AGIP (BBI) LIMITED

DIRECTORS' REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2002

Registered Number: 2556415

AGIP (BBI) LIMITED

DIRECTORS AND REGISTERED OFFICE

BOARD OF DIRECTORS

G Ferrara
J Michell
D Thomas

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: 2556415

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the year ended 31 December 2002.

Highlights of the company's activities

Principal activity

The company has interests in a number of onshore US production leases. In addition, exploration and appraisal interests include licence interests in Brazil.

The operational performance of the company during the year was as expected and management anticipates that this will continue to be the status in the coming year.

Results for the year

The results for the year are set out on page 5 of the financial statements. A loss after tax for the year ended 31 December 2002 of £1,591,000 (2001 profit after tax - £705,000) was transferred from reserves.

Dividends

The directors do not recommend the payment of a dividend (2001 - £nil).

Directors

The following served as directors during the year:

G Ferrara
R Lorato (Resigned 2 September 2002)
J Michell
D Thomas (Appointed 2 September 2002)

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

	31 December 2001 (or date of appointment if later)	***31 December 2002***
	Number of Loan Notes Beneficial	***Number of Loan Notes Beneficial***
Agip Investments plc Loan Notes of £1 each		
D Thomas	34,236	**34,236**

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 2002. 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

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 12 March 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the Annual General Meeting.

By order of the Board

D Fagan

D Fagan
Secretary

18 March 2003

INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the members of Agip (BBI) limited

We have audited the financial statements on pages 5 to 12.

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 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
ABERDEEN
18 March 2003

AGIP (BBI) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 £'000	2001 £'000
Exploration costs and licence fees written off	9	(129)	(20,422)
Other operating income / (charges)		397	(1,283)
Operating loss	4	**268**	**(21,705)**
Gain on sale of fixed assets	6	-	22,227
Interest payable and similar charges	7	(1,859)	-
(Loss) / profit on ordinary activities before taxation		**(1,591)**	**522**
Tax on (loss) / profit on ordinary activities	8	-	183
(Loss) / profit on ordinary activities after taxation	12	**(1,591)**	**705**

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

There are no material differences between the (loss) / profit on ordinary activities before taxation and the retained (loss) / profit for the year stated above and their historical cost equivalents.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2002

	2002 £'000	2001 £'000
(Loss) / profit for the financial year	(1,591)	705
Total recognised (losses) / gains relating to the year	(1,591)	705
Prior year adjustment – accounting policy change	-	(3,916)
Total loss recognised since last annual report	**(1,591)**	**(3,211)**

BALANCE SHEET
AS AT 31 DECEMBER 2002

	Notes	2002 £'000	2001 £'000
Fixed assets			
Intangible assets	9	248	373
		248	**373**
Current assets			
Amounts owed by group undertakings		83	-
Cash at bank and in hand		131	153
		214	**153**
Creditors – amounts falling due within one year			
Amounts owed to group undertakings		(26,940)	(25,423)
Other creditors		(102)	(111)
Accruals and deferred income		(153)	(134)
		(27,195)	**(25,668)**
Net current liabilities		(26,981)	(25,515)
Total assets less liabilities		**(26,733)**	**(25,142)**
		(26,733)	**(25,142)**
Capital and reserves			
Called up equity share capital	11	1,200	1,200
Profit and loss account (deficit)	12	(27,933)	(26,342)
Equity shareholders' funds	13	**(26,733)**	**(25,142)**

Approved by the Board on 18 March 2003
On behalf of the Board

G Ferrara
Director

STATEMENT OF ACCOUNTING POLICIES

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

Change in accounting policy
During the year the company adopted FRS 19 'Deferred tax'. Although the adoption represents a change in accounting policy, it has not resulted in a change to previously reported results.

Basis of accounting
The financial statements have been prepared under the historical cost convention 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.

Fundamental accounting concept
The financial statements have been prepared under the going concern concept because Agip Ventures plc, an intermediate parent undertaking, has undertaken to provide or procure sufficient funds as and when necessary to allow Agip (BBI) Limited to continue its operations for at least twelve months from the date of the financial statements.

Financial statements
The company acts as a participant in consortia involved in the exploration and exploitation of oil and gas.

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.

STATEMENT OF ACCOUNTING POLICIES

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 costs 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 five years of the balance sheet date. 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, and pre-development costs that are incurred are also capitalised and carried forward. When field development programme approval is granted, the exploration and pre-development costs of that field are reclassified as tangible assets, and when production commences 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.

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

Intangible assets – interests acquired
The cost of acquisition of interests acquired in fields is allocated partly to the tangible fixed assets acquired and partly to intangible fixed assets. The cost of interests in fields in production is depreciated using the unit of production method based on proved developed oil and gas reserves at the balance sheet date. When there is a change in the estimated total recoverable reserves, the undepreciated cost is written off in proportion to the revised remaining reserves.

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

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.

1 Parent undertakings

The company's immediate parent undertaking is Agip Oil & Gas 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 2002 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 Revised), the company is not required to prepare a cash flow statement being a wholly owned subsidiary of Eni SpA. The cash flows of the company are included in the consolidated cash flow statement for that group.

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 Segmental information

In the opinion of the directors all business is in oil and gas exploration. No segmental disclosure is considered necessary beyond that given in the profit and loss account and notes.

4 Operating profit / (loss)

Operating profit / (loss) is stated after charging / (crediting) the following amounts:

	2002	2001
	£'000	£'000
Gain on sale of fixed assets	(588)	-

The audit fee for the company has been borne by the immediate parent company, Agip Oil & Gas Limited.

5 Directors and employees

None of the directors received any emoluments in respect of their services to the company during the year (2001 - £nil) and the company had no employees (2001 – none).

6 Gain on sale of fixed assets

This relates to the sale of the licence interests in Mauritania A and B.

7 Interest payable and similar charges

	2002	2001
	£'000	£'000
Exchange losses	**1,859**	-

8 Taxation

The tax effect of the loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2001 - 30%) is explained below:

	2002	2001
	£'000	£'000
(Loss) / profit on ordinary activities before taxation	**(1,591)**	**522**
Taxation on (loss) / profit on ordinary activities before taxation @ 30% (30% 2001)	(477)	157
Capital allowances lower than depreciation	-	(42)
Income not taxable – gain on sale of fixed assets	176	-
Group relief surrendered/(claimed) for no consideration	301	(115)
Current tax charge for the period	-	-

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

9 Intangible fixed assets

	Total
	£'000
Cost	
At 1 January 2002	26,514
Additions	4
Disposals	(25,143)
At 31 December 2002	**1,375**
Amounts written off	
At 1 January 2002	26,141
Charge for the year	129
Disposals	(25,143)
At 31 December 2002	**1,127**
Net book value	
At 31 December 2002	**248**
At 31 December 2001	**373**

10 Deferred Taxation

No deferred taxation has been provided in the financial statements as any potential liability would be offset by available tax losses or group relief.

11 Called up equity share capital

	2002	2001
	£'000	£'000
Authorised £1 ordinary equity shares	**5,000**	**5,000**
Allotted and fully paid £1 ordinary equity shares	**1,200**	**1,200**

12 Reserves

	Profit and loss account
	£'000
At 1 January 2002	(26,342)
Loss for the year	(1,591)
At 31 December 2002	**(27,933)**

13 Reconciliation of movements in shareholders' funds

	2002	2001
	£'000	£'000
Opening shareholders' funds	(25,142)	(25,847)
(Loss) / profit for the financial year	(1,591)	705
Closing shareholders' funds	**(26,733)**	**(25,142)**

14 Commitments

The company has interests in various consortia engaged in exploration of oil and gas. As a member of these consortia, the company is committed to pay its share of the costs of exploration, which may involve capital expenditure in 2003 of approximately £992,000 (2002 - £4.0 million).

15 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:

	2002	2001
	£'000	£'000
Gross capitalised costs:		
Unproved properties	1,375	26,514
	1,375	26,514
Accumulated depreciation and amortisation	(1,127)	(26,141)
Net capitalised costs	248	373

(b) Pre-production costs incurred in oil and gas exploration and production activities for the year ended 31 December:

	2002	2001
	£'000	£'000
Exploration and appraisal costs	129	20,422
Development costs	-	-
Total costs	129	20,422
Capitalised costs included in total above	4	20,297

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

	2002	2001
	£'000	£'000
Turnover	-	-
Production costs	-	-
Exploration and appraisal costs	(4)	(20,297)
Depreciation and amortisation	(125)	(125)
Profit before allocable taxes	(129)	(20,422)
Allocable taxes	-	(7,159)
Results of operations from exploration and production	(129)	(27,581)

The company had no commercial reserves in both 2001 and 2002.