

**ENI ULX LIMITED**

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

**Registered Number: 936223**

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**COMPANIES HOUSE**

**ENI ULX LIMITED**

**DIRECTORS AND REGISTERED OFFICE**

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**BOARD OF DIRECTORS**

L Lusuriello  
M Talamonti  
F Arisi Rota

**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 936223

## **ENI ULX 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

#### **Results and dividends**

The company's income statement is set out on page 6. The company's profit for the financial year was £54.4 million (2006 - loss £27.3 million). The directors paid no dividend on ordinary shares (2006 - nil).

#### **Principal activities**

The company is engaged in the exploration for, and the production of, oil and gas on the United Kingdom Continental Shelf. In addition, the company operates branches in Indonesia, mainly investing in exploration. The results of these branches are reflected in these financial statements. The company's operational and development review is set out below.

#### **Operating review and company development**

The operational performance of the fields during the year was 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 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 through the year with the following exceptions:

- On 9 November 2007, G. Mirabelli resigned as a director
- On 9 November 2007, V. Di Lorenzo resigned as a director
- On 9 November 2007, L. Lusuriello was appointed as a director
- On 9 November 2007, F. Arisi Rota was appointed as a director

#### **Supplier payment policy**

It is the policy of the company to make payment to suppliers within 30 days of receipt of invoice and to:

- agree the terms of payment at the start of business with that supplier
- ensure that suppliers are aware of the terms of payment, and
- pay in accordance with its contractual and other legal obligations

At 31 December 2007, the company had an average of 30 days outstanding in trade creditors (2006 - 30 days).

**DIRECTORS' REPORT**

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**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. 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.

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 going 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. 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 1 November 1993 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

12 March 2008

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the financial statements of Eni ULX 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 Shareholder's 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.

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

12 March 2008

# ENI ULX LIMITED

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2006 £ million	2007 £ million
Revenue	2	226.8	188.4
Other income	3	8.9	37.4
<b>Total revenue</b>		<b>235.7</b>	<b>225.8</b>
Other service costs and expenses	4	(63.1)	(46.0)
Labour costs	5	(3.5)	(4.6)
Depletion costs	15	(103.7)	(86.8)
Exploration costs written off	16	(35.4)	(23.6)
<b>Operating profit</b>	6	<b>30.0</b>	<b>64.8</b>
Interest receivable and similar income	8	7.3	1.7
Interest payable and similar charges	9	(2.5)	(3.2)
Dividend income from shares in group undertaking	10	-	15.6
Net losses on derivative financial instruments	19	(0.1)	(3.5)
<b>Profit before taxation</b>		<b>34.7</b>	<b>75.4</b>
Taxation	11	(62.0)	(21.0)
<b>(Loss)/Profit for the year</b>		<b>(27.3)</b>	<b>54.4</b>

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

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

	<i>Share capital</i>	<i>Share premium</i>	<i>Capital contribution</i>	<i>Retained earnings</i>	<i>Cash Flow Hedge Reserves</i>	<i>Shareholder's Equity</i>
	<u>£ million</u>	<u>£ million</u>	<u>£ million</u>	<u>£ million</u>	<u>£ million</u>	<u>£ million</u>
At 1 January 2006	200 0	207 4	-	325 6	-	733 0
Net loss	-	-	-	(27 3)	-	(27 3)
Capital contribution	-	-	214 0	-	-	214 0
Exchange differences on translating foreign operations	-	-	-	1 4	-	1 4
At 31 December 2006	200 0	207 4	214 0	299 7	-	921 1
Net profit	-	-	-	54 4	-	54 4
Cash Flow Hedge Reserves	-	-	-	-	(33 6)	(33 6)
Exchange differences on translating foreign operations	-	-	-	(3 2)	-	(3 2)
<b>At 31 December 2007</b>	<b>200 0</b>	<b>207.4</b>	<b>214 0</b>	<b>350.9</b>	<b>(33.6)</b>	<b>938.7</b>



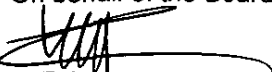
**ENI ULX LIMITED**

**BALANCE SHEET  
AS AT 31 DECEMBER 2007**

	<i>Notes</i>	<i>2006 £ million as restated</i>	<i>2007 £ million</i>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalent	12	23.8	61.3
Trade and other receivables	13,31	29.6	33.4
Inventories	14	17.5	19.2
		<u>70.9</u>	<u>113.9</u>
<b>Non-current assets</b>			
Property, plant and equipment	15	318.6	269.3
Intangible assets	16	77.1	101.9
Investments in subsidiaries	17	703.9	703.9
Deferred tax assets	18	22.5	37.2
Trade and other receivables	13,31	7.0	11.9
Derivative financial instruments	19	2.8	-
		<u>1,131.9</u>	<u>1,124.2</u>
<b>Total assets</b>		<u>1,202.8</u>	<u>1,238.1</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	20	48.8	27.9
Current tax liabilities		23.4	31.3
Derivative financial instruments	19	-	24.6
		<u>72.2</u>	<u>83.8</u>
<b>Non-current liabilities</b>			
Provisions	21	47.8	75.9
Deferred tax liabilities	18	125.7	67.8
Other non-current liabilities	22	33.1	25.7
Derivative financial instruments	19	2.9	46.2
		<u>209.5</u>	<u>215.6</u>
<b>Total liabilities</b>		<u>281.7</u>	<u>299.4</u>
<b>Shareholder's equity</b>			
Share capital	23	200.0	200.0
Share premium	24	207.4	207.4
Capital contribution	27	214.0	214.0
Retained earnings	25	299.7	350.9
Cash flow hedge reserves	26	-	(33.6)
<b>Total shareholder's equity</b>		<u>921.1</u>	<u>938.7</u>
<b>Total equity and liabilities</b>		<u>1,202.8</u>	<u>1,238.1</u>

The financial statements from page 6 to 31 were approved by the Board on 12 March 2008

On behalf of the Board

  
**M Talamonti**  
Director

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2007**

	<i>Notes</i>	<i>2006 £ million</i>	<i>2007 £ million</i>
<b>Cash flows from operating activities</b>			
Net profit / (loss)		(27.3)	54.4
<b>Adjustments for:</b>			
Tax expense		62.0	21.0
Depreciation		103.7	86.8
Exploration costs written off		35.4	23.6
Interest income		(7.3)	(1.7)
Interest expense		2.5	0.7
Fair value loss on derivative financial instruments		0.1	3.5
Dividends income		-	(15.6)
<b>Changes in working capital excl acquisitions/disposals</b>			
Increase in inventories		(8.1)	(1.7)
Decrease/(increase) in trade & other receivables		2.3	(8.7)
Increase/(decrease) in trade & other payables and other non-current liabilities		12.5	(28.3)
(Decrease) / increase in provisions		(0.3)	1.2
<b>Cash generated from continuing operations</b>		<u>175.5</u>	<u>135.2</u>
Interest received		7.3	1.7
Interest paid		(0.2)	(0.7)
Tax paid		(67.9)	(51.9)
<b>Net cash from operating activities</b>		<u>114.7</u>	<u>84.3</u>
<b>Cash flows from investing activities</b>			
Acquisition of investments in subsidiaries (net of cash acquired)		(345.8)	-
Purchase of property, plant and equipment		(25.7)	(11.3)
Purchase of exploration assets		(71.2)	(50.0)
Dividends received		-	15.6
<b>Net cash used in investing activities</b>		<u>(442.7)</u>	<u>38.6</u>
<b>Cash flows from financing activities</b>			
Capital contributions received		214.0	-
<b>Net cash from financing activities</b>		<u>214.0</u>	<u>-</u>
Effects of exchange rate changes		(4.7)	(1.1)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u>(118.7)</u>	<u>37.5</u>
<b>Cash and cash equivalents at 1 January</b>	12	<u>142.5</u>	<u>23.8</u>
<b>Cash and cash equivalents at 31 December</b>	12	<u>23.8</u>	<u>61.3</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

### **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'

- **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 S.p.A., a company incorporated in Italy, which will prepare consolidated financial statements as stated in note 1.

## **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 or 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.

### **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.

Deferred income under gas sales contract is recognised in accordance with note 22.

Interest income is recognised on a time proportion basis.

### **Petroleum revenue tax (PRT)**

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.

### **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 and losses are dealt with through the profit and loss account with the exception of differences arising on the consolidation of branches held in foreign currencies, which are taken directly to reserves.

### **Cash and cash equivalents**

Cash and cash equivalents include the company's current bank accounts and short-term deposits.

## STATEMENT OF ACCOUNTING POLICIES

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### 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, based on proved developed oil and gas reserves for each field in production as at the balance sheet date end of each quarter. Proven mineral interests are depreciated using the unit of production method on a quarterly basis, based on proved developed and undeveloped oil and gas reserves for each field in production as at the balance sheet date 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.

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.

## STATEMENT OF ACCOUNTING POLICIES

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### 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.
- 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.

## STATEMENT OF ACCOUNTING POLICIES

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### **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. An offsetting tangible fixed asset is also recognised. 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.

### **Inventories**

Consumable stores are stated at the lower of cost and net realisable value.

### **Investments**

Investments in subsidiary undertakings are shown at cost less provisions for permanent diminutions in value.

### **Consolidation basis**

By reason of being a wholly owned subsidiary of another UK company, the company has not prepared group financial statements. As a result the financial statements present information about the company as an individual undertaking.

### **Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at the 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 hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedge).

The Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items.

The fair value derivative instruments used for hedging purposes are disclosed in note 19. Movements on the hedging reserve in shareholder's equity are shown in note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

#### *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. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other gains/(losses) - net.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). 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 the equity and included in the initial measurement of the cost of asset. The deferred amounts are ultimately recognised in cost of goods sold in case of inventory, or in depreciation in case of fixed assets.

## STATEMENT OF ACCOUNTING POLICIES

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### *Cash flow hedge (continued)*

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 the 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 other gains/(losses) - net.

### **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.



## STATEMENT OF ACCOUNTING POLICIES

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### Commodity instruments (continued)

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:

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.

# ENI ULX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Parent undertakings

The company is a wholly owned subsidiary of Eni ULT 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 2007 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 Revenue

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
Eni Trading BV	-	3.0
Third parties	226.8	185.4
	<u>226.8</u>	<u>188.4</u>

### 3 Other income

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
Release of deferred income	8.4	7.4
Other income		
Third parties	0.3	29.7
Lasmo Sanga Sanga Ltd	0.2	0.3
	<u>8.9</u>	<u>37.4</u>

Other income from third parties includes £28.0 million in relation to transactions from Anadarko. Off this £22.5 million relates to the penalty charged to Anadarko in accordance with Aster field back in agreement.

### 4 Other service costs and expenses

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
Operating costs		
Eni UK Ltd	-	5.1
Third parties	44.0	36.6
Other expenses		
Net foreign exchange losses	10.6	1.1
Price re-alignment on under/ (over) lift	0.8	(1.2)
Administrative expenses		
Eni UK Ltd	1.1	1.3
Eni Lasmo Plc	4.3	3.5
Eni S p A - Exploration and Production Division	2.7	3.0
Eni International Resources Limited	0.2	0.1
Third parties	5.2	2.9
Capitalisation and recovery from third parties	(5.8)	(6.4)
	<u>63.1</u>	<u>46.0</u>

**5 Labour costs and employees**

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
Expatriate staff	2 6	3.2
National staff	0 9	1.4
	<u>3 5</u>	<u>4 6</u>

The labour costs shown above are the gross amounts, before any capitalisation and recovery from third parties. The capitalisation and recovery from third parties of costs related to labour, together with those related to others, are stated in note 4.

The gross labour costs include charges from related party (Eni International Resources Limited) of £0.4 million (2006 - £0.2 million).

During the year the average number of employees was 93 (2006 - 89).

**6 Operating profit**

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
Operating profit is stated after charging		
Auditors' remuneration	<u>0 1</u>	<u>0.1</u>

**7 Directors' emoluments**

None of the directors received any emoluments in respect of their services to the company during the year (2006 - £nil).

**8 Interest receivable and similar income**

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
Bank interest received		
Eni Coordination Center S A	<u>7 3</u>	<u>1.7</u>
	<u>7 3</u>	<u>1.7</u>

**9 Interest payable and similar charges**

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
Accretion of discount in relation to decommissioning provision (note 21)	2 3	2.5
Other financial charges		
Third parties	<u>0 2</u>	<u>0.7</u>
	<u>2 5</u>	<u>3.2</u>

# ENI ULX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 10 Dividend income from shares in group undertaking

	2006 £ million	2007 £ million
Eni Oil Holding B V	-	15.6

### 11 Taxation

	2006 £ million	2007 £ million
Current tax at 50% (2006 - 50%)		
UK corporation tax on profit for the period	56.6	61.5
Adjustments in respect of prior periods	13.4	(1.7)
<b>Total current tax</b>	<b>70.0</b>	<b>59.8</b>
Deferred taxation (note 18)	(8.0)	(38.8)
<b>Total Taxation</b>	<b>62.0</b>	<b>21.0</b>

#### Factors affecting tax charge for period

The tax assessed for the period is lower (2006 - higher) than the standard rate of corporation tax applicable for oil and gas exploration and production companies in the UK of 50% (2006 - 50%). There is no current corporation tax born for the branch in Indonesia, since the branch is in a loss making position for the year. The differences are explained below:

	2006 £ million	2007 £ million
<b>Profit before taxation</b>	<b>34.7</b>	<b>75.4</b>
Taxation on profit before tax @ 50% (2006 - 50%)	17.3	37.7
Effects of		
Accelerated capital allowances and other timing differences	(12.3)	(8.4)
Increase tax rate on timing differences	24.6	
Expenses not deductible for tax purposes	7.8	
Income not taxable	(1.8)	(15.0)
Adjustments in respect of prior periods	13.4	(1.7)
Group relief surrendered	14.9	14.8
Foreign taxes	(1.9)	(1.7)
Foreign tax credit	-	(4.7)
<b>Total tax charge</b>	<b>62.0</b>	<b>21.0</b>

# ENI ULX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 12 Cash and cash equivalent

	2006 £ million	2007 £ million
Cash at bank and in hand		
Eni International Bank	0.4	-
Banque Eni S.A.	-	5.5
Third parties	6.6	-
Short term bank deposits		
Eni Coordination Center S.A.	16.8	55.8
	<u>23.8</u>	<u>61.3</u>

Short term deposits are held with the Eni Coordination Center S.A. These funds matured on 14<sup>th</sup> January 2008 and carry interest at a rate of 6.13%.

### 13 Trade and other receivables

	2006 £ million	2007 £ million
Trade receivables		
Eni Trading BV	-	2.9
Third parties	15.2	19.5
	<u>15.2</u>	<u>22.4</u>
Less Provision for impairment of trade receivables	(1.5)	-
Trade receivables, net	13.7	22.4
Other receivables	21.9	22.9
Amounts owed by related parties		
Eni TNS Ltd	0.5	-
Eni International N.A.N.V.S.A.r.l.	0.2	-
Eni Ventures Plc (in liquidation)	0.2	-
Eni Dacion Ltd	0.1	-
	<u>36.6</u>	<u>45.3</u>
Less non-current portion - other receivables VAT recoverable	(7.0)	(11.9)
Current portion	<u>29.6</u>	<u>33.4</u>

As of 31 December 2007, trade receivables of £22.4 million (2006 - £13.7 million) were fully performing. No provision was necessary for 2007 (2006 - £1.5 million).

As of 31 December 2007 other receivables and amount owed by related parties of £20.9 million (2006 - £22.9 million) were fully performing and other receivables of £2.0 million (2006 - £nil) were past due but not impaired.

	2006 £ million			2007 £ million		
	Fully performing	Past due but not impaired	Impaired	Fully performing	Past due but not impaired	Impaired
Trade receivables-Third parties	13.7	-	1.5	19.5	-	-
Trade receivables-related parties	-	-	-	2.9	-	-
Other receivables	21.9	-	-	20.9	2.0	-
Related Parties	1.0	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

**13 Trade and other receivables (continued)**

The carrying amount of the company's trade, other receivables, and amount owed by related parties are denominated in the following currencies

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
Trade and other receivables		
Pounds	17.4	13.0
US Dollars	11.2	17.5
Indonesian Rupee	7.0	11.9
	<u>35.6</u>	<u>42.4</u>
Amount owed by related parties		
Pounds	1.0	-
US Dollars	-	2.9
	<u>-</u>	<u>2.9</u>
Total	<u>36.6</u>	<u>45.3</u>

Movements on the company's provision for impairment of trade receivables are as follows

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
As at 1 January 2007	-	-
Provision for receivable impairment	1.5	-
Receivables written off during the year as uncollectible	(1.5)	-
As at 31 December 2007	<u>-</u>	<u>-</u>

The creation and release of provision for impaired receivables have been included in other service cost and expenses in the income statement

The other classes within trade and other receivables do not contain impaired assets

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

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

Credit risk is the potential exposure of the company and its subsidiaries to loss in the event of non-performance by counterparty. 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 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.

**14 Inventories**

	<i>2006 £ million</i>	<i>2007 £ million</i>
Consumable stocks	<u>17.5</u>	<u>19.2</u>

**15 Property, plant and equipment**

	<i>Fields in production £ million</i>	<i>Unproven mineral interest £ million</i>	<i>Total £ million</i>
<b>Cost</b>			
At 1 January 2006	886.0	78.0	964.0
Additions	25.7	-	25.7
Change in decommissioning cost provision	(6.2)	-	(6.2)
Reclassifications	10.3	(10.3)	-
Exchange differences	(1.7)	(4.1)	(5.8)
At 31 December 2006	<u>914.1</u>	<u>63.6</u>	<u>977.7</u>
Additions	11.3	-	11.3
Change in decommissioning cost provision (note 21)	26.9	-	26.9
Reclassifications	16.0	(16.0)	-
Exchange differences	(0.4)	(0.6)	(1.0)
<b>At 31 December 2007</b>	<b><u>967.9</u></b>	<b><u>47.0</u></b>	<b><u>1,014.9</u></b>
<b>Depreciation and write down</b>			
At 1 January 2006	546.2	10.5	556.7
Charge for the year	103.7	-	103.7
Exchange differences	-	(1.3)	(1.3)
At 31 December 2006	<u>649.9</u>	<u>9.2</u>	<u>659.1</u>
Charge for the year	86.8	-	86.8
Exchange differences	-	(0.3)	(0.3)
<b>At 31 December 2007</b>	<b><u>736.7</u></b>	<b><u>8.9</u></b>	<b><u>745.6</u></b>
<b>Net book amounts</b>			
<b>At 31 December 2007</b>	<b><u>231.2</u></b>	<b><u>38.1</u></b>	<b><u>269.3</u></b>
At 31 December 2006	<u>264.2</u>	<u>54.4</u>	<u>318.6</u>

**16 Intangible assets**

	2006 £ million	2007 £ million
<i>Exploration and appraisal costs</i>		
At 1 January	44.9	77.1
Additions	71.2	50.0
Write off of exploration costs on unsuccessful wells	(35.4)	(23.6)
Exchange differences	(3.6)	(1.6)
<b>At 31 December</b>	<b>77.1</b>	<b>101.9</b>

**17 Investments**

The company has a 100% interest in the ordinary share capital of the following subsidiaries with results material to its activities

Eni Oil Holdings B V (incorporated in the Netherlands)  
 Eni Pakistan Limited (registered in England and Wales)  
 Eni Indonesia Limited (registered in England and Wales)

The principal activity of the above subsidiaries is that of exploration and production of oil and gas

The company owns beneficial interests in certain overseas oil and gas assets, whilst the legal title is vested in subsidiary undertakings. The beneficial interests are held through branches and the activities of these branches are included in the financial statements of the company.

In the opinion of the directors, the value of the company's investments in subsidiaries (including amounts owed by them to the company) is not less than the amount at which they are included in the financial statements.

<b>Cost</b>	2006 £ million	2007 £ million
At 1 January	358.2	703.9
Additions	345.8	-
<b>At 31 December</b>	<b>704.0</b>	<b>703.9</b>
<b>Amounts provided for</b>		
At 1 January and 31 December	0.1	-
<b>Net book value</b>		
At 31 December	703.9	703.9

In 2006, the company acquired the remaining unissued share capital in a wholly-owned subsidiary, Eni Oil Holdings B V.

In 2007 and 2006 the value of the investment in Eni Oil Holdings B V was £703.8 million.

Through Eni Oil Holdings B V, the company has an indirect interest in the ordinary share capital of Eni Dacion B V, a company which owns a share in the Dacion hydrocarbon basin, sanctioned by the Dacion Operating Agreement (DOA).



# 17 Investments (continued)

Following the unilateral termination of the DOA by the Venezuelan government, Petróleos de Venezuela, S A (PDVSA - the Venezuelan state owned oil company) and Eni Dacion B V engaged in negotiations, which, despite all efforts, were unsuccessful. Therefore operations in this area have ceased.

However, on November 10 2006, the company filed an arbitration proceeding at the International Centre for Settlement of Investment Disputes (ICSID) in Washington D C, USA, against the Venezuelan government for continual breach of the Bilateral Treaty Agreement entered into in Venezuela and The Netherlands. On February 7th, 2007, ICSID Secretariat confirmed that the claim has been registered (and has thus passed ICSID's preliminary jurisdictional review).

The discounted cash flow (DCF) method is used by the ICSID to determine the level of compensation payable in these types of proceedings and Eni's legal advisors anticipate that this will be applied in this case. The estimated compensation which Eni is entitled to, which has been calculated using the DCF method is expected to exceed the carrying value of the asset. For this reason, no impairment has been recorded in the accounts of the company in respect of the investment in Eni Oil Holdings B V.

# 18 Deferred tax

Deferred tax is calculated in full on temporary differences using a tax rate of 50% in respect of UK assets and 44% for assets held in Indonesia. The movement on the deferred tax account is as shown below.

	2006 £ million	2007 £ million
At 1 January	111.6	103.2
Charge to income statement	(8.0)	(38.8)
Charge to equity	(0.1)	(33.6)
Exchange differences	(0.3)	(0.2)
<b>At 31 December</b>	<b>103.2</b>	<b>30.6</b>

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 balances net. The movements in deferred tax assets and liabilities during the period are shown below.

	<i>Accelerated capital allowances £ million</i>
Deferred tax liabilities	
At 1 January 2007	127.4
Charged to income statement	(23.9)
Exchange differences	(0.2)
<b>At 31 December 2007</b>	<b>103.3</b>

NOTES TO THE FINANCIAL STATEMENTS

18 Deferred tax (continued)

Deferred tax assets

	<i>Embedded Derivatives £ million</i>	<i>Decommissioning £ million</i>	<i>Insurance £ million</i>	<i>Pension £ million</i>	<i>Commodity Derivatives £ million</i>	<i>Total £ million</i>
At 1 January 2007	(0.1)	(22.5)	(1.0)	(0.5)	(0.1)	(24.2)
Charged to income statement	(1.7)	(14.7)	1.0	0.5	-	(14.9)
Credit to equity	(33.6)	-	-	-	-	(33.6)
<b>At 31 December 2007</b>	<b>(35.4)</b>	<b>(37.2)</b>	<b>-</b>	<b>-</b>	<b>(33.7)</b>	<b>(72.7)</b>

The sum of insurance, pension and derivatives deferred tax assets amounting to £35.5 million are available for offset against deferred tax liabilities and hence the deferred tax provision at 31 December 2007 was £67.8 million (2006 - £125.7 million)

The deferred tax asset relating to decommissioning is £37.2 million (2006 £25.2 million) and is disclosed as a non-current asset. All deferred tax assets and liabilities have been provided and therefore no unprovided balances are to be disclosed.

19 Derivative financial instrument

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

	<b>2006 £ million Assets</b>	<b>2006 £ million Liabilities</b>	<b>2007 £ million Assets</b>	<b>2007 £ million Liabilities</b>
Oil commodity derivatives - Swaps	-	-	-	28.4
Oil commodity derivatives - Collars	2.8	2.9	-	42.4
	<b>2.8</b>	<b>2.9</b>	<b>-</b>	<b>70.8</b>

# 19 Derivative financial instrument

These amounts are disclosed in the financial statement as

	2006 £ million Assets	2006 £ million Liabilities	2007 £ million Assets	2007 £ million Liabilities
Current assets	-	-	-	-
Non-current assets	2.8	-	-	-
Current liabilities	-	-	-	24.6
Non-current liabilities	-	2.9	-	46.2
	2.8	2.9	-	70.8

Fair value adjustments on derivative financial instruments

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

	2006 £ million	2007 £ million
Oil commodity derivatives - Swaps	-	0.6
Oil commodity derivatives - Collars	0.1	2.9
	0.1	3.5

The following table summarises the ineffectiveness of cash flow hedges charged to profit and loss

	2006 £ million	2007 £ million
Oil commodity derivatives - Swaps	-	0.6
Oil commodity derivatives - Collars	-	2.4
	-	3.0

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 £ million	2007 £ million	2006 £ million	2007 £ million
Derivative Financial Instruments Liabilities				
Oil commodity derivatives - Swaps	53.0	64.8	-	28.4
Oil commodity derivatives - Collars	46.3	13.9	2.9	42.4
Derivative Financial Instruments Assets				
Oil commodity derivatives - Swaps	-	-	-	-
Oil commodity derivatives - Collars	12.1	-	2.8	-

**20 Trade and other payables**

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
Trade payables	1 7	0.8
Other payables	9 7	8.3
Accruals	29 9	6.9
Amounts owed to related parties		
Eni Lasmo Plc	4 8	3.5
Eni UK Ltd	1 2	6.3
Eni SpA - Exploration and Production Division	1 1	1.5
Eni Servizi SpA	-	0.1
Eni International Resources Limited	0 3	0 4
Other Intercompany	0 1	0.1
	<b>48 8</b>	<b>27.9</b>

**21 Provisions**

	<i>Decommissioning Liability £ million</i>	<i>Other Provisions £ million</i>	<i>Total £ million</i>
At 1 January 2007	44 9	2 9	47 8
Charged / (credited) to income statement	2 5	(1 3)	1 2
Change in estimated decommissioning costs	26 9	-	26 9
<b>At 31 December 2007</b>	<b>74.3</b>	<b>1 6</b>	<b>75.9</b>

*Decommissioning Costs*

The estimated cost of decommissioning at the end of the producing lives of North Sea fields is based upon engineering estimates and expert reports

Provision is made for the estimated decommissioning costs at the balance sheet date, discounted at a rate of 5.74% (2006 - 5.28%) to the present value. The charge to the income statement represents the unwinding of the provision. These liabilities are currently estimated to crystallise in 2018.

*Other provisions*

During 2005, the company was informed of additional insurance premiums to be imposed on the group by its oil insurance provider. A provision has been established for these additional costs. In 2007 this provision was revised and decreased and at 31 December 2007 the provision was stated at £0.8 million. The remaining £0.8 million relates to employee termination indemnities.

**22 Other non-current liabilities**

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
Liverpool Bay deferred income	33.1	25.7

Deferred income relates to prepayments received under gas sales contracts. The income is credited to the income statement, according to a release profile based on a 10% nominal discount factor applied on the initial historical value of £142.8 million from 1 January 1999 and will terminate in 2012.

**23 Share capital**

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
<b>Authorised, issued and fully paid at 31 December:</b>		
200,010,000 ordinary shares of £1 each	200.0	200.0

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.

**24 Share premium**

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
At 1 January and 31 December	207.4	207.4

**25 Retained earnings**

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
At 1 January	325.6	299.7
(Loss)/profit for the year	(27.3)	54.4
Exchange differences	1.4	(3.2)
<b>At 31 December</b>	<b>299.7</b>	<b>350.9</b>

**26 Cash flow hedge reserves**

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
At 1 January	-	-
Oil commodity derivatives – Swaps	-	(33.6)
<b>At 31 December</b>	<b>-</b>	<b>(33.6)</b>

**27 Capital contribution**

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
<b>At 31 December</b>	<b>214.0</b>	<b>214.0</b>

**28 Commitments**

	<i>2006</i> <i>£ million</i>	<i>2007</i> <i>£ million</i>
<b>At 31 December</b>	<b>29.3</b>	<b>90.0</b>

As a member of consortia, the company is committed to pay its share of costs of development. In addition to development expenditure, the company is committed to pay its share of the costs of exploration which may involve capital expenditure. The above represents oil and gas expenditure that is contracted but unprovided in the financial statements.

**29 Market risk**

**Foreign Exchange rate risk**

Exchange rate risk derives from the fact that the company's operations are conducted in currencies other than the pounds sterling GBP (in particular the US dollar and Indonesian Rupees IDR) 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 payables, receivable and accruals in currency's denominated in currencies other than the functional currency, is not considered to be material due to the fact that these will be realised within 30 days. Generally speaking, an appreciation of the US dollar versus the GBP has a positive impact on 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, if the US dollar had weakened by 10% against the GBP with all over variables held constant, post-tax profit for the year would have been £140,159 higher (2006 £4,364 lower), arising as a result of derivative financial instruments being held in US dollar. Net Equity would have been £140,159 higher (2006 - £4,364 lower).

## 29 Market risk (continued)

At 31 December 2007, if the US dollar had weakened by 10% against the IDR with all over variables held constant, post-tax profit for the year would have been £872,512 (2006 £513,377) higher. Net Equity would have been £872,512 (2006 £513,377) higher.

### Interest rate risk

Variations in interest rates affect the market value of financial assets and liabilities of the company. As with exchange rate risk, the company works in conjunction with the specialised finance companies of the Eni S.p.A. group to mitigate interest rate risk at a group level. The company does not consider this a material risk as it has no financial debts and no investments in interest bearing instruments.

## 30 Price Risk

### Commodity 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 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 S.p.A. 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 S.p.A. group level.

At 31 December 2007, 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 £1,065,000 lower (2006 £543,000 higher), mainly as a result of movement of cash flow hedge derivatives. Total Equity would have been £14,894,000 (2006 £543,000) higher arising from the introduction of cash flow hedge accounting.

### 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.

NOTES TO THE FINANCIAL STATEMENTS

30 Price Risk (continued)

Liquidity Risk (continued)

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

	<i>Less than one year</i> <i>£ million</i>	<i>More than one year</i> <i>£ million</i>
<b>As at 31st December 2007</b>		
Oil commodity derivatives – Swaps	25.2	4.0
Oil commodity derivatives – Collars	-	41.8
Trade and Other Payables	27.9	-
<b>As at 31st December 2006</b>		
Oil commodity derivatives – Swaps	-	0.1
Oil commodity derivatives – Collars	-	0.1
Trade and Other Payables	48.8	-

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.

31 Reclassification

Certain comparative figures as of 2006 have been reclassified to conform to 2007 financial statements presentation. These reclassifications were as follows:

	<i>2006</i> <i>As previously</i> <i>reported</i>	<i>Reclassification</i>	<i>2006</i> <i>As reclassified</i>
Current asset - Trade and other receivables	36.6	(7.0)	29.6
Non-current asset - Trade and other receivables	-	7.0	7.0

The reclassification refers to Indonesian VAT which was previously included in current assets. In 2007 the Indonesia VAT has been presented within non-current assets as trade and other receivables. The Indonesian VAT will be recovered following the start of production of the fields under development. Production is not expected to start before 2012.