

ENI AEP LIMITED
ANNUAL REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2017

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

Registered Number: 0307812

THURSDAY



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31/05/2018
COMPANIES HOUSE

ENI AEP LIMITED

DIRECTORS AND REGISTERED OFFICE

BOARD OF DIRECTORS

M Trezza
G L Ferrara
F Rinaldi

SECRETARY AND REGISTERED OFFICE

M Trezza
Eni House
10 Ebury Bridge Road
London SW1W 8PZ

STATUTORY AUDITOR

Ernst & Young LLP
1 More London Place
London
SE1 2AF

REGISTERED IN ENGLAND NO: 0307812

ENI AEP LIMITED

STRATEGIC REPORT

The directors present their strategic report for the year ended 31 December 2017.

Review of the business

Principal activities

The principal activity of Eni AEP Limited (the company) is the exploration and production of oil and gas reserves. The principal areas of activity during the year were the United Kingdom where the company owns an 8.9% interest in the Liverpool Bay Area, and Pakistan with participations in the Miano, Sawan and Gambat concessions.

On 13 December 2016, operatorship of the Liverpool Bay Area was transferred from Eni Liverpool Bay Operating Company Limited to Eni UK Limited. During 2017, significant waxing problems were experienced in the third party operated Conwy pipeline, which impacted production from Conwy from March 2017 onwards and the anticipated reduction in overall Liverpool Bay operating costs within 2017. Conwy returned to production on 10 February 2018 and ramp up is ongoing.

In 2017, total UK production was 5,917 kboe (2016: 7,197 kboe). The decrease of 1,280 kboe in production was a result of natural reserve decline and field shutdowns due to extraordinary maintenance.

For Pakistan operations, the total production in 2017 was 1,453 kboe (2016: 1,958 kboe). The decrease of 505 kboe in production was a result of natural reserve decline.

Results for the year

The results for the year are set out on page 9 of the financial statements. Profit for the financial year ended 31 December 2017 is £5,223,000 (2016 - £16,988,000). During 2017, no dividend was paid to the equity shareholder (2016 – £nil).

Key performance indicators

Key performance indicators of the company are set out below:

	2017 £'000	2016 £'000	Variance %
Revenue	31,355	32,523	-3.59
Operating profit	7,154	6,992	2.32
Net profit after tax	5,223	16,988	69.25
Net assets	110,805	107,297	3.27
Quantities sold – Oil	148,744 Bbls	114,490 Bbl	
Quantities sold – Gas	93,771,959 Therms	124,458,484 Therms	

The revenue has reduced by 3.59% compared to the prior year mainly due to decrease in production. The operating profit has marginally increased by 2.32% and the net profit has significantly decreased by 69.25% mainly due to a tax charge in 2017 compared to a tax credit in prior year.

Principal risks and uncertainties

The company, like other companies in the oil and gas sector, operates in an environment subject to inherent risks. The company aims to mitigate risks and manage and control the exposure where possible. The principal risks and uncertainties to the company are:

Commodity price: The company is exposed to oil price fluctuations, which are subject to international supply and demand as well as numerous other political factors. The guidelines of the Eni 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 Group level.

STRATEGIC REPORT

Principal risks and uncertainties (continued)

Credit risk: The potential exposure of the company to loss in the event of non-performance by counterparty. 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.

Liquidity risk: 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, and also has support from the ultimate parent company, Eni S.p.A., if required. The company believes it has access to sufficient funding to meet currently foreseeable borrowing requirements.

Operation risk: The company's operations 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. 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.

Financial risk: The company is not exposed to significant interest rate risks. The company is exposed to foreign exchange fluctuations relating to non-GBP expenditures and receipts. Effective management of exchange rate risk is performed at the Eni 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).

On behalf of the Board



F Rinaldi

Director

13 March 2018

ENI AEP LIMITED

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 2017.

Directors

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

- L Piro resigned as a director on 5 January 2017
- F Rinaldi was appointed as a director on 12 June 2017
- G L Ferrara was appointed as a director on 13 June 2017
- C De Marco was appointed as a director on 5 January 2017 and resigned as a director on 12 June 2017
- R Pasqua resigned as a director on 13 June 2017

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

Future developments

The company continued its activities in the exploration for and the production of oil and gas in the UK and Pakistan. The operational performance of the company has been satisfactory. However, management anticipates that it may face pressure from price volatility.

Branches outside the UK

The company has a branch registered in Karachi, Pakistan.

Post balance sheet events

There have been no events after the balance sheet date.

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the strategic report, 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 UK 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 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.

ENI AEP LIMITED

DIRECTORS' REPORT

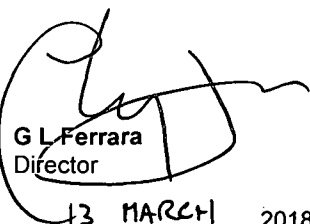
Provision of information to auditor

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 directors 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 auditors will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

By the order of the Board


G L Ferrara
Director
13 MARCH 2018

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Eni AEP Limited

Opinion

We have audited the financial statements of Eni AEP Limited (the 'company') for the year ended 31 December 2017 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Balance Sheet and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the following matters in relation to which 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
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Ernst & Young LLP

William Testa (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
19 March 2018

ENI AEP LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Revenue	2	31,355	32,523
Total revenue		31,355	32,523
Other service costs and expenses	3	(16,328)	(15,459)
Depreciation, amortisation and impairment	10, 11	(7,873)	(10,072)
Operating profit		7,154	6,992
Interest receivable and similar income	7	337	403
Interest payable and similar charges	8	(1,038)	(1,227)
Net loss on derivative financial instruments	12	-	(2,537)
Profit before taxation		6,453	3,631
Taxation	9	(1,230)	13,357
Profit for the year		5,223	16,988

All results are from continuing operations and are attributable to the equity holders.

ENI AEP LIMITED**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	<u>2017</u>	<u>2016</u>
	<u>£'000</u>	<u>£'000</u>
Profit for the year	5,223	16,988
Currency translation adjustment on foreign operations	(1,715)	2,527
Total comprehensive income for the year	<u>3,508</u>	<u>19,515</u>

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

ENI AEP LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	<i>Share Capital</i>	<i>Retained Earnings</i>	<i>Shareholder's Equity</i>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Balance at 1 January 2016	73,471	14,311	87,782
Total comprehensive income for the year	-	19,515	19,515
Balance at 31 December 2016	73,471	33,826	107,297
Total comprehensive income for the year	-	3,508	3,508
Balance at 31 December 2017	73,471	37,334	110,805

The cumulative translation reserve balance included in retained earnings at 31 December 2017 is £7,312,000 (2016 - £9,027,000).

**BALANCE SHEET
AS AT 31 DECEMBER 2017**

	Notes	2017 £'000	2016 £'000
Assets			
Current assets			
Cash and cash equivalents	15	119,366	103,958
Trade and other receivables	14	10,764	8,213
Current tax asset		4,757	5,691
Inventories	13	3,557	5,031
		<u>138,444</u>	<u>122,893</u>
Non-current assets			
Property, plant and equipment	11	18,782	25,226
Deferred tax asset	18	13,139	12,696
		<u>31,921</u>	<u>37,922</u>
Total assets		<u>170,365</u>	<u>160,815</u>
Liabilities			
Current liabilities			
Trade and other payables	16	13,539	6,670
		<u>13,539</u>	<u>6,670</u>
Non-current liabilities			
Provisions	17	45,552	46,848
Deferred tax liability	18	469	-
		<u>46,021</u>	<u>46,848</u>
Total Liabilities		<u>59,560</u>	<u>53,518</u>
Shareholders' equity			
Share capital	19	73,471	73,471
Retained earnings		37,334	33,826
		<u>110,805</u>	<u>107,297</u>
Total shareholder's equity funds		<u>110,805</u>	<u>107,297</u>
Total liabilities and shareholder's equity funds		<u>170,365</u>	<u>160,815</u>

The financial statements from page 8 to 26 were approved by the Board on 6 March 2018, and were signed by an authorised director on behalf of the Board, at a later date.

6 March 2018, and were signed

On behalf of the Board


G. L. Ferrara
Director

13 March 2018

STATEMENT OF ACCOUNTING POLICIES

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

General Information

The company is a limited liability company, by shares, incorporated and domiciled in England.

The company is a participant in consortia involved in the exploration and exploitation of oil and gas in the UK Liverpool Bay Area, and Pakistan with participations in Miano, Sawan, and Gambat. 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 consortia.

Basis of preparation

These financial statements were prepared in accordance with UK GAAP, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities (including derivative instruments) that have been measured at fair value through profit or loss.

The financial statements have been prepared on a going concern basis.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to:

- (a) the requirements of IFRS 7 Financial Instruments: Disclosures;
- (b) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- (c) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
 - (iii) paragraph 118(e) of IAS 38 Intangible Assets.
- (d) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135c-135e of IAS 36, Impairment of Assets;
- (e) the requirements of IAS 7 Statement of Cash Flows;
- (f) the requirements of paragraphs 91 – 99 of IFRS 13 Fair Value Measurement;
- (g) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to standards not yet effective;
- (h) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures; and
- (i) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Where required, equivalent disclosures are given in the group financial statements of Eni S.p.A. The group financial statements of Eni S.p.A are available to the public and can be obtained as set out in note 1.

Presentation of comparative financial data

Some comparative figures have been reclassified in order to ensure the comparability of the figures with the year ended 31 December 2016. These reclassifications have no impact on the company's results or net assets.

Foreign currencies

The company's functional and presentation currency is Sterling. All financial information has been rounded to the nearest thousand (£'000), unless otherwise indicated. The branch maintains its records in US Dollars. 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 recognised in the income statement. The year end exchange rate of US Dollar to GBP Sterling is 0.7399 (2016 - 0.8114).

STATEMENT OF ACCOUNTING POLICIES

Interests in joint arrangements

IFRS 11 defines a joint arrangement as an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control.

IFRS 11 classifies joint arrangements into two types i.e. joint operations and joint ventures. A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The company participates in several joint operations which involve the joint control of assets used in the company's oil and gas exploration and producing activities. Interests in joint operations 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 joint operations are accounted for on an accrual basis. Income from the sale or use of the company's share of the output of jointly operations, and its share of joint operation 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.

Intangible assets – exploration and appraisal costs

Exploration costs represent the company's share of expenditure by consortia and previously as operator on the exploration 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 commencement 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 fixed assets as exploration and appraisal costs until the results of the drilling are determined.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the asset. Property, plant and equipment is depreciated on a straight line basis over its estimated useful life as follows:

- | | |
|--|---------------|
| • Office assets, fixtures and fittings | up to 5 years |
| • IT hardware | up to 3 years |

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 proven mineral interests, are depreciated using the unit of production method on a quarterly basis, using proved developed oil and gas reserves for each field in production as at the 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 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.

STATEMENT OF ACCOUNTING POLICIES

Impairment of non-financial assets

At the end of each reporting period, the company reviews the carrying amounts of its property, plant and equipment 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. Management has assessed its cash generating units (CGUs) as being an individual field, which is the lowest level for which cash inflows are largely independent of those of other assets.

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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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.

Inventories

Inventories consist of petroleum, condensate, liquid petroleum gas and materials and represent the company's share of inventories belonging to the consortia of which it is a member. Inventories are valued at the lower of cost and net realisable value. Cost of materials is determined by the weighted average method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. The cost of crude oil is its manufacturing cost, including appropriate proportion of depreciation, depletion and overhead based on normal operation capacity. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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. are included in this classification.

Financial Instruments

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

*Financial assets**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.

Loans and receivables are carried at amortised cost using the effective interest method.

*Financial liabilities**Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial recognition date and only if the conditions in IAS 39 are satisfied.

Other financial liabilities are classified in the balance sheet as Trade and other payables.

STATEMENT OF ACCOUNTING POLICIES

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest:

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the company determines whether transfers have occurred between Levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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 as a decommissioning provision when the asset is installed on the ground/environment is disturbed at the field location. The amount recognised is the present value of the estimated future restoration cost, and an offsetting tangible fixed asset 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 restoration cost are accounted for as adjustments to the provision and the fixed asset.

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

STATEMENT OF ACCOUNTING POLICIES

Taxation (continued)

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

Revenue

Revenue represents the company's share of oil, condensate and gas production sold and is stated exclusive of value added tax and similar levies. Revenue is recognised when the amount can be reliably measured, and it is probable the future economic benefits will flow to the company. The company recognises revenue on its share of oil, condensates, and gas production sold when the product has reached the processing terminal.

Revenues from crude oil and natural gas production from properties in which the company has an interest together with other producers are recognized on the basis of the company net working interest in those properties (entitlement basis). 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 volume sold less stock is an '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.

Interest income is recognised on a time proportion basis.

Dividends distribution

Dividends are recognised at the date of the general Shareholders' Meeting in which they were declared, or in the case of an interim dividend declared by the Board, when paid.

Use of accounting estimates, judgements and assumptions

The company's financial statements are prepared in accordance with FRS 101. This requires 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 contingencies and recovery of deferred tax assets.

STATEMENT OF ACCOUNTING POLICIES

Use of accounting estimates, judgements and assumptions (continued)

Although the company uses its best estimates and judgements, actual results could differ from the estimates and assumptions used. A summary of significant estimates is as 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 judgment.

Oil and 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.

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 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.

- (i) Reservoirs are considered proved if reserves that can be economically produced are 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.
- (ii) 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.
- (iii) 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; and (c) crude oil, natural gas and natural gas liquids that may be recovered from oil shales, coal and other such sources.

b) Impairment of assets

Eni assesses its property, plant and equipment, intangible assets, 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.

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.

STATEMENT OF ACCOUNTING POLICIES

Use of accounting estimates, judgements and assumptions (continued)

c) Decommissioning provision

Obligations to remove tangible 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 consolidated financial statements. Estimating future decommissioning provisions is complex. It requires management to make estimates and judgments 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 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 fair value of a liability for an decommissioning provisions in the period when it is incurred (typically, at the time, the asset is installed at the production location).

The recognized 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.

d) Contingencies

The company accrues for all contingencies that are both probable and estimable. These contingencies are primarily related to litigation and tax issues. Determining appropriate amounts for accrual is a complex estimation process that includes subjective judgements.

e) Recovery of deferred tax assets

Judgement is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgement is also required to determine whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the company will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the company to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws in the jurisdictions in which the company operates could limit the ability of the company to obtain tax deductions in future periods.

NOTES TO THE FINANCIAL STATEMENTS

1. Parent undertakings

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

The company's ultimate parent undertaking, Eni S.p.A., a company incorporate in Italy with registered office at Piazzale Enrico Mattei, 1 00144 Rome, will produce consolidated financial statements for the year ended 31 December 2017, which will be available from its website (www.eni.com) or on request to Eni S.p.A., Via Emilia 1, 20097 San Donato Milanese, Italy.

The parent company of the largest and smallest group into which the company is consolidated is Eni S.p.A.

2. Revenue

	2017 £'000	2016 £'000
Group undertaking	14,945	15,386
Third parties	16,410	17,137
	<u>31,355</u>	<u>32,523</u>

For the purposes of the Companies Act 2006, the operations of the company constitute one class of business, the exploration and production of hydrocarbon liquids and gas. All activities of the company are undertaken in Pakistan and the UK. The revenue split between Pakistan and UK is £16,410k and £14,945k respectively (2016 – Pakistan £20,854k; UK £11,669k).

3. Other service costs and expenses

	2017 £'000	2016 £'000
Parent companies	10,438	8,135
Group undertaking	3	25
Third parties	5,887	7,299
	<u>16,328</u>	<u>15,459</u>

Other service costs and expenses relating to third parties mainly represent royalty, gas purchases and the company's share of operating expenditure related to its oil and gas properties.

4. Operating profit

Operating profit is stated after charging the following amounts:

	2017 £'000	2016 £'000
Depreciation, amortisation and impairment (note 11)	7,873	10,072

Operating profit is stated after charging auditors' remuneration. Auditors' remuneration for the branch for 2017 was £13,475 (2016 - £14,094). The 2017 head office auditors' remuneration was borne by Eni UK Limited. For the purpose of disclosure, a fair allocation of head office audit fee would be £9,830 (2016 - £9,830).

5. Directors' remuneration

The directors of the company are also the directors of other affiliate companies and/or the parent undertaking. There have been no emoluments paid to the directors for the services provided to this company (2016: £27,473).

6. Labour costs and employee information

The company had no employees (2016 - none). Employee services are provided at no cost by other group companies.

NOTES TO THE FINANCIAL STATEMENTS

7. Interest receivable and similar income

	2017 £'000	2016 £'000
Group undertaking	325	401
Third parties	12	2
	<u>337</u>	<u>403</u>

8. Interest payable and similar charges

	2017 £'000	2016 £'000
Unwinding of discount on decommissioning provision (note 17)	1,038	1,231
Foreign exchange (gain)/ loss	-	(4)
	<u>1,038</u>	<u>1,227</u>

9. Taxation

	2017 £'000	2016 £'000
United Kingdom		
Current tax @ 40% (2016 – 40%)		
UK Corporation tax on profits for the period	1,206	1,142
Adjustments in respect of prior periods	(1)	216
Total current tax	<u>1,205</u>	<u>1,358</u>
Foreign tax		
Corporation tax on profits for the period	960	-
Adjustments in respect of prior periods	(880)	(16,924)
Total foreign tax	<u>80</u>	<u>(16,924)</u>
Deferred corporation tax (note 19)		
Current year	(55)	(285)
Adjustment in respect of previous periods	-	2,494
Total deferred tax	<u>(55)</u>	<u>2,209</u>
Total taxation	<u>1,230</u>	<u>(13,357)</u>

NOTES TO THE FINANCIAL STATEMENTS

9. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the period is lower (2016 - lower) than the standard rate of corporation tax applicable to oil and gas exploration and production companies in the UK of 40% (2016 – 40%). The differences are explained below:

	2017 £'000	2016 £'000
Profit before taxation	6,453	3,631
Taxation on profit at 40 % (2016 – 40%)	2,581	1,452
Tax rate change on temporary differences	-	2,494
Income not taxable	(39)	(42)
Expenditure not allowable for tax	22	-
Impact of difference tax rates	(979)	(836)
Tax allowance	(72)	(67)
Foreign taxation	960	-
Foreign tax credit	(956)	-
Movement in deferred tax not recognised	1,750	3,330
Utilisation of unrecognised deferred tax assets brought forward	(1,072)	(2,872)
Adjustment to current tax in respect of prior periods	(1)	216
Adjustment to foreign tax of previous periods	(880)	(16,924)
Group relief claimed	(84)	(108)
Total taxes	1,230	(13,357)

10. Intangible assets

Exploration & appraisal cost and other intangible assets

	UK £'000	Pakistan £'000	Total £'000
Cost			
At 1 January 2017	4,624	16,889	21,513
Exchange difference	-	(1,488)	(1,488)
At 31 December 2017	4,624	15,401	20,025
Amortisation			
At 1 January 2017	(4,624)	(16,889)	(21,513)
Exchange difference	-	(1,488)	(1,488)
At 31 December 2017	(4,624)	(15,401)	(20,025)
Net book value			
At 31 December 2017	-	-	-
At 31 December 2016	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

11. Property, plant and equipment

	Oil and gas properties		Office Equipment fixtures & fittings	
	UK	Pakistan	Pakistan	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2017	113,760	234,828	2,339	350,927
Additions	1,108	2,151	27	3,286
Revision of decommissioning estimate (note 17)	460	(582)	-	(122)
Exchange difference	-	(20,805)	(206)	(21,011)
At 31 December 2017	115,328	215,592	2,160	333,080
Depreciation				
At 1 January 2017	(110,143)	(214,194)	(1,364)	(325,701)
Charge for year (note 4)	(2,024)	(5,734)	(115)	(7,873)
Exchange difference	-	19,153	123	19,276
At 31 December 2017	(112,167)	(200,775)	(1,356)	(314,298)
Net book value				
At 31 December 2017	3,161	14,817	804	18,782
At 31 December 2016	3,618	20,633	975	25,226

12. Derivative financial instruments

The company was a party to a natural gas sales contract containing embedded derivatives. The contract terminated in September 2016 having no impact on financial statements in 2017.

The net impact of the change in fair value of derivatives on income statements are as following:

	2017 £'000	2016 £'000
Gas sales derivatives	-	(2,537)

13. Inventories

	2017 £'000	2016 £'000
Materials	3,557	5,031

NOTES TO THE FINANCIAL STATEMENTS

14. Trade and other receivables

	2017	2016
	£'000	£'000
Affiliate company	3,008	1,231
Trade receivables		
Third parties	7,745	6,973
Less: provision for impairment of trade receivables	-	(3)
Trade receivables – net	10,753	8,201
Prepayments and accrued income		
Third parties	11	12
	10,764	8,213

15. Cash and cash equivalents

	2017	2016
	£'000	£'000
Cash at bank and in hand		
Group undertaking	2	354
Third parties	3,758	2,604
Short term deposits – Group undertaking	115,606	101,000
	119,366	103,958

16. Trade and other payables

	2017	2016
	£'000	£'000
Amounts owed to group undertakings	1,980	2,442
Third parties	11,530	4,196
Accruals and deferred income		
Third parties	29	32
	13,539	6,670

17. Provisions

	Decommissioning provision	Others	Insurance provision	Total
	£'000	£'000	£'000	£'000
At 1 January 2017	40,600	6,186	62	46,848
Exchange difference	(800)	(546)	(10)	(1,356)
Revision of cost estimate (note 11)	(122)	-	-	(122)
Credit to income statement	-	(835)	(21)	(856)
Utilisation during the year	-	-	-	-
Unwinding of discount (note 8)	1,038	-	-	1,038
At 31 December 2017	40,716	4,805	31	45,552

Decommissioning

A provision of £41 million has been recognised for decommissioning costs relating to producing oil and gas fields in which the company is a participant. The provision has been estimated using existing technology, existing life of field estimates, current decommissioning cost estimates and discounted using the directors' assessment of an appropriate risk adjusted discount rate ranging from 0.96% to 1.99%. The estimated life of fields is between 2017 and 2023.

NOTES TO THE FINANCIAL STATEMENTS

17. Provisions (continued)

Depletion allowance

Under the laws of Pakistan, the company is allowed to claim a depletion allowance for the purpose of the tax calculation. The tax authorities have disputed the calculation of this depletion allowance. During the year, the company has increased the provision for depletion allowance by £0.094 million. Depletion allowance provision in 2017 amounts to £4.387 million. The accumulated provisions are recorded on the basis of tax demands and returns filed.

Flood surcharge

In 2011, the Government of Pakistan levied a surcharge called flood surcharge. The Branch had made a provision for the claim although it considered it to be in violation of the Petroleum Concession Agreements. In 2017 the branch has reversed the provision of £0.926 million after the claim was time barred.

Super Tax

Super tax has been introduced by the Government of Pakistan through the Finance Act, 2015 whereby 3% of super tax is payable if the income of the company is PKR 500 million or more. No amount is payable for tax year 2017 (2016 - £0.214 million).

18. Deferred taxation

Deferred tax is calculated in full on temporary differences using a tax rate of 40% (2016 – 40%) in respect of ring fence activity and 40% (2016 - 40%) in respect of assets held in Pakistan. The movement on the deferred tax account is shown below:

	2017 £'000	2016 £'000
At 1 January	(12,696)	(14,591)
Charged / (credit) to the Income Statement (note 9)	(55)	2,209
Prior period adjustment	-	-
Exchange difference	81	(314)
At 31 December	12,670	(12,696)

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:

Deferred tax liabilities

	Accelerated capital allowances £'000	Commodity derivatives £'000	Total £'000
At 1 January 2016	619	1,229	1,848
Provided / (utilised) during the year	597	(1,229)	(632)
At 31 December 2016	1,216	-	1,216
Provided / (utilised) during the year	(153)	-	(153)
At 31 December 2017	1,063	-	1,063

NOTES TO THE FINANCIAL STATEMENTS

18. Deferred taxation (continued)

Deferred tax assets

	Accelerated capital allowances	Other Provisions	Decommissioning costs	Insurance Provision	Tax Allowance	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2016	(1,702)	(303)	(14,414)	(20)	-	(16,439)
Provided / (utilised) during the year	1,470	-	1,741	-	(370)	2,841
Exchange Difference	(202)	(61)	(15)	-	(36)	(314)
At 31 December 2016	(434)	(364)	(12,688)	(20)	(406)	(13,912)
Provided / (utilised) during the year	270	(113)	(454)	9	386	99
Exchange differences	23	37	3	-	18	81
At 31 December 2017	(141)	(440)	(13,139)	(11)	(2)	(13,733)

All deferred tax assets are available for offset against the deferred tax liabilities above. The net deferred tax liability to be disclosed as a non-current liability is £469,000 (2016 - £nil).

The deferred tax asset relating to decommissioning is £13,139,000 (2016 - £12,696,000) and is disclosed as a non-current asset.

Unrecognised deferred tax assets:

The deferred corporation tax asset calculated at the rate of 17% (2016 - 17%) which was not recognised in the financial statements amounted to:

	2017 <i>Unprovided amount</i> £'000	2016 <i>Unprovided amount</i> £'000
Unrecognised tax losses carried forward	21,065	21,130
Foreign tax credits carried forward	32,986	33,096
	54,051	54,226

The directors consider it unlikely that there will be suitable taxable profits from which the future reversal of the underlying timing differences could be deducted; therefore the deferred taxes assets has not been recognised. These foreign tax credits have no expiry date.

19. Share capital

	<i>Allotted, called up and fully paid</i>	
	2017 £'000	2016 £'000
293,884,000 Ordinary shares of 25p each	73,471	73,471

20. Commitments

The company has interests in various consortia engaged in exploration, development and production of oil and gas. As a member of these consortia, the company is committed to pay its share of the costs of development and exploration which stand at £nil. In respect of the UK operations, it is anticipated that this will involve capital expenditure in 2018 of approximately £1,401,000 (2016 - £819,000).

21. Joint operation

Name of license	Place of operation	Interest held
UK Petroleum Production License P.099	United Kingdom	8.9%
UK Petroleum Production License P.710	United Kingdom	8.9%
Miano D&P Lease	Pakistan	15.16%
Sawan	Paksitan	23.68%
Gambat D&P	Pakistan	23.68%
Gambat Exploration	Pakistan	31.58%