115% (2009 0.31% and 2.16%).

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

12 Trade and other payables

	2009 £'000	2010 £'000
Amounts payable to group companies:		
Eni UK Limited	-	460
Eni Trading and Shipping B V	92	-
Eni S p A	2,191	5,737
Accruals and deferred payments	14,268	19,251
Other trade payables	56,644	24,989
Other tax payables	207	242
	<u>73,402</u>	<u>50,679</u>

Other trade payables include £25 million (2009 £48 million) in respect of 'overlift' representing the excess of company's cumulative production over its cumulative entitlement.

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

ENI ELGIN/FRANKLIN LIMITED
NOTES TO THE FINANCIAL STATEMENTS

13 Provisions for liabilities and charges

	Decommissioning	Other provisions	Total
	£'000	£'000	£'000
At 1 January 2010	35,260	1,975	37,235
Credit to income statement	-	(353)	(353)
Changes to previous estimates	12,327	-	12,327
Unwinding of discount	2,122	-	2,122
At 31 December 2010	49,709	1,622	51,331

Decommissioning

A provision of £50 million (2009 - £35 million) has been recognised for decommissioning costs relating to producing oil 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 of 5.654% (2009 - 5.377%). The provision relates entirely to the Elgin/Franklin field. The estimated date of decommissioning of the Elgin/Franklin field is 2031.

General risk

During 2010 the company has recognised an oil insurance provision of £1,622,000 (2009 - £1,975,000).

14 Deferred tax liability

Deferred tax is calculated in full on temporary differences using a tax rate of 50% (2009 50%). The movement on the deferred tax amount is as shown below.

	2009 £'000	2010 £'000
At 1 January	(165,699)	(119,226)
Credit to the income statement	24,143	5,125
(Charge)/credit to equity	22,330	(16,982)
At 31 December	(119,226)	(131,083)

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 movement in deferred tax assets and liabilities during the period are shown below.

Deferred tax liabilities

£'000

Accelerated capital allowances

At 1 January 2010	158,607
Credit to income statement	(1,946)
At 31 December 2010	156,661

ENI ELGIN/FRANKLIN LIMITED
NOTES TO THE FINANCIAL STATEMENTS

14. Deferred tax liability (continued)

Deferred tax assets

	Commodity Derivatives	Decommis- sioning	Insurance	Total
	£'000	£'000	£'000	£'000
At 1 January 2010	20,766	17,630	985	39,381
(Charged)/ credited to the income statement	(3,872)	7,224	(173)	3,179
Credited to Equity	(16,982)	-	-	(16,982)
At 31 December 2010	(88)	24,854	812	25,578

Deferred tax assets have been offset against the deferred tax liabilities above with the exception of the deferred tax asset on the decommissioning provision. The net deferred tax liability to be disclosed as a non-current liability is therefore £155,937,000 (2009- £136,856,000)

The deferred tax asset related to decommissioning is £24,854,000 (2009-£17,630,000) and is disclosed as a non-current asset

15. Share capital

	2009	2010
	£	£
Authorised, allotted and fully paid		
£1 ordinary equity shares	100	100

The company's objectives 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.

The capital structure of the Group is presented in the balance sheet. Short and medium-term funding requirements are managed through the use of an intercompany facility with Eni Coordination Center S.A. Longer term funding or funding for a particularly large transaction may be sourced from a combination of using the existing facility with Eni Coordination Center S.A., parent or affiliated company loan, suitable long-term instruments, such as loans from third party, or by raising additional equity.

16. Commitments

The company has interests in various consortia engaged in exploration and development 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 may involve capital expenditure in 2011 of approximately £37 million (2010 - £36 million).

In addition to development expenditure, the company is committed to pay its share of the costs of exploration, which in 2010 is £46,000 (2009- £nil).

ENI ELGIN/FRANKLIN LIMITED
NOTES TO THE FINANCIAL STATEMENTS

17. Financial asset – 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

	2009 Assets £'000	2009 Liabilities £'000	2010 Assets £'000	2010 Liabilities £'000
Outright contract	302	-	176	-
Oil commodity derivatives - Swaps	-	12,343	-	-
Oil commodity derivatives - Collars	-	29,190	-	-
	<u>302</u>	<u>41,533</u>	<u>176</u>	<u>-</u>

These amounts are disclosed in the financial statement as

	2009 Assets £'000	2009 Liabilities £'000	2010 Assets £'000	2010 Liabilities £'000
Current liabilities	-	41,533	-	-
Current assets	302	-	176	-
	<u>302</u>	<u>41,533</u>	<u>176</u>	<u>-</u>

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 including the ineffective portion

	2009 £'000	2010 £'000
Outright contract	302	(125)
Oil commodity derivatives - Swaps	(2,810)	880
Oil commodity derivatives - Collars	(13,068)	6,688
	<u>(15,576)</u>	<u>7,443</u>

ENI ELGIN/FRANKLIN LIMITED
NOTES TO THE FINANCIAL STATEMENTS

17. Financial asset – derivative financial instruments (continued)

The following table summarises the ineffectiveness of cash flow hedges credited / (charged) to income statement

	2009 £'000	2010 £'000
Oil commodity derivatives - Swaps	(880)	880
Oil commodity derivatives - Collars	(4,615)	6,688
	<u>(5,495)</u>	<u>7,568</u>

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	
	2009 £'000	2010 £'000	2009 £'000	2010 £'000
Derivative Financial Instruments Liabilities				
Oil commodity derivatives - Swaps	37,359	-	12,343	-
Oil commodity derivatives - Collars	-	-	29,190	-
Derivative Financial Instruments Assets				
Outright contract	22,071	22,860	302	176
Oil commodity derivatives - Swaps	-	-	-	-
Oil commodity derivatives - Collars	(13,337)	-	-	-

For details on cash flow hedge reserves see note 19

18. Retained earnings

	2009 £'000	2010 £'000
At 1 January	387,525	355,952
Profit for the year per income statement	118,427	150,474
Dividends	(150,000)	(238,000)
At 31 December	<u>355,952</u>	<u>268,426</u>

19. Cash flow hedge reserves

	2009 £'000	2010 £'000
At 1 January	5,348	(16,982)
Oil commodity derivatives – Swaps	(8,548)	8,548
Oil commodity derivatives - Collars	(13,782)	8,434
At 31 December	<u>(16,982)</u>	<u>-</u>

20. Business risks

Commodity risk

Eni Group'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 the results of operations, and vice versa. In order to hedge commodity risk, Eni uses derivatives traded on the organised 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 recognised at fair value on the basis of market prices provided from specialised 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 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 Group level.

At 31 December 2010, with reference to financial instruments exposed to commodity risk a hypothetical negative change of 10% in oil prices with all other variables held constant, would imply post-tax profit for the year would have been £2.4 million higher (2009 - £0.6 million) mainly as a result of oil derivatives.

At 31 December 2010 the company had no significant exposure to the gas market.

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.

As at 31 December 2010	Less than one year	More than one year
	£ '000	year £ '000
Oil commodity derivatives- swaps	-	-
Oil commodity derivatives- collars	-	-
Trade and other payables	50,682	-

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

ENI ELGIN/FRANKLIN LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. Business risk (continued)

Liquidity Risk (continued)

As at 31 December 2009	Less than one year £ '000	More than one year £ '000
Oil commodity derivatives- swaps	12,402	-
Oil commodity derivatives- collars	30,105	-
Trade and other payables	73,405	-

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

Operation risk

The company's 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.

21. Comparative figures

Certain prior year figures have been reclassified to conform with the 2010 presentation. This had no impact on the loss for the year or net assets.