

ENI FORTIES LIMITED

**DIRECTORS' REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2004**

Registered Number: 1452037



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ENI FORTIES LIMITED

DIRECTORS AND REGISTERED OFFICE

BOARD OF DIRECTORS

A Chiarini
M Giulianelli
J Michell

SECRETARY AND REGISTERED OFFICE

D Fagan
Ebury Bridge House
10 Ebury Bridge Road
LONDON SW1W 8PZ

AUDITORS

PricewaterhouseCoopers LLP
32 Albyn Place
ABERDEEN AB10 1YL

REGISTERED IN ENGLAND NO: 1452037

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the year ended 31 December 2004.

Principal activity

The company's principal asset, a share in the Forties oil field, was sold during 2003. The company ceased trading during 2004, having settled all outstanding liabilities. The directors do not anticipate the company to trade in the foreseeable future.

Results for the year

The results for the year are set out on page 5 of the financial statements. A loss for the year to 31 December 2004 of £474,000 (2003 loss - £912,000) was transferred from reserves.

Dividends

During the year the directors proposed the payment of a dividend on ordinary shares of £1,584,940 (2003 - £nil).

Directors

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

- On 1 September 2004, D Thomas resigned as a director
- On 1 September 2004, A Chiarini was appointed as a director

The directors' interests in Loan Notes of group companies were as follows:

	<i>31 December 2003</i>	<i>31 December 2004 or date of resignation as a director</i>
	<i>Number of Loan Notes Beneficial</i>	<i>Number of Loan Notes Beneficial</i>
Eni Investments plc Loan Notes of £1 each		
D Thomas	34,236	-

On 30 June 2004, D Thomas redeemed 23,440 of the above Loan Notes. The remaining 10,796 Loan Notes were transferred to his wife, Mrs S Thomas, on 22 July 2004.

Other than as set out above, no director had any interest, beneficial or non-beneficial, in the share capital of the company or any other UK group company at the dates stated or had any material interest during the year in any significant contract with the company or any subsidiary.

DIRECTORS' REPORT

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit and loss for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2004. The directors also confirm that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to dispense with the obligation to appoint auditors on an annual basis pursuant to Section 386 of the Companies Act 1985 (as amended) was passed on 28 October 2003 and consequently PricewaterhouseCoopers LLP is deemed reappointed as the company's auditors for the next financial year.

Elective Regime

In addition, the company has dispensed with the requirement to hold Annual General Meetings or to lay accounts before the company in General Meeting pursuant to Sections 366A and 252 of the Companies Act 1985 (as amended) respectively.

By order of the Board



A Chiarini
Director

14 March 2005

INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the members of Eni Forties Limited

We have audited the financial statements on pages 5 to 11.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
ABERDEEN

14 March 2005

ENI FORTIES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 £'000	2003 £'000
Turnover		-	490
Change in stocks		-	21
		-	511
Depreciation		-	(104)
Other operating charges		(473)	(831)
		(473)	(935)
Operating loss	4	(473)	(424)
Interest payable and similar charges	5	(1)	(32)
Interest receivable and similar income		-	2
Loss on sale of tangible fixed assets	7	-	(192)
Loss on ordinary activities before taxation		(474)	(646)
Tax on loss on ordinary activities	6	-	(266)
Loss for the financial year		(474)	(912)
Dividends on equity shares	8	(1,585)	-
Retained loss for the financial year		(2,059)	(912)

The results above have been derived wholly from discontinued operations.

Note of historical cost profit and losses for the year ended 31 December 2004

	2004 £ 000	2003 £ 000
Loss on ordinary activities before taxation	(474)	(646)
Realisation of fixed asset revaluation gains of previous years	-	676
Historical cost (loss) / profit on ordinary activities before taxation	(474)	30
Historical cost loss for the year retained after taxation	(474)	(236)

ENI FORTIES LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2004

	Notes	2004 £'000	2003 £'000
Current assets			
Other debtors		-	10
Amounts owed by group undertakings		-	2,244
Bank and cash		11	-
		<u>11</u>	<u>2,254</u>
Creditors – amounts falling due within one year			
Corporation tax		-	(184)
			<u>(184)</u>
Total assets less current liabilities		<u>11</u>	<u>2,070</u>
Capital and reserves			
Called up equity share capital	9	11	11
Profit and loss account	10	-	2,059
			<u>2,070</u>
Equity shareholder's funds	11	<u>11</u>	<u>2,070</u>

Approved by the Board on 14 March 2005
On behalf of the Board


M Giulianelli
Director

STATEMENT OF ACCOUNTING POLICIES

A summary of the principal accounting policies which have been applied throughout the year is listed below.

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets and in accordance with applicable accounting standards.

The financial statements have also been prepared in accordance with the Statement of Recommended Practice (SORP), "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities", with the exception of the following:

- a) The depreciation policy followed (see below) is that set out in US Financial Accounting Standard No. 19. This policy is followed in order to be consistent with that adopted for oil and gas properties by the rest of the Eni SpA group and is also considered to be the industry standard.
- b) The company values overlifts of product stocks at market value in accordance with the SORP. However, underlifts are valued at cost of production and not market price. This policy is adopted as it is considered more prudent not to recognise profit on a transaction before lifting by the customer has taken place.

Financial statements

The company acts as a participant in consortia involved in the exploration and exploitation of oil and gas in the UK sector of the North Sea.

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

The financial statements reflect the company's share of each activity as a participant in the consortia as governed by their joint operating agreements.

Tangible fixed assets

The tangible fixed assets include 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 development is completed.

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

An impairment review is carried out at each year end in accordance with FRS 11. This review is based on assessments of the future net cash flows for each field, calculated by utilising the company's estimate of proved reserves at year end, together with the company's estimates of future oil prices, future capital and operating costs and future decommissioning costs, required for recovering these remaining proved reserves. The calculations are performed using year end exchange rates and a discount factor is applied based on the company's cost of capital. Reversals of previously recorded impairment deficits are recognised only if supported by permanent changes in estimates utilised in the impairment review process.

Stocks

Warehouse stocks 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.

STATEMENT OF ACCOUNTING POLICIES

Foreign currencies

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

Taxation

Corporation tax payable is provided on taxable profits at the current rate of taxation.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted. Deferred tax is measured on a non-discounted basis.

Turnover

Turnover represents the company's share of oil, condensates and gas production sold and is stated exclusive of value added tax and similar levies.

NOTES TO THE FINANCIAL STATEMENTS

1 Parent undertakings

The company's immediate parent undertaking is Eni UKCS Limited.

The company's ultimate parent undertaking, Eni SpA, a company incorporated in Italy, will produce consolidated financial statements for the year ended 31 December 2004 which will be available from Eni SpA – Exploration & Production Division, Direzioni e Uffici, Via Emilia 1, 20097, San Donato Milanese, PO Box 12069, (20100) Milano.

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

2 Cash flow statement and related party transactions

In accordance with Financial Reporting Standard No. 1 (FRS 1), the company is exempt from the requirements of this standard to provide a cash flow statement as a consolidated statement which meets the requirements of this standard will be given in the financial statements of the company's parent company, Eni SpA.

The company has taken advantage of the '90% owned subsidiary' exemption within Financial Reporting Standard 8 not to disclose related party transactions with other members of the group.

3 Directors and employees

None of the directors received any emoluments in respect of their services to the company during the year (2003 - £nil) and the company had no employees (2003 – none).

4 Operating loss

The audit fee of the company for the current year has been borne by the intermediate parent company, Eni UK Limited. In 2003 the audit fee was borne by Eni AOG Limited.

5 Interest payable and similar charges

	2004 £'000	2003 £'000
Unwinding of discount in relation to decommissioning provision	-	32
Exchange losses	1	-
	<u>1</u>	<u>32</u>

NOTES TO THE FINANCIAL STATEMENTS

6 Taxation

	<u>2004</u> £'000	<u>2003</u> £'000
UK corporation tax at 40% (2003 – 40%)		
Current	-	-
Prior year	-	266
	<u>-</u>	<u>266</u>

Factors affecting tax charge for the year

The tax assessed for the period is lower (2003 – higher) than the standard rate of corporation tax applicable to oil and gas exploration companies in the UK of 40% (2003 – 40%). The differences are explained below:

	<u>2004</u> £'000	<u>2003</u> £'000
Loss on ordinary activities before taxation	(474)	(646)
Taxation on loss on ordinary activities before taxation @ 40% (40% - 2003)	(190)	(258)
Effect of:		
Capital allowances (higher) / lower than depreciation	-	(125)
Expenditure not tax deductible – loss on disposal	-	77
Group relief surrendered to other group companies	190	306
Adjustments to tax charge in respect of prior years	<u>-</u>	<u>266</u>
Current tax charge for the year	<u>-</u>	<u>266</u>

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

7 Loss on sale of tangible fixed assets

During 2003 the company's interest in the Forties field was sold resulting in a loss on sale of £192,000.

8 Dividends

	<u>2004</u> £'000	<u>2003</u> £'000
Equity – Ordinary		
Interim paid: £144.085 (2003 – nil) per £1 share	<u>1,585</u>	<u>-</u>

9 Called up equity share capital

	<u>2004</u> £'000	<u>2003</u> £'000
Authorised £1 ordinary equity shares	<u>20</u>	<u>20</u>
Allotted and fully paid £1 ordinary equity shares	<u>11</u>	<u>11</u>

ENI FORTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 Reserves

	Profit and loss account <u>£'000</u>
At 1 January 2004	2,059
Loss for the financial year	(474)
Dividends on equity shares	<u>(1,585)</u>
At 31 December 2004	<u>-</u>

11 Reconciliation of movements in shareholder's funds

	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Opening equity shareholder's funds	2,070	2,982
Loss for the financial year	(474)	(912)
Dividends on equity shares	<u>(1,585)</u>	<u>-</u>
Closing equity shareholder's funds	<u>11</u>	<u>2,070</u>

NOTES TO THE FINANCIAL STATEMENTS

12 Oil and gas exploration and production activities – unaudited

The data has been prepared in accordance with the provisions of the Statement of Recommended Practice “Accounting for Oil and Gas Exploration, Development and Decommissioning activities”.

(a) Capitalised costs relating to oil and gas exploration and production activities as at 31 December:

	2004 £'000	2003 £'000
Proved properties	-	-
Unproved properties	-	-
Gross capitalised costs:	-	-
Accumulated depreciation and amortisation	-	-
Net capitalised costs	-	-

(b) No pre-production costs in oil and gas exploration and production activities were incurred during the year ended 31 December 2004 (2003 – nil);

(c) Results of operations of oil and gas exploration and production activities (including related trading operations) for the year ended 31 December:

	2004 £'000	2003 £'000
Turnover	-	490
Production costs	-	(256)
Depreciation and amortisation	-	(104)
Profit before allocable taxes	-	130
Allocable taxes	-	(52)
Results of operations from exploration and production	-	78

NOTES TO THE FINANCIAL STATEMENTS

12 Oil and gas exploration and production activities – unaudited (continued)

(d) Net proved oil reserve quantities for the year ended 31 December:

	2004 Oil Thousand Barrels	2003 Oil thousand barrels
Net proved reserves as at 1 January	-	800
- proved developed reserves	-	-
- proved undeveloped reserves	-	-
	-	800
Changes during the year		
- production	-	(47)
- disposal	-	(753)
	-	(800)
Net proved reserves as at 31 December		
- proved developed reserves	-	-
- proved undeveloped reserves	-	-
	-	-

The reserve quantities have been determined by professional reservoir engineering personnel, utilising computer models based on reservoir information obtained during drilling and producing operations. The company had no gas