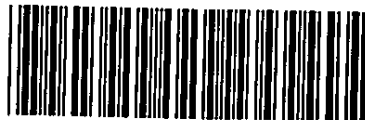


**ENI ULX LIMITED**  
**DIRECTORS' REPORT**  
**AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2011**

**REGISTERED OFFICE**  
**Eni House**  
**10 Ebury Bridge Road**  
**London SW1W 8PZ**

**Registered Number: 00936223**

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COMPANIES HOUSE

**ENI ULX LIMITED**

**DIRECTORS AND REGISTERED OFFICE**

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**BOARD OF DIRECTORS**

P Hemmens  
M Talamonti  
S Oliveri

**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

## 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 2011

#### Principal activities

The company is a limited liability company incorporated in England and Wales and is domiciled in the UK

The company is engaged in the exploration for, and the production of, oil and gas on the United Kingdom Continental Shelf and Indonesia. The company's key interests in the licenses are set out below

Licence / Field	Share of the company
Bukat Production Sharing Contract (PSC)	66 25%
Ambalat PSC	66 25%
Krueng Mane PSC	75%
West Timor PSC	51%
Arguni I PSC	100%
North Ganai PSC	20%
Rapak PSC	20%
Ganai PSC	20%
Popodi PSC (relinquished 21 November 2011)	25%
Papalang PSC (relinquished 21 November 2011)	25%
Liverpool Bay	45%
Burghley	21 92%
Mariner	20%

#### Results and dividends

The company's income statement is set out on page 6. The company's profit for the financial year was \$13.5 million (2010 – \$37.3 million). The directors paid a dividend on ordinary shares of \$164.1 million (2010 – \$nil).

On 1 January 2011, the Directors reconsidered the functional currency of the company. Due to the increasing trend of the company's underlying transactions being in US Dollars, the directors concluded that the primary economic environment of the company will be US Dollars from 2011 onwards and therefore changed the functional currency of the company from Sterling to US Dollars from that date. In accordance with IAS 21 'The effects of changes in Foreign Exchange Rates', this change in functional currency has been applied prospectively from 1 January 2011. This change has no impact on current or prior year's profit and loss account.

#### Business review and future company developments

The operational performance of the fields during the year was satisfactory and management anticipate that this will continue to be the situation in the coming year.

On 25 October 2010 the company and Eni UK Limited, an affiliate company, (together referred to as the Blane sellers) entered into an Exchange Agreement with Faroe Petroleum (UK) Limited and FØroya Kolvetni P/F whereby the Blane sellers agreed to sell their respective interests in United Kingdom Continental Shelf (UKCS) Petroleum Production Licence No 111 (Block 30/3a – Above the top of the Danian/Ekofisk) together with a related interest in the Blane field in exchange for (i) £60 million (the company's share being £13.7 million) subject to working capital adjustments and (ii) a 20% interest in aggregate with 4.5626% and 15.4374% being allocated to the company and Eni UK Limited respectively or their nominees) in each of Faroese Continental Shelf Licences No 12 and No 17 and UKCS Petroleum Production Licence P 1740 (together the "Rannva Interests")

## ENI ULX LIMITED

### DIRECTORS' REPORT

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#### Business review and future company developments (continued)

The sale was completed in 2011 resulting in a pre-tax loss of £11.7 million to the company. At completion, the company acquired a 20% interest in UKCS Petroleum Production Licence P 1740. (Another affiliate company acquired a 20% interest in each of Faroese Continental Shelf Licences No 12 and No 17.) The company no longer has an interest in UKCS Licence P 1740 as the licence was relinquished by agreement of the licence holders (the company and Faroe Petroleum (U.K.) Limited) in December 2011. Faroese Continental Shelf Licences No 12 and No 17 expired in December 2011.

On 21 November 2011 the company entered into an agreement to acquire a 100% working interest in Arguni I PSC.

On 21 November 2011 the company entered into an agreement with Niko Resources (North Ganal) Limited, North Ganal Energy limited, Statoil Indonesia North Ganal AS and GDF Suez New Projects Indonesia B.V. to acquire a 20% working interest in North Ganal PSC.

#### 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 to the financial statements. The company and its subsidiaries have 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.

	2010 \$ million	2011 \$ million	Variance
Revenue	238.3	317.6	79.3
Operating (loss)/profit	38.9	(57.7)	(96.6)
Profit after tax	37.3	7.7	(29.6)
Shareholders' equity	1,163.2	1,012.6	(150.6)

Revenue has increased during the year due to higher oil and gas prices. Operating profits have significantly decreased to a operating loss in 2011 mainly due to higher unsuccessful exploration costs being written off. Shareholders' equity has decreased due to the payment of \$164.1 million dividend partly offset by the profit for the year.

#### Directors

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

- G. Libri resigned as director on 19 September 2011
- F. Polo resigned as director on 19 September 2011
- P. Hemmens was appointed as director on 19 September 2011
- S. Oliveri was appointed as director on 19 September 2011

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

**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 (EU). 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.

**Post balance sheet events**

There have been no events after the balance sheet date.

**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 auditor 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.

**Auditor**

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

On behalf of the Board



**E. Dal Bello**  
Secretary

9 March 2012

## INDEPENDENT AUDITOR'S REPORT

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### Independent auditor's report to the members of Eni ULX Limited

We have audited the financial statements of Eni ULX Limited for the year ended 31 December 2011 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Balance Sheet, the Cash Flow Statement, the Statement of Accounting Policies and the related notes 1 to 33. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 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.

Ernst & Young LLP

Jacqueline Ann Geary (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
9 March 2012

# ENI ULX LIMITED

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2010 \$ million	2011 \$ million
Revenue	3	225.6	307.7
Other income	4	12.7	9.9
<b>Total revenue</b>		<b>238.3</b>	<b>317.6</b>
Other service costs and expenses	5	(64.5)	(75.2)
Labour costs	6	(12.0)	(14.5)
Depreciation, amortisation and impairments	16	(66.4)	(74.4)
Loss on disposal of assets	12	-	(11.7)
Exploration costs written off	17	(56.5)	(199.5)
<b>Operating (loss) / profit</b>	7	<b>38.9</b>	<b>(57.7)</b>
Interest payable and similar charges	9	(8.1)	(7.7)
Dividend income from shares in group undertakings	10	54.6	164.1
Net gains on derivative financial instruments	20	6.4	0.2
<b>Profit before taxation</b>		<b>91.8</b>	<b>98.9</b>
Taxation	11	(54.5)	(91.2)
<b>Profit for the year</b>		<b>37.3</b>	<b>7.7</b>

ENI ULX LIMITED

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2011

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	2010 \$ million	2011 \$ million
<b>Profit for the year</b>	37.3	7.7
Currency translation adjustment on foreign operations net of tax (Note 26)	16.3	-
Cash flow hedge reserves gross of tax (note 27)	23.6	-
Deferred tax on cash flow hedge reserves (note 27)	(11.8)	-
<b>Other comprehensive income for the year, net of tax</b>	28.1	-
<b>Total comprehensive income for the year</b>	65.4	7.7

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



**ENI ULX LIMITED**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2011**

	<i>Share capital</i>	<i>Share premium</i>	<i>Capital contribution</i>	<i>Retained earnings</i>	<i>Cash flow hedge reserves</i>	<i>Shareholders' Equity</i>
	<u><i>\$ million</i></u>	<u><i>\$ million</i></u>	<u><i>\$ million</i></u>	<u><i>\$ million</i></u>	<u><i>\$ million</i></u>	<u><i>\$ million</i></u>
At 1 January 2010	310.5	322.0	332.2	144.9	(11.8)	1,097.8
Total comprehensive income for the year	-	-	-	53.6	11.8	65.4
At 31 December 2010	310.5	322.0	332.2	198.5	-	1,163.2
Total comprehensive income for the year	-	-	-	7.7	-	7.7
Dividend paid to equity shareholder	-	-	-	(164.1)	-	(164.1)
Transfer of capital contribution to retained earnings (note 28)	-	-	(332.2)	332.2	-	-
<b>At 31 December 2011</b>	<b>310.5</b>	<b>322.0</b>	<b>-</b>	<b>374.3</b>	<b>-</b>	<b>1,006.8</b>

**ENI ULX LIMITED (Registered Number: 00936223)**  
**BALANCE SHEET**

**AS AT 31 DECEMBER 2011**

	<i>Notes</i>	<i>2010 \$ million Restated</i>	<i>2011 \$ million</i>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	13	53 4	47.9
Trade and other receivables	14	82 5	117.0
Inventories	15	34 0	33.8
		169 9	198.7
<b>Assets held for sale</b>	12	32 1	-
<b>Non-current assets</b>			
Property, plant and equipment	16	188 9	165.5
Intangible assets	17	251 8	98.3
Investments	18	736 4	736.4
Deferred tax assets	19	83 7	114.4
Trade and other receivables	14	68 3	70.8
		1,329 1	1,185.4
<b>Total assets</b>		1,531 1	1,384.1
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	21	81 7	59.8
Current tax liabilities		23 8	33.9
Derivative financial instruments	20	0 2	-
		105 7	93.7
<b>Liabilities associated with assets held for sale</b>	12	4 7	-
<b>Non-current liabilities</b>			
Provisions	22	170 2	187.6
Deferred tax liabilities	19	83 7	96.0
Deferred income	23	3 6	-
		257 5	283.6
<b>Total liabilities</b>		367 9	377.3
<b>Shareholders' equity</b>			
Share capital	24	310 5	310.5
Share premium	25	322 0	322.0
Capital contribution	28	332 2	-
Retained earnings	26	198 5	374.3
Cash flow hedge reserves	27	-	-
<b>Total shareholders' equity</b>		1,163 2	1,006.8
<b>Total shareholders' equity and liabilities</b>		1,531 1	1,384.1

The financial statements from page 6 to 41 were approved by the Board on 9 March 2012

On behalf of the Board



**M Talamonti**  
Director

# ENI ULX LIMITED

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	<u>Notes</u>	<u>2010 \$ million Restated</u>	<u>2011 \$ million</u>
<b>Cash flows from operating activities</b>			
Net profit		37 3	7.7
<b>Adjustments for:</b>			
Tax charge	11	54 5	91 2
Depreciation and impairment	16	66 4	74 4
Exploration costs written off	17	56 5	199 5
Interest expense	9	0 3	-
Fair value (gain) on derivative financial instruments	20	(6 4)	(0.2)
Dividend income	10	(54 6)	(164.1)
Loss on disposal of property, plant and equipment	12	-	11.7
<b>Changes in working capital</b>			
Decrease in inventories	15	4 8	0.2
Increase in trade & other receivables	12/14	(52 8)	(37.0)
(Decrease) / increase in trade & other payables and other non-current liabilities	12/21/23	46 1	(29.1)
Exploration costs written off	17	(49 0)	(16.4)
<b>Cash generated from operating activities</b>		<u>103 1</u>	<u>137.9</u>
Interest paid	9	(0 3)	-
Tax paid		(52 2)	(102.9)
<b>Net cash generated from operating activities</b>		<u>50 6</u>	<u>35.0</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment	12	-	21.4
Purchase of property, plant and equipment	16	(37 9)	(32.5)
Purchase of exploration assets	17	(30 6)	(29.6)
Disposal of exploration assets	17	1 2	-
Dividends received	10	54 6	164.1
<b>Net cash inflow / (outflow) from investing activities</b>		<u>(12 7)</u>	<u>123.4</u>
<b>Cash flows from financing activities</b>			
Dividend paid to shareholders		-	(164.1)
<b>Net cash used in financing activities</b>		<u>-</u>	<u>(164.1)</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>		37 9	(5 7)
<b>Cash and cash equivalents at 1 January</b>		15 2	53.4
Effects of exchange rate changes		0 3	0.2
<b>Cash and cash equivalents at 31 December</b>		<u>53 4</u>	<u>47.9</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) as adopted by the EU, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by available-for-sale financial assets, and 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.

On 1 January 2011, the Directors have reconsidered the functional currency of the company. Due to the increasing trend of the company's underlying transactions being in US Dollars, the directors have concluded that the primary economic environment of the company will be US Dollars from 2011 onwards and therefore changed the functional currency of the company from Sterling to US Dollars from that date. In accordance with IAS 21 'The effects of changes in Foreign Exchange Rates', this change in functional currency has been applied prospectively from 1 January 2011 and comparatives have been translated into US Dollars using the exchange rate prevailing at the date of the change. This change in functional currency has no impact on the current or prior year's profit and loss account.

**Adoption of new and revised Standards**

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:

- o IAS 1, 'Presentation of Financial Statements' – amended to clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the Statement of Changes in Equity or in the notes to the financial statements.

The company has chosen to present such an analysis of other comprehensive income, if any, in the notes to the financial statements with a single line presentation of other comprehensive income in the Statement of Changes in Equity, and

- o IAS 24, 'Related Party Disclosures' – amendments mainly clarifying the definition of a related party to simplify the identification of related party transactions. Amendments to IAS 24 also introduce a partial exemption from related party disclosures for government-related entities.

The company is not a government-related entity. The application of the revised definition of related party has not resulted in the identification of any related parties that were not identified as related parties under the previous Standard.

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 either not relevant or have no material impact on these financial statements:

- o IAS 32, 'Financial Instruments: Presentation – Classification of Rights issues' – amendments to the definition of financial liabilities to classify rights issues as equity instruments under certain conditions,
- o IFRIC 14, 'Prepayment of a Minimum Funding Requirement' – amendments providing guidance on assessing the recoverable amount of a net pension asset,
- o IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments' – interpretation clarifying the accounting for equity instruments issued to creditors to extinguish a financial liability, and
- o Further amendments to IAS 27, IAS 34, IFRS 1, IFRS 3, IFRS 7 and IFRIC 13 as part of the Improvement to IFRS (issued 2010)

**STATEMENT OF ACCOUNTING POLICIES**

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**Adoption of new and revised Standards (continued)**

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

- IFRS 7, 'Financial Instruments Disclosures' – requiring additional qualitative and quantitative disclosures relating to transfer of financial assets - Effective for annual periods beginning on or after 1 July 2011

The following standards and interpretations have been issued by the IASB, but have not been endorsed by the European Commission for their application to become mandatory

- IAS 1, 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2013, amended to change the grouping of items presented in Other Comprehensive Income,
- IAS 19 'Employee Benefits', effective for annual periods beginning on or after 1 January 2013, the revised standard includes a number of amendments. For example the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. Also there are new requirements to disclose quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption,
- IAS 27, 'Separate Financial Statements', effective for annual periods beginning on or after 1 January 2013 - amendments triggered by IFRS 10 to the portion that addresses the accounting for consolidated financial statements,
- IAS 28, 'Investments in Associates and Joint Ventures', effective for periods beginning on or after 1 January 2013. IAS 28 sets out the requirements for the application of the equity method of accounting for investments in associates and joint ventures,
- IFRS 9 'Financial Instruments', effective for annual accounting periods beginning on or after 1 January 2015. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value,
- IFRS 11 'Joint Arrangements', effective for annual accounting periods beginning on or after 1 January 2013. IFRS 11 overhauls the accounting for joint ventures (now called joint arrangements), in particular, the transition from equity method to proportionate consolidation for investments in jointly controlled entities (referred to as joint operations under IFRS 11),
- IFRS 12 'Disclosure of Interests in Other Entities', effective for annual accounting periods beginning on or after 1 January 2013. IFRS 12 requires extensive disclosures enabling users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on financial statements, and
- IFRS 13 'Fair Value Measurement', effective for annual accounting periods beginning on or after 1 January 2013. IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard

**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

The company has taken advantage of the exemption available under International Financial Reporting Standards to present separate financial statements in accordance with paragraph 10 IAS27(R). In addition, under section 400 of the Companies Act 2006 the company is exempt from the general requirement to prepare consolidated financial statements. This can be applied as the immediate parent is established under the law of an EEA state (European Economic Area)

**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.

**Petroleum revenue tax (PRT)**

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

Provision for deferred petroleum revenue tax is made using the liability method. As petroleum revenue tax is 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 temporary differences in respect of capital and revenue expenditure and the decommissioning and restoration provision.

**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 that 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.

Interest income is recognised on a time proportion basis. Dividend income is recognised when the right to receive payment is established.

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.

**STATEMENT OF ACCOUNTING POLICIES**

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**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.

**Foreign currencies**

The company's functional and presentation currency is US Dollars. Transactions denominated in a foreign currency are converted to US\$ 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 year end exchange rate in GBP Sterling is 0.6456 (2010 - US\$1 = £0.6442).

**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 Eni Finance International S.A. (formerly Eni Coordination Center S.A.) are included in this classification.

**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 unproven 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, using 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.

**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 property, plant and equipment. Exploration wells that are being drilled at the year end are included in intangible assets as drilling in progress until the results of the drilling are determined.

**STATEMENT OF ACCOUNTING POLICIES**

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**Joint ventures**

A joint venture is a contractual arrangement whereby the company and other parties undertake an economic activity that is subject to joint control

The company participates in several unincorporated joint ventures which involve the joint control of assets used in the company's oil and gas exploration and producing activities. Interests in jointly controlled assets are recognised by including the company's share of assets, liabilities, income and expenses on a line-by-line basis. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the company's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the company and their amount can be measured reliably.

**Impairment of assets**

At the end of each reporting period, the company reviews the carrying amounts of its property, plant and equipment 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.

**Proved oil and gas reserves**

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

- a) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation tests. The area of a reservoir considered proved includes (a) that portion delineated by drilling and defined by gas-oil or oil-water contacts, if any, or both, and, (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.
- b) Reserves that can be produced economically through the application of improved recovery techniques (such as fluid injection) are generally only included in the proved classification if successful testing by a pilot project, or the operation of an installed programme in the reservoir, provides support for the engineering analysis on which the project or programme was based.



**STATEMENT OF ACCOUNTING POLICIES**

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

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

**Proved developed oil and gas reserves**

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

**Proved undeveloped oil and gas reserves**

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

**Probable oil and gas reserves**

Probable oil and gas 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 oil and gas reserves**

Possible oil and gas 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.

**Inventories**

Inventories consist of consumable stock. Inventories are stated at the lower of cost and net realisable value and represent the company's share of stocks belonging to the consortia of which it is a member. Cost is determined by the weighted average method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Net realisable value is determined by reference to prices existing at the balance sheet date.

**Investments**

Other investments, including investments in subsidiaries, are shown at cost less any provision for impairment.

**STATEMENT OF ACCOUNTING POLICIES**

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**Financial instruments**

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

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

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

**b) Loans and receivables**

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

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

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

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.

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 fall within the scope of IAS 39.

STATEMENT OF ACCOUNTING POLICIES

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**Derivative financial instruments (continued)**

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

a) Derivatives at fair value through profit 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.

Hedge effectiveness is verified using prospective test through a regression analysis performed on the historical prices of the hedged items and the underlying derivative financial instruments at the inception of the hedging relationship and at the beginning of each assessment period to demonstrate that the hedge is expected to be highly effective in the future. If, at any point, the prospective consideration indicates that the hedging instrument is not expected to be highly effective in the future, hedge accounting is discontinued from that point forward. Retrospective test is also performed to assess whether the hedge has actually been highly effective in the period under review. If the retrospective test indicates that the hedging instrument has not been highly effective, hedge accounting is discontinued from the point the hedging relationship ceased to be highly effective. Both tests must be met for a particular period of the hedge relationship for hedge accounting to be available. Effectiveness must fall within a range of 80 to 125% over the life of the hedge.

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

**STATEMENT OF ACCOUNTING POLICIES**

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**Derivative financial 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 other valuation techniques commonly used by market participants.

**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 decommissioning cost, and an offsetting entry to property, plant and equipment 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 decommissioning costs are accounted for as adjustments to the provision and property, plant and equipment.

**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.

**STATEMENT OF ACCOUNTING POLICIES**

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**Pension obligation**

The company contributes to a defined benefit pension scheme. A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions in excess of 10% of the defined benefit obligation are allocated to income over the employees' average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

**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 property, plant and equipment and intangible assets, decommissioning provisions and the 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:

**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 and those investments measured at cost, 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.

STATEMENT OF ACCOUNTING POLICIES

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**Use of accounting estimates, judgements and assumptions (continued)**

**b) Impairment of assets (continued)**

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 property, plant and 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 decommissioning provisions 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 value of a liability for decommissioning provision in the period when it is incurred (typically, at the time, the asset is installed at the production location).

The recognised decommissioning provisions 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.

**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 2011 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 Prior year reclassification**

During the year, the directors reconsidered the presentation of the current assets and liabilities related to the jointly controlled assets for which the company is acting as an operator. In previous years, these current assets and liabilities were presented on a net basis showing only the company's share of these current assets and liabilities. As the company has the legal rights and obligations for 100% of such current assets and current liabilities, the directors have concluded to change the presentation in the financial statements and disclose these on a gross (100%) basis. Prior year balances have been reclassified accordingly. This adjustment has no impact on current or prior years profits or retained earnings and impacts note 14 and note 21 only.

Additionally the directors have reclassified other non current liabilities to current liabilities in relation to deferred income which is due in less than one year, see note 23

**3 Revenue**

	<i>2010</i> <i>\$ million</i>	<i>2011</i> <i>\$ million</i>
<b>Parent company</b>		
- Eni S p A – Corporate – cash flow hedge settlement	(27.3)	-
<b>Affiliate companies</b>		
- Eni Trading & Shipping B V	142.7	224.6
Third parties	110.2	83.1
	<u>225.6</u>	<u>307.7</u>

**4 Other income**

	<i>2010</i> <i>\$ million</i>	<i>2011</i> <i>\$ million</i>
<b>Affiliate companies</b>		
- Lasmo Sanga Sanga Limited	0.3	0.2
- Eni CBM Limited	0.3	0.3
Release of deferred income (note 23)	8.5	7.7
Other income		
- Third parties	3.6	1.7
	<u>12.7</u>	<u>9.9</u>

**5 Other service costs and expenses**

	<u>2010</u> \$ million	<u>2011</u> \$ million
Operating costs		
<b>Affiliate company</b>		
Eni UK Limited	1.6	1.6
Third parties	40.8	57.1
Other expenses		
Net foreign exchange loss	3.4	2.6
Price re-alignment on over / (under) lift	(0.5)	(13.0)
<b>Parent company</b>		
Eni S.p.A. - Exploration and Production Division	6.5	5.4
<b>Affiliate companies</b>		
Eni UK Limited	2.3	1.8
Eni International Resources Limited	0.5	0.7
Eni Australia Limited	0.2	0.1
Eni Trading & Shipping B.V.	0.3	0.1
Eni Servizi S.p.A.	0.2	0.2
Third parties	9.2	18.6
	<u>64.5</u>	<u>75.2</u>

**6 Labour costs and employee information**

	<u>2010</u> \$ million	<u>2011</u> \$ million
Wages and salaries	11.2	13.6
Pension costs – defined benefit plan (Note 30)	0.8	0.9
	<u>12.0</u>	<u>14.5</u>

The labour costs shown above are the gross amounts, before any recovery from third parties. The recovery from third parties of costs related to labour, together with those related to others, are stated in note 5.

The gross labour costs include charges from a related party, Eni International Resources Limited of \$1.1 million (2010 - \$1.2 million).

During the year social security costs borne by the employer were \$169,000 (2010 - \$137,000) and pension costs were \$210,000 (2010 - \$166,000).

During the year the average number of employees was 118 (2010 – 122).



NOTES TO THE FINANCIAL STATEMENTS

**7 Operating (loss) / profit**

	<u>2010</u> <u>\$ million</u>	<u>2011</u> <u>\$ million</u>
Operating (loss) / profit is stated after charging		
Depreciation and impairment	66.4	74.4
Exploration costs written off	56.5	199.5
Foreign exchange loss	3.4	2.6

Auditors' remuneration for the year ended 2011 was \$26,000 (2010 - \$27,000)

**8 Directors' remuneration**

The directors of the company are also the directors of other affiliate companies and/or the parent undertaking. The emoluments paid to the directors for the services provided to this company have been paid by the parent undertaking and a fair allocation to the company would be approximately \$100,593 (2010 \$118,611)

**9 Interest payable and similar charges**

	<u>2010</u> <u>\$ million</u>	<u>2011</u> <u>\$ million</u>
Accretion of discount in relation to decommissioning provision (note 22)	7.8	7.7
Other financial charges		
Third parties	0.3	-
	<u>8.1</u>	<u>7.7</u>

**10 Dividend income from shares in group undertakings**

	<u>2010</u> <u>\$ million</u>	<u>2011</u> <u>\$ million</u>
Eni Oil Holdings B.V.	54.6	44.1
Eni Pakistan Ltd	-	120.0
Total	<u>54.6</u>	<u>164.1</u>

**11 Taxation**

	<i>2010</i> <i>\$ million</i>	<i>2011</i> <i>\$ million</i>
Current tax at 59.3% (2010 - 50%)		
UK corporation tax on profit for the period	61.6	116.5
Adjustments in respect of prior periods	0.7	(4.9)
	<u>62.3</u>	<u>111.6</u>
<b>Total current tax</b>		
Deferred taxation (note 19)	(7.8)	(20.4)
	<u>54.5</u>	<u>91.2</u>
<b>Total Taxation</b>		

**Factors affecting tax charge for period**

The tax assessed for the period is higher (2010 - higher) than the standard rate of corporation tax applicable for oil and gas exploration and production companies in the UK of 59.3% (2010 - 50%). There is no current corporation tax borne for the branch in Indonesia, since the branch is in a loss making position for the year. The differences are explained below:

	<i>2010</i> <i>\$ million</i>	<i>2011</i> <i>\$ million</i>
<b>Profit before taxation</b>	91.8	98.9
Taxation on profit before tax @ 59.3% (2010 - 50%)	45.9	58.7
Effects of:		
Tax rate change on temporary differences	-	(0.4)
Income not taxable	(12.9)	(97.3)
Expenditure not allowable for tax	1.0	76.9
Foreign exchange adjustment	-	(0.3)
Unrecognised losses carried forward	-	30.9
Movement in unrecognised temporary differences	(13.2)	27.6
Group relief surrendered for no consideration	33.0	-
Adjustments in respect of prior periods	0.7	(4.9)
	<u>54.5</u>	<u>91.2</u>
<b>Total tax charge</b>		

The company has agreed to surrender, for no consideration, taxation losses under Section 99 Corporation Tax Act 2010 sufficient to cover some of the UK taxable profits of the group for the year.

**12 Disposal group classified as held for sale**

On 25 October 2010 the company and Eni UK Limited, an affiliate company, (together referred to as the Blane sellers) entered into an Exchange Agreement with Faroe Petroleum (UK) Limited and FØroya Kolvetni P/F whereby the Blane sellers agreed to sell their respective interests in United Kingdom Continental Shelf (UKCS) Petroleum Production Licence No 111 (Block 30/3a – Above the top of the Danian/Ekofisk) together with a related interest in the Blane field in exchange for (i) £60 million (the company's share being £13.7 million) subject to working capital adjustments and (ii) a 20% interest in aggregate with 4.5626% and 15.4374% being allocated to the company and Eni UK Limited respectively or their nominees) in each of Faroese Continental Shelf Licences No 12 and No 17 and UKCS Petroleum Production Licence P 1740 (together the "Rannva Interests")

The sale was completed in 2011 resulting in a pre-tax loss of £11.7 million to the company. At completion, the company acquired a 20% interest in UKCS Petroleum Production Licence P 1740 (Another affiliate company acquired a 20% interest in each of Faroese Continental Shelf Licences No 12 and No 17). The company no longer has an interest in UKCS Licence P 1740 as the licence was relinquished by agreement of the licence holders (the company and Faroe Petroleum (U K) Limited) in December 2011. Faroese Continental Shelf Licences No 12 and No 17 expired in December 2011.

The assets and liabilities related to company's interest in Blane field were presented in FY2010 financial statements as held for sale in the balance sheet as follows:

	<i>2010</i> <i>\$ million</i>	<i>2011</i> <i>\$ million</i>
<b>Assets</b>		
<b>Current Assets</b>		
Trade and other receivables	26.5	-
<b>Non current assets</b>		
Property, plant and equipment	5.1	-
Deferred tax assets	0.5	-
<b>Assets of disposal group held for sale</b>	<u>32.1</u>	<u>-</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	(1.2)	-
<b>Non-current liabilities</b>		
Provisions	(1.0)	-
Deferred tax liabilities	(2.5)	-
<b>Liabilities of disposal group</b>	<u>(4.7)</u>	<u>-</u>
<b>Net assets</b>	<u>27.4</u>	<u>-</u>

# ENI ULX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 13 Cash and cash equivalents

	2010 \$ million	2011 \$ million
Cash at bank and in hand		
<b>Affiliate company</b>		
- Banque Eni S A	2.3	0.3
Third parties	5.3	3.1
Short term bank deposits – Affiliate company		
- Eni Finance International S A (formerly Eni Coordination Center S A )	45.8	44.5
	<u>53.4</u>	<u>47.9</u>

Short term deposits are held with Eni Finance International S A (formerly Eni Coordination Center S A ) These are repayable within 3 months, and carry interest rates which vary in-line with market rates During 2011 the effective interest rate was between 0.01% and 0.89% (2010 – 0.090% and 0.38%)

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

### 14 Trade and other receivables

	2010 \$ million Restated	2011 \$ million
Trade receivables		
<b>Affiliate company</b>		
Eni Trading & Shipping B V	9.3	66.0
Third parties	4.7	6.3
Other receivables (*) (**) 114.0	114.0	91.4
Amounts owed by related parties		
<b>Affiliate companies</b>		
Eni UK Limited	15.2	9.3
Eni S p A – Exploration and Production Division	0.5	0.9
Eni Muara Bakau B V	5.7	9.7
Eni CBM Limited	0.6	0.9
Eni Bulungan B V	0.5	2.2
Eni International Resources Limited	0.3	0.4
Eni Australia Limited	-	0.4
Eni Adfin	-	0.3
	<u>150.8</u>	<u>187.8</u>
Non-current portion - other receivables, VAT recoverable	68.3	70.8
Current portion	82.5	117.0

As of 31 December 2011, trade receivables of \$72.3 million (2010 - \$14 million) were fully performing No provision was necessary for 2011 (2010 - \$nil)

As of 31 December 2011 other receivables and amounts owed by related parties of \$114.3 million (2010 - \$135.4 million) were fully performing and other receivables of \$1.2 million (2010 - \$1.4 million) were past due but not impaired and \$nil were impaired (2010 - \$nil)

NOTES TO THE FINANCIAL STATEMENTS

14 Trade and other receivables (continued)

(\*) A prior year reclassification (note 2) was made in relation to other receivables and other payables (note 21). As a result of this reclassification other receivables are adjusted from \$95.5 million as previously presented to \$114 million.

(\*\*) Other receivables include \$5 million (2010: \$26.9 million) in respect of 'underlift' representing the excess of the company's cumulative entitlement over its cumulative production.

	2010 \$ million Restated			2011 \$ million		
	Fully performing	Past due but not impaired	Impaired	Fully performing	Past due but not impaired	Impaired
Trade receivables-third parties	4.7	-	-	6.3	-	-
Trade receivables-affiliate company	9.3	-	-	66.0	-	-
Other receivables-third parties	112.6	1.4	-	90.2	1.2	-
Other receivables-affiliate companies	22.8	-	-	24.1	-	-

The carrying amount of the company's trade and other receivables, and amounts owed by affiliate companies are denominated in the following currencies:

	2010 \$ million Restated	2011 \$ million
Trade and other receivables		
Pounds	34.8	13.5
US Dollars	11.1	3.6
Indonesian Rupiah	69.3	76.7
Euro	3.4	3.9
Amounts owed by affiliates		
Pounds	15.4	9.4
US Dollars	16.8	80.7

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 has not experienced material non-performance by any counterparty. As of 31 December 2011, the company has no significant concentrations of credit risk.

NOTES TO THE FINANCIAL STATEMENTS

15 Inventories

	<i>2010</i> <i>\$ million</i>	<i>2011</i> <i>\$ million</i>
Consumable stocks	<u>34 0</u>	<u>33.8</u>

16 Property, plant and equipment

	<i>Oil and gas properties \$ million</i>	<i>Total \$ million</i>
<b>Cost</b>		
At 1 January 2010	1,641 0	1,641 0
Additions	37 9	37 9
Change in decommissioning cost provision (note 21)	(1 4)	(1 4)
Exchange differences	3 6	3 6
Transferred to asset held for sale	(20 5)	(20 5)
At 31 December 2010	1,660 6	1,660 6
Additions	32 5	32 5
Change in decommissioning cost provision (note 21)	18 5	18 5
<b>At 31 December 2011</b>	<b><u>1,711.6</u></b>	<b><u>1,711.6</u></b>
<b>Depreciation and write offs</b>		
At 1 January 2010	1,417 9	1,417 9
Charge for the year	66 4	66 4
Exchange differences	2 9	2 9
Transferred to asset held for sale	(15 5)	(15 5)
At 31 December 2010	1,471 7	1,471 7
Charge for the year	60 0	60 0
Impairment for year	14 4	14 4
<b>At 31 December 2011</b>	<b><u>1,546.1</u></b>	<b><u>1,546.1</u></b>
<b>Net book amounts</b>		
<b>At 31 December 2011</b>	<b><u>165.5</u></b>	<b><u>165.5</u></b>
At 31 December 2010	<u>188 9</u>	<u>188 9</u>

During the year, the company recognised an impairment of \$14.4 million in respect of Burghley field (2010 – \$nil) following the annual impairment review which indicated declined reserves of the field over its remaining life. The basis for the recoverable amount was the value in use and the discount rate used was 8.0% (2010 – 8.5%).

**17 Intangible fixed assets**

<b>Exploration and appraisal costs</b>	<b>2010</b> <b>\$ million</b>	<b>2011</b> <b>\$ million</b>
-		
<b>Cost</b>		
At 1 January	219.8	251.8
Additions	79.6	46.0
Exploration costs and licence fees written off	(56.5)	(199.5)
Disposal of assets	(1.2)	-
Exchange differences	10.1	-
<b>At 31 December</b>	<b>251.8</b>	<b>98.3</b>

**18 Investments**

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

<b>Name of company and country of incorporation</b>	<b>Description of shares held</b>	<b>Principal activity</b>	<b>Owner-ship</b>	<b>Functional Currency</b>
Eni Oil Holdings B V (incorporated in the Netherlands)	Ordinary EUR 450 shares	Holding company	100%	USD
Eni Pakistan Limited (registered in England and Wales)	Ordinary £1 shares	Oil company	100%	USD
Eni Indonesia Limited (registered in England and Wales)	Ordinary £1 shares	Holding company	100%	USD

The company owns beneficial interests in certain overseas oil and gas assets, whilst the legal title is vested in subsidiary undertakings. The activities of these subsidiaries 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>	<b>2010</b> <b>\$ million</b>	<b>2011</b> <b>\$ million</b>
At 1 January	736.4	736.4
At 31 December	736.4	736.4
<b>Net book value</b>		
At 31 December	736.4	736.4

NOTES TO THE FINANCIAL STATEMENTS

**18 Investments (continued)**

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)

**19 Deferred tax**

Deferred tax is calculated in full on temporary differences using a tax rate of 62% (2010 - 50%) in respect of ring fence activity and 25% (2010 - 28%) in respect of non ring fence activity The movement on the deferred tax account is as shown below

	<i>2010</i> <i>\$ million</i>	<i>2011</i> <i>\$ million</i>
At 1 January	(2 0)	2.0
Credit to income statement	(7 8)	(20.4)
Charge to equity	11 8	-
<b>At 31 December</b>	<b>2 0</b>	<b>(18.4)</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>2010</i> <i>Accelerated</i> <i>capital</i> <i>allowances</i> <i>\$ million</i>	<i>2011</i> <i>Accelerated</i> <i>capital</i> <i>allowances</i> <i>\$ million</i>
<b>Deferred tax liabilities</b>		
At 1 January	94 6	86.2
Charged / (credited) to income statement	(8 4)	9.8
<b>At 31 December</b>	<b>86 2</b>	<b>96.0</b>
Included in discontinued operations (note 12 )	(2 5)	-
<b>Deferred tax liabilities in respect of continuing operations at 31 December</b>	<b>83 7</b>	<b>96.0</b>



**19 Deferred tax (continued)**

**Deferred tax assets**

	2010 Decommissioning \$ million	2011 Decommissioning \$ million
At 1 January	80.6	84.2
Credited / (charged) to income statement	3.6	30.2
<b>At 31 December</b>	<b>84.2</b>	<b>114.4</b>
Included in discontinued operations (note 12)	(0.5)	-
<b>Deferred tax liabilities in respect of continuing operations at 31 December</b>	<b>83.7</b>	<b>114.4</b>

All deferred tax assets are available for offset against the deferred tax liabilities above with the exception of the deferred tax asset on the decommissioning provision. This gives a net deferred tax liability of \$96 million (2010: \$83.7 million).

The deferred tax asset relating to decommissioning is \$114.4 million (2010: \$83.7 million) and is disclosed as a non-current asset.

During 2011, the UK government announced an intention to reduce tax relief available in respect of decommissioning costs from 62% (being corporation tax rate of 30% and supplementary charge rate of 32%) to 50% (being corporation tax rate of 30% and supplementary charge rate of 20%). This change was not substantially enacted at balance sheet date. If enacted, the legislation will have the effect of reducing the deferred tax asset by \$22 million.

**Deferred tax**

The deferred corporation tax asset calculated at the rate of 25% (2010: 27%) which was not recognised in the financial statements amounted to

	2010 Unprovided amount \$'000	2011 Unprovided amount \$'000
Unrecognised tax losses carried forward	-	30,514
Other unrecognised deductible temporary differences	-	31,419
	<b>-</b>	<b>61,933</b>

In 2010 and 2011, the directors consider that it was unlikely that there would be suitable taxable profits from which the future reversal of the underlying timing differences could be deducted, therefore the deferred tax asset was not recognised.

NOTES TO THE FINANCIAL STATEMENTS

20 Derivative financial instruments

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

Amounts recognised in respect of derivative financial instruments;

	2010 \$ million Assets	2010 \$ million Liabilities	2011 \$ million Assets	2011 \$ million Liabilities
Outright contracts	-	0.2	-	-
	-	0.2	-	-

These amounts are disclosed in the financial statements as

	2010 \$ million Assets	2010 \$ million Liabilities	2011 \$ million Assets	2011 \$ million Liabilities
Current liabilities	-	0.2	-	-
	-	0.2	-	-

Fair value adjustments on derivative financial instruments

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

	2010 \$ million	2011 \$ million
Outright contracts	(0.2)	0.2
Oil commodity derivatives - Collars	6.6	-
	6.4	0.2

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	
	2010 \$ million	2011 \$ million	2010 \$ million	2011 \$ million
Derivative financial instruments liabilities				
Outright contract	39.3	-	0.2	-

## NOTES TO THE FINANCIAL STATEMENTS

**21 Trade and other payables**

<b>Current</b>	<b>2010 \$ million Restated</b>	<b>2011 \$ million</b>
Trade payables	8.1	2.2
Other payables (*)	31.9	22.7
Accruals	21.3	24.2
Deferred income (note 23)	7.7	3.6
Amounts owed to related parties		
<b>Parent company</b>		
- Eni S.p.A. - Exploration and Production Division	9.9	4.4
<b>Affiliate companies</b>		
- Eni UK Limited	1.7	1.8
- Eni International Resources Limited	0.8	0.6
- Eni Australia Limited	-	0.1
Third parties	0.3	0.2
	<b>81.7</b>	<b>59.8</b>

Accruals include \$0.4 million (2010 \$6.7 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

(\*) A prior year reclassification (note 2) was made in relation to other receivables (note 14) and to other payables. As a result of this other payables are adjusted from \$13.4 million as previously presented to \$31.9 million

**22 Provisions**

	<b>Decommissioning Provision \$ million</b>	<b>Other Provisions \$ million</b>	<b>Total \$ million</b>
At 1 January 2010	161.3	3.7	165.0
Unwinding of discount	7.8	-	7.8
Charged to the income statement	-	0.7	0.7
Revision of cost estimate	(1.4)	-	(1.4)
Utilised in the year	-	(1.9)	(1.9)
At 31 December 2010	167.7	2.5	170.2
Unwinding of discount	7.7	-	7.7
Charged to the income statement	-	0.9	0.9
Revision of cost estimate	18.5	-	18.5
Reversal of provision	(6.3)	-	(6.3)
Utilised in the year	(2.3)	(0.3)	(2.6)
Disposal	(0.8)	-	(0.8)
<b>At 31 December 2011</b>	<b>184.5</b>	<b>3.1</b>	<b>187.6</b>

**Decommissioning Provision**

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 between 3.03% - 4.09% (2010 - 4.60% - 5.27%) to its present value. The charge to the income statement represents the unwinding of the provision. These liabilities are currently estimated to crystallise in 2017 and 2021.

**22 Provisions (continued)*****Decommissioning Provision (continued)***

During the year, the company reversed a provision of \$6.3 million in respect of an exploration field as an affiliate company is liable for the decommissioning of the field

***Other provisions***

At 31 December 2011 the provision in relation to insurance premiums was \$nil (2010 - \$nil). Included in the other provisions of \$3.1 million is \$2.9 million (2010 - \$2.5 million) relating to the defined pension scheme liability, see note 30

**23 Deferred income**

	2010 \$ million <i>Restated</i>	2011 \$ million
Liverpool Bay deferred income (*)	3.6	-

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 \$221.7 million from 1 January 1999 and will be fully recognised in 2012.

(\*) A prior year reclassification (note 2) was made in relation to the Liverpool Bay deferred income. As a result of this \$7.7 million was reclassified to current liabilities, as of 31 December 2010.

**24 Share capital**

	2010 \$ million	2011 \$ million
Authorised and fully paid at 31 December 200,010,000 ordinary shares of £1 each	310.5	-
Issued and fully paid at 31 December 200,010,000 ordinary shares of £1 each	310.5	310.5

(\*) On 15 June 2011, the company adopted new Articles of Association which also amended those provisions of the Memorandum of Association which by virtue of s 28 of the Companies Act 2006 form part of the Articles of Association, including the removal of the Authorised Capital clause.

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 the company has no necessity nor intention of altering the current position.

The capital structure of the company is presented in the balance sheet. Short and medium-term funding requirements are managed through the use of an intercompany facility with Eni Finance International S.A. (formerly 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 Finance International S.A. (formerly 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.

# ENI ULX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 25 Share premium

	<i>2010</i> <i>\$ million</i>	<i>2011</i> <i>\$ million</i>
At 1 January and 31 December	<u>322 0</u>	<u>322.0</u>

### 26 Retained earnings – Foreign currency translation reserve

Retained earnings include the following amounts resulting from the translation of foreign operation's results

	<i>2010</i> <i>\$ million</i>	<i>2011</i> <i>\$ million</i>
At 1 January	49 5	65.8
Currency translation on foreign operations	16 3	-
Elimination of translation reserve due to change in functional currency (a)	-	(65.8)
<b>At 31 December</b>	<u>65 8</u>	<u>-</u>

- (a) As noted in the directors report, due to change in functional currency of the company from Sterling to US Dollars exchange differences which arose in prior years on translation of the company's foreign operation's results from US Dollars to Sterling presentation currency and were recognised in other comprehensive income as translation reserve are now eliminated

### 27 Cash flow hedge reserves

	<i>2010</i> <i>\$ million</i>	<i>2011</i> <i>\$ million</i>
At 1 January	(11 8)	-
Oil commodity derivatives – collars	11 8	-
<b>At 31 December</b>	<u>-</u>	<u>-</u>

### 28 Capital contribution

	<i>2010</i> <i>\$ million</i>	<i>2011</i> <i>\$ million</i>
At 1 January and 31 December	<u>332 2</u>	<u>-</u>

On 30 November 2011, the company transferred its capital contribution reserves of \$332 2 million to its retained earnings

## 29 Commitments and contingencies

	2011 \$ million	2012 \$ million
At 31 December	58.5	60.7

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.

The UK tax authority opened an enquiry disputing the tax treatment of compensation received by the company following a mediation settlement in 2003. In this regard, the tax authority has proposed that the amount allocated to interest be classified and taxed as a receipt subject to ring fence corporation tax and supplementary charge at the marginal rate of 50%. In the event of a settlement on this basis, the total tax and interest payable would be approximately \$7.7 million. No provision is included in the accounts in respect of this contingent liability.

## 30 Pension Scheme

The company sponsors the Eni Indonesia Limited Retirement Benefits Scheme which is a defined benefit arrangement. The scheme is an unfunded obligation and does not have any plan assets. The company carries the obligation in its balance sheet as per the actuarial evaluation carried out in accordance to IAS 19 at 31 December 2011 by a qualified independent actuary.

The principal assumptions made by the actuaries were:

	2010 %	2011 %
Rate of compensation increase	12.00	12.00
Discount rate	9.50	8.50
Inflation assumption	6.00	5.50

For the purpose of evaluation the mortality table used in 2011 and 2010 was Indonesian Mortality Table (TMI'99). The average life expectancy of a 58 year old in 2011 was 8.21 (2010 – 8.20) years. Medical cost trend rates were considered to have no material impact to the evaluation of 2011 and 2010 results.

### Pension and other post-retirement obligations

The amounts recognised in the balance sheet are determined as follows:

	2010 \$ million	2011 \$ million
Present value of unfunded obligations	(3.7)	(3.3)
Unrecognised net actuarial loss	1.2	0.4
Net liability recognised in the balance sheet (note 22)	(2.5)	(2.9)

**30 Pension Scheme (continued)**

**Pension and other post-retirement obligations (continued)**

The amounts recognised in the income statement are as follows

	2010 \$ million	2011 \$ million
Current service cost	0.5	0.5
Interest cost	0.2	0.3
Amortised net actuarial loss	0.2	0.1
<b>Total</b>	<b>0.9</b>	<b>0.9</b>

**Analysis of the movement of benefit obligation**

	2010 \$ million	2011 \$ million
Benefit obligation at 1 January	2.5	3.7
Current service cost	0.3	0.5
Interest cost	0.3	0.3
Actuarial gain	0.5	(0.7)
Benefits paid directly by the employer	(0.2)	(0.4)
Exchange	0.3	(0.1)
<b>Benefit obligation at 31 December</b>	<b>3.7</b>	<b>3.3</b>

**Analysis of the movement in the balance sheet liability**

	2010 \$ million	2011 \$ million
At 1 January	(1.7)	(2.5)
Total expense as above	(0.8)	(0.9)
Contributions paid	0.2	0.4
Exchange	(0.2)	0.1
<b>At 31 December</b>	<b>(2.5)</b>	<b>(2.9)</b>

In 2011 the company expects to pay contributions into the plan amounting to \$434,000 (2010 - \$365,000)

**Historical analysis of pension scheme**

	2007 \$ million	2008 \$ million	2009 \$ million	2010 \$ million	2011 \$ million
Experience loss / gain as percentage of present value of plan obligations	0%	14%	15%	12%	0%
Fair value of plan obligations	(1.1)	(1.9)	(2.5)	(3.7)	(3.3)

### 31 Market risks

#### Foreign exchange rate risk

Exchange rate risk derives from the fact that the company's operations are conducted in currencies other than the US Dollar (in particular Pounds Sterling, Euro and Indonesian Rupiah (IDR)) and due to 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, receivables and accruals 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 Sterling versus the US Dollar 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 2011, if the USD had weakened by 10% against Sterling with all other variables held constant, post-tax profit for the year would have been \$4,122,875 higher (2010 - \$6,051,835 higher), arising as a result of financial assets being held in Sterling. Net equity would have been \$4,122,875 (2010 - \$6,051,835 higher).

At 31 December 2011, if the US Dollar had weakened by 10% against the IDR with all other variables held constant, post-tax profit for the year would have been \$3,745,839 higher (2010 - \$2,718,574 higher). Net equity would have been \$3,745,839 higher (2010 - \$2,718,574 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.



**32 Business risk****Commodity risk**

The company'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 company's results of operations, and vice versa. In order to hedge commodity risk, the company 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.

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. The company does not have any significant outstanding financial instruments including derivatives.

**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 company's 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.

<b>As at 31st December 2011</b>	<b><i>Less than one year</i></b> <b><i>\$ million</i></b>
Outright contract	-
Trade and other payables	35.6
<b>As at 31st December 2010</b>	
Oil commodity derivatives – collars	0.2
Trade and other payables	60.4

**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.

### 33 Fair Value

The company is required as per IFRS 7 'Financial Instruments Disclosures' to disclose fair value measurements by level of the following fair value measurement hierarchy

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The following table presents the company's assets and liabilities that are measured at fair value at 31 December 2011

	31 December 2011 \$million		
	Level 1	Level 2	Level 3
<b>Financial liabilities at fair value through profit or loss:</b>			
- Trading derivatives	-	-	-
<b>Total</b>	-	-	-

	31 December 2010 \$million		
	Level 1	Level 2	Level 3
Financial liabilities at fair value through profit or loss			
- Trading derivatives	-	0 2	-
<b>Total</b>	-	0 2	-