ENTERPRISE OIL ITALY LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1997

Registration Number 2552899

ENTERPRISE OIL ITALY LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 1997.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the company is to act as a holding company. Prior to the disposal of the company's Italian branch mentioned below the principal activity of the company was oil and gas exploration and production in Italy.

RESULT AND DIVIDEND

The profit after taxation for the year amounted to £0.9 million (1996: £1.6 million). The directors do not recommend payment of a dividend (1996: £nil).

During 1997 Enterprise Oil Italiana SpA (an affiliate Italian registered company) issued 6 million shares (each with a nominal value of 1000 Lire per share) to the company in return for the business and associated assets, liabilities and obligations of the company's Italian branch.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during 1997 were:

Sir Graham Hearne	
I S Paterson	
A R Armour	
P H Jungels	(Appointed 1 January 1997)
C Viotti	(Resigned 6 August 1997)

Sir Graham Hearne, P H Jungels, I S Paterson and A R Armour are directors of the parent company, Enterprise Oil plc, and their interests in the shares of that company are shown in its annual report and accounts for 1997.

In addition, as at 31 December 1997, the directors, are deemed to have a non-beneficial interest, as potential beneficiaries, in 5.7 million Enterprise Oil ordinary shares held by trustees of Enterprise Oil employee share trusts.

No director in office at the end of the year had any beneficial interest in the shares of the company or any fellow subsidiary company in the Enterprise Oil plc group.

AUDITORS

In accordance with Section 385 of the Companies Act 1985 a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

R D Moore
Secretary
13th July 1998

Grand Buildings
Trafalgar Square
LONDON WC2N 5EJ

ENTERPRISE OIL ITALY LIMITED

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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 or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards 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 also responsible for maintaining adequate 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 taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

REPORT OF THE AUDITORS, KPMG AUDIT PLC, TO THE MEMBERS OF ENTERPRISE OIL ITALY LIMITED

We have audited the financial statements on pages 4 to 12.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 2, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF 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 as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants
Registered Auditors

London

13 July 1998

ENTERPRISE OIL ITALY LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1997

	Note	1997 £m	1996 £m
TURNOVER	1	2.2	4.0
Cost of sales	2	(1.1)	(2.2)
GROSS PROFIT	3	1.1	1.8
Administrative and selling expenses		(0.1)	(0.1)
OPERATING PROFIT		1.0	1.7
Interest receivable and similar income		0.1	0.1
Interest payable and similar charges	4	(0.3)	(0.1)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		0.8	1.7
Tax on profit on ordinary activities		0.1	(0.1)
RETAINED PROFIT FOR THE FINANCIAL YEAR	12	0.9	1.6

All items dealt with in arriving at retained profit for 1997 relate to discontinued operations and 1996 relate to continuing operations.

The notes on pages 7 to 12 form part of these financial statements.

ENTERPRISE OIL ITALY LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1997

	Note	1997	1996
		£m	£m
FIXED ASSETS			
Intangible assets	5	-	0.9
Tangible assets	6	-	26.3
Investments	7	6.9	-
		6.9	27.2
CURRENT ASSETS			
Debtors	8	5.5	5.3
Cash at bank and in hand		-	1.5
Investments		8.3	-
		13.8	6.8
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	9	(13.0)	(26.9)
NET CURRENT ASSETS (LIABILITIES)		0.8	(20.1)
NET ASSETS		7.7	7.1
CAPITAL AND RESERVES			
Called-up share capital	11	0.1	0.1
Share premium account	12	3.6	3.6
Profit and loss account	12	4.0	3.4
SHAREHOLDERS' FUNDS		7.7	7.1

Approved by the Board of Directors
and signed on its behalf by

I S Paterson 13th July 1998

The notes on pages 7 to 12 form part of these financial statements.

ENTERPRISE OIL ITALY LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 1997

	1997 £m	1996 £m
Profit on ordinary activities after taxation	0.9	1.6
Unrealised currency translation differences	(0.3)	1.3
	0.6	2.9

The unrealised currency translation differences shown above are the result of retranslation to sterling, in accordance with accounting policy (i), of the financial statements of the Italian branch.

The notes on pages 7 to 12 form part of these financial statements.

ENTERPRISE OIL ITALY LIMITED

STATEMENT OF ACCOUNTING POLICIES

(a) Accounting convention

The financial statements have been prepared under the historical cost convention, in accordance with applicable United Kingdom accounting standards and on a going concern basis.

(b) Joint ventures

The company's exploration, development and production activities are generally conducted in joint ventures with other companies. The financial statements reflect the share of production, operating costs and capital expenditure applicable to the company's joint venture interests under the proportional consolidation method.

The effects of redeterminations of equity interests in joint ventures are accounted for when the outcome of the redetermination is known. In the case of producing fields, adjustments to past production entitlements arising therefrom are accounted for over the period of the adjustment to entitlements agreed with co-venturers.

(c) Turnover

Turnover in respect of petroleum activities represents the sales value of the company's share of petroleum production during the year, including the value of royalty oil taken in kind.

(d) Exploration and appraisal costs

Exploration and appraisal costs are accounted for under the successful efforts method.

Costs relating to licence and data acquisition, geological and geophysical activity and exploration and appraisal drilling are initially capitalised as intangible fixed assets. Expenditure on general seismic data and other costs not directly related to a specific exploration licence are written off to the profit and loss account in the year in which they are incurred.

Other costs are dealt with as the related prospects are determined; if prospects are deemed to be unsuccessful on completion of evaluation, the associated costs are charged to the profit and loss account in the period in which that determination is made. If the prospects are deemed to be commercially viable, such costs are transferred to tangible fixed assets in the category "fields awaiting development".

(e) Tangible fixed assets

All field development costs are capitalised as tangible fixed assets. Such costs relate to the acquisition and installation of production facilities and include development drilling costs, project-related engineering and technical service costs.

ENTERPRISE OIL ITALY LIMITED

STATEMENT OF ACCOUNTING POLICIES

(f) Commercial reserves

Commercial reserves are proven and probable oil and gas reserves, as defined in the UK statement of recommended practice "Accounting for oil and gas exploration and development activities".

(g) Ceiling tests

The net amounts at which fields either in production, under or being considered for development are recorded in the financial statements are assessed for recoverability on a field-by-field basis against the likely future net revenues to be derived from their estimated remaining commercial reserves, using oil and gas prices, exchange rates and cost levels ruling at the balance sheet dates, unescalated and undiscounted. A provision is made where, in the opinion of the directors, any resulting deficits are considered likely to be permanent and recorded amounts are unlikely to be fully recovered from future net revenues.

(h) Depreciation

The capitalised costs of fields in production, together with anticipated future development costs calculated at price levels ruling at the balance sheet date, are depreciated field-by-field on a unit-of-production basis. Depreciation is calculated by reference to the proportion that production for the period bears to the total of estimated remaining commercial reserves at the beginning of the period.

Capitalised costs of other fixed assets less estimated disposal values where significant, are depreciated on a straight-line basis over their estimated economic lives.

(i) Foreign currencies

Transactions denominated in foreign currencies are translated and recorded at the relevant rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the rates of exchange ruling at the balance sheet date and exchange differences arising are dealt with in arriving at the result for the period.

The company's Italian branch is accounted for using the closing rate method, whereby assets and liabilities are translated at the rate of exchange ruling at the balance sheet date and profit and loss account items are translated at the average rates for the period. Exchange differences arising are dealt with in reserves.

ENTERPRISE OIL ITALY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 TURNOVER AND PROFIT BEFORE TAXATION

The company's principal activity is oil and gas exploration and production in Italy. The company's turnover and profit before taxation derive therefrom.

2 COST OF SALES

	1997 £m	1996 £m
Operating costs	0.7	1.5
Depreciation	0.4	0.7
	1.1	2.2

3 GROSS PROFIT

None of the directors received any emoluments in respect of their services to the company during the year. The remuneration of the directors is provided by the parent company, except in the case of Dr Viotti, who received remuneration from a fellow subsidiary. During the year, the company paid certain amounts to the parent company and fellow subsidiaries in consideration for the provision of technical and administrative services. It would not be practicable to determine the amount of such charges which related to the time spent on the company's activities by the directors.

The auditors' remuneration in respect of the statutory audit was £9,000 (1996: £11,000). The company paid £30,000 to the auditors and their associates in respect of fees for non audit work (1996 : £27,000).

4 INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £m	1996 £m
Foreign currency exchange losses	0.3	0.1

5 INTANGIBLE FIXED ASSETS

The movements in intangible fixed assets during the year were:

	At 1 January 1997 £m	Additions £m	Disposals £m	Foreign exchange adjustment £m	At 31December 1997 £m
Exploration and appraisal costs	0.9	0.1	(0.9)	(0.1)	-
Total exploration expenditure	0.9	0.1	(0.9)	(0.1)	-

ENTERPRISE OIL ITALY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6 TANGIBLE FIXED ASSETS

The movements in tangible fixed assets during the year were:

	At 1 January 1997 £m	Additions £m	Disposals £m	Foreign exchange Adjustments £m	At 31 December 1997 £m
Cost:					
Development costs -					
Fields in production	26.6	-	(23.8)	(2.8)	-
Fields under development	2.3	0.4	(2.4)	(0.3)	-
	28.9	0.4	(26.2)	(3.1)	-
Depreciation:					
Development costs -					
Fields in production	(2.6)	(0.4)	2.7	0.3	-
Net book value	26.3	-	(23.5)	(2.8)	-

During 1997 Enterprise Oil Italiana SpA (an affiliate Italian registered company) issued 6 million shares (each with a nominal value of 1000 Lire per share) to the company in return for the business and associated assets, liabilities and obligations of the company's Italian branch.

7 INVESTMENTS (HELD AS FIXED ASSETS)

	1997 £m	1996 £m
Shares in group undertakings at cost	6.9	-

The company has the following fixed asset investments;

(i) 6 million shares with a nominal value of 1000 Lire per share each in Enterprise Oil Italiana SpA (an affiliate company incorporated in Italy with an authorised share capital of 22.2 billion Lire).

The company is exempt from the requirement to prepare group accounts under S.228 of the Companies Act 1985 and accordingly consolidated accounts for the Enterprise Oil Exploration Group are not presented.

ENTERPRISE OIL ITALY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8 DEBTORS

	1997 £m	1996 £m
Trade debtors	-	0.5
Amounts due from group undertakings	5.5	3.6
Other debtors	-	1.2
	5.5	5.3

There were no amounts included within other debtors (1996: nil) which are due after one year.

9 CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997 £m	1996 £m
Amounts owed to group undertakings	13.0	26.1
Accruals and deferred income	-	0.8
	13.0	26.9

10 PROVISION FOR LIABILITIES AND CHARGES

No provisions for deferred tax were required during the current or previous year.

The full potential amounts of deferred UK corporation tax at 31 December were:

	1997 £m	1996 £m
Accelerated capital allowances	-	0.5

There was no potential deferred tax liability for Italian taxes.

11 CALLED-UP SHARE CAPITAL

Share capital at 31 December:

	1997 £	1996 £
Authorised, allotted, called-up and fully paid:		
Ordinary shares of £1 each	100,000	100,000
Preference shares of £1 each	36,002	36,002
	136,002	136,002

ENTERPRISE OIL ITALY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12 SHAREHOLDERS' FUNDS

	Share Capital	Share Premium	Profit & Loss Account	Total
	£m	£m	£m	£m
At 1 January 1997	0.1	3.6	3.4	7.1
Retained profit for financial year	-	-	0.9	0.9
Currency translation differences	-	-	(0.3)	(0.3)
At 31 December 1997	0.1	3.6	4.0	7.7

13 CASH FLOW STATEMENT

Under Financial Reporting Standard 1 (Revised 1996), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking.

14 COMMITMENTS

Commitments for future capital expenditure contracted but not accrued in the financial statements at 31 December 1997 were £nil million (1996: £1.1 million).

The amount in 1996 principally relate to the development of oil and gas fields.

15 CONTINGENCIES

There were no significant contingent liabilities at 31 December 1997 other than those arising in the ordinary course of business in respect of the company's financing arrangements.

16 ULTIMATE PARENT COMPANY

The ultimate parent company is Enterprise Oil plc, registered in England and Wales. The group financial statements of Enterprise Oil plc may be obtained by writing to the registered office of the company.