

**ENI ELGIN/FRANKLIN LIMITED**

**ANNUAL REPORT  
AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2019**

**REGISTERED OFFICE**

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

**Registered Number: 03772746**

# **ENI ELGIN/FRANKLIN LIMITED**

## **DIRECTORS AND REGISTERED OFFICE**

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### **BOARD OF DIRECTORS**

M Giusto  
G L Ferrara  
M Trezza

### **SECRETARY AND REGISTERED OFFICE**

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

### **INDEPENDENT AUDITORS**

PricewaterhouseCoopers LLP  
The Capitol, 431 Union Street  
Aberdeen  
AB11 6DA

**REGISTERED IN ENGLAND NO: 03772746**

# ENI ELGIN/FRANKLIN LIMITED

## STRATEGIC REPORT

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The directors present their strategic report for the year ended 31 December 2019.

### Review of the business

#### *Principal activities*

The principal activity of Eni Elgin/Franklin Limited (the company) is the exploration for and production of oil and gas reserves. The principal area of activity is the United Kingdom Continental Shelf. The company's principal asset is a share of 21.867% in the Elgin/Franklin area.

The company is wholly owned by Eni UK Limited which is an indirect subsidiary of Eni S.p.A., an integrated energy company operating in the oil and natural gas, electricity generation, petrochemicals, oil field services and engineering industries. Eni S.p.A., operates internationally in about 67 countries and employs around 31,000 people. Eni S.p.A. is listed on the Milan and New York Stock Exchanges.

#### *Results for the year*

The results for the year are set out on page 9 of the financial statements. The company made a net profit after tax for the year of £102,306,000 (2018 – £160,885,000). During the year the company paid a dividend amounting to £145 million (2018- £180 million) to the sole equity shareholder, Eni UK Limited.

#### *Key performance indicators*

Key performance indicators of the company are set out below:

	2019 £'000	2018 £'000	Variance
Revenue	267,419	402,029	-33%
Operating profit	169,025	269,020	-37%
Net profit after tax	102,306	160,885	-36%
Net assets	169,441	212,135	-20%

Revenue for the year decreased by 33% as a result of lower production volumes and oil prices.

Operating profit decreased by 37% compared to the prior year due to the lower revenues. Net assets decreased by 20% compared to 2018 due to the profit of the period offset by a dividend distribution of £145 million paid to the sole equity shareholder, Eni UK Limited.

#### *Elgin/Franklin area*

The area includes the fields of Elgin, Franklin, West Franklin and Glenelg. The 21.867% equity interest in Elgin, Franklin and West Franklin is held by the company. An 8% interest in Glenelg is held by an affiliate, Eni UKCS Limited.

Total production from the Elgin/Franklin and West Franklin fields for 2019 was 9,570 kboe, versus 10,003 kboe in 2018 (company and affiliate share).

Production was lower in 2019 than 2018 primarily due to the restriction imposed by the Forties Pipeline System (FPS) during summer to all fields connected to the FPS network

Two new wells have been connected during 2019: EIF in August and FIC in December. Currently a slot recovery is ongoing to spud-in another Franklin well (FID).

The new infill wells, B4 (on Elgin) and F12 (on Franklin) started respectively on the 14<sup>th</sup> August and 27<sup>th</sup> December at the expected rates.

Well abandonment and slot recovery operations are currently ongoing on the Franklin well F5 to allow the drilling of well FID in April 2020.

## ENI ELGIN/FRANKLIN LIMITED

### STRATEGIC REPORT

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#### *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:

#### *Financial risk management*

**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.

**Credit risk:** The potential exposure of the company and its subsidiaries 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.

**Financial risk:** The company is not exposed to significant interest rate risks. The company is exposed to foreign exchange fluctuations relating to non-GBP (mainly USD) 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).

#### *Business risk management*

**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.

#### *Impact on the United Kingdom's exit from the European Union*

Having formally left the European Union on 31 January 2020, the UK is now in a transition period scheduled to last until 31 December 2020, pending further negotiations with the EU over the future trading relationship and security co-operation. During the transition period, EU law will (for the most part) continue to apply in the UK as before. Eni has set up a task force to monitor developments and consider further how best to minimise the impact of Brexit on its business going forward, as further information becomes available.

#### *Impact of coronavirus (COVID-19)*

The emergence and spread of the virus Covid-19 in early 2020 has affected business and economic activities in China and elsewhere. The subsequent rapid spread to a growing number of countries around the world triggered a profound correction in the prices of oil and other energy commodities due to the sudden drop in consumption because of increasingly stringent measures adopted by governments to contain the pandemic with serious repercussions on production.

The short-term trend in oil and gas prices will depend predominantly on the timing of containment of the spread of the pandemic and the ways in which the crisis will be managed. In the worst-case scenario, the pandemic could cause a global recession with significant negative consequences on hydrocarbon demand and commodity prices. This development would have significant effects on the Company's results, cash flow, liquidity and business prospects, including the returns for the shareholder.

Eni group and the Company maintained a high degree of financial flexibility in order to deal unforeseen events and significant reductions of the scenarios capable to mitigate the impact of a price downturn, even of considerable proportions. Eni continue to assess the potential impact of coronavirus on our staff and operations and have implemented appropriate mitigation plans.

# ENI ELGIN/FRANKLIN LIMITED

## STRATEGIC REPORT

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### Section 172(1) UK Companies Act 2016 ("Act") Statement

#### **Directors**

As part of their induction a Director of the Company is informed of their Directors' Duties with specific reference to section 172(1) (a-f) and if necessary can seek additional support and advice from an independent adviser to ensure that they are aware and know the likely consequences of any decision the company makes in the long term.

#### **Stakeholders**

The directors of the company believe it is fundamentally important that the values and principles which guide the company are clearly defined, both internally and externally, in order to ensure that all company activities are implemented in compliance with the relevant laws and in a context of fair competition, honesty, integrity, fairness and good faith which would promote the success of the company for the benefit of its members as a whole having regard the interests of all its stakeholders: shareholders, workforce, suppliers, customers, lenders, government/tax authorities, pension schemes/trustees, community and environment. These values are embedded in the Eni Code of Ethics, approved by the Board of Directors of its ultimate parent company, Eni S.p.A., on 23 November 2017 and by the Directors of the company on 28 March 2018. The Eni Code of Ethics sets out the challenges of sustainable development and the need to take into consideration the interests of all stakeholders to clearly define the values that the company will accept, acknowledge and share as well the responsibilities it assumes, contributing to a better future. The Eni Code of Ethics is brought to the attention of every person or body having business relations with the company.

#### **Community and the Environment**

In line with Sustainable Development Goal 8 adopted by Eni S.p.A., the ultimate parent company, one of the company's aim is to incentivise lasting, inclusive and sustainable economic growth, along with full, productive employment and dignified work for all.

#### **Business Conduct**

The Directors of the company believe that business has the responsibility to respect and support the fundamental human rights, as expressed in the Universal Declaration for Human Rights and the United Nations Guiding Principles on Business and Human Rights. The company is committed to maintaining and improving its practices to combat slavery and human trafficking violations in its operations and supply chain. These values are embedded in the Eni Modern Slavery Act Statement, approved by the Board of Directors of its ultimate parent company, Eni S.p.A., on 24 April 2019 and by the Directors of the company on 20 June 2019. Moreover, as an indirect subsidiary of Eni S.p.A the Board of Directors have adopted the Eni internal Regulatory System including Management System Guidelines which sets out internal policies to achieve a high standard of business conduct. All Board of Directors decisions are taken with regard to section 172 of the Act.

#### **Shareholders**

The Board of Directors consider and only approve items of business that would promote the success of the company and in the best interests of the company, the company's immediate shareholders, the ultimate parent Eni S.p.A and its stakeholders.

On behalf of the Board

**M Giusto**  
Director

  
Manfredi Giusto (May 1, 2020)

1 May 2020

## DIRECTORS' REPORT

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The directors present their report and the financial statements for the year ended 31 December 2019.

### Directors

The present directors of the company are listed on page 1 and have held office throughout the year, except for the following:

F Rinaldi resigned as a director on 18 November 2019

M Giusto was appointed as a director on 18 November 2019

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. The operational performance of the company has been satisfactory and management anticipates that this will continue to improve in the coming year.

### Dividends

The company approved and paid a dividend of £145 million to the equity shareholder, Eni UK Limited, during the year (2018 - £180 million).

### Post balance sheet events

The emergence and spread of the virus Covid-19 in early 2020 has affected business and economic activities in China and around the world, including UK. The subsequent rapid spread to a growing number of countries around the world triggered a profound correction in the prices of oil and other energy commodities due to the sudden drop in consumption because of increasingly stringent measures adopted by governments to contain the epidemic with serious repercussions on production. In early April, the members of the OPEC + cartel reached an agreement on production cuts required by some of them to react to the effects of Covid-19, however, oil and gas prices continue to be under significant pressure of over-supply and other factors.

The short-term trend in oil and gas prices will depend predominantly on the timing of containment of the spread of the pandemic and as well as the ways in which the crisis will be managed. In a possible worst-case scenario, the pandemic could cause a global recession with significant negative consequences on hydrocarbon demand and commodity prices. This development would have significant effects on the company's results, cash flow, liquidity and business prospects, including the returns for the shareholder. However, Eni group and the company maintain a high degree of financial flexibility in order to deal with unforeseen events and significant reductions in oil and gas prices and demand, which the directors consider to be sufficient to mitigate the impact of such a worst-case scenario.

Eni group and the company are continually monitoring developments in the Oil & Gas sector related to Covid-19 and market conditions.

The company has implemented a number of actions to ensure with the contributions of the Operators, the ability to continue production in the North Sea. The company is working to contain its general and administration costs, cut or delay investments in activities, which were not critical or mandatory and also suspend or defer expenditures for projects that became presently uneconomical. The company is taking actions to reduce operating costs including tariffs and is also supporting the Operators to pursue the same actions.

### Going concern

The directors are satisfied that the company has adequate financial resources, including access to Eni group financial resources, to continue to operate for the foreseeable future and meet its obligations as they fall due.

The company's forecasts and projections demonstrate that its assets are expected to generate free cash flow over the 12 months from the date of this report. If there is a sustained lower oil price, that is not offset by operating cost or capital expenditure savings, the cash flow or liquidity shortages will be balanced by the company's participation in the group cash pooling arrangements and the availability of funds and lines of credit to Eni Spa.

As a consequence, the directors have a reasonable expectation that the company is well placed to manage its business risks and generate sufficient funds to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

## DIRECTORS' REPORT

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### Statement of directors' responsibilities in respect of the strategic report, directors' 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.

### Principal risks and uncertainties and financial risks

The principal risks and uncertainties and financial risks sections are disclosed in the Strategic report.

### Provision of information to auditors

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 auditors in connection with preparing their report) of which the company's auditor are 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 auditors are aware of that information.

### Independent auditors

Due to the Eni Group policy of rotating auditors every nine years, Ernst & Young LLP were not re-appointed by the Company. Following a formal tender process by the Eni Group, PricewaterhouseCoopers Italy were selected as their replacement in Italy and as group auditors. PricewaterhouseCoopers LLP indicated their willingness to act as auditors of the Company for the year ended 31 December 2019 and their appointment was approved at a directors' meeting and general meeting. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

By the order of the Board

**M Trezza**  
Secretary

  
Mila Trezza (May 1, 2020)

1 May 2020

## Report on the audit of the financial statements

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### Opinion

In our opinion, Eni Elgin/Franklin Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the statement of comprehensive income, and the statement of changes in equity for the year then ended; the statement of accounting policies; and the notes to the financial statements.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENI ELGIN/FRANKLIN LIMITED

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### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

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### **Responsibilities for the financial statements and the audit**

#### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

#### *Auditors' 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 auditors' 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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### *Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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## **Other required reporting**

### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Kevin Reynard (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Aberdeen  
1 May 2020

# ENI ELGIN/FRANKLIN LIMITED

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	<i>Note(s)</i>	<b>2019 £'000</b>	<b>2018 £'000</b>
Revenue	3	<b>267,419</b>	402,029
Other income	4	<b>263</b>	7,563
<b>Total revenue</b>		<b>267,682</b>	409,592
Other service costs and expenses	5	<b>(16,984)</b>	(52,147)
Depreciation, amortisation and impairments	9,10	<b>(81,673)</b>	(88,425)
<b>Operating profit</b>		<b>169,025</b>	269,020
Interest payable and similar charges	7	<b>(5,394)</b>	(5,125)
Interest receivable and similar income	6	<b>461</b>	840
<b>Profit before taxation</b>		<b>164,092</b>	264,735
Taxation	8	<b>(61,786)</b>	(103,850)
<b>Profit for the financial year</b>		<b>102,306</b>	160,885
Other comprehensive income for the financial year		-	-
<b>Total comprehensive income for the financial year</b>		<b>102,306</b>	160,885

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

# ENI ELGIN/FRANKLIN LIMITED

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share Capital £'000	Retained Earnings £'000	Shareholders' Equity £'000
Balance at 1 January 2018	-	231,250	231,250
Profit and total comprehensive income for the year	-	160,885	160,885
<i>Transactions with owners in their capacity as owners:</i>			
Dividend paid to the equity shareholders	-	(180,000)	(180,000)
<b>Balance at 31 December 2018</b>	<b>-</b>	<b>212,135</b>	<b>212,135</b>
Profit and total comprehensive income for the year	-	102,306	102,306
<i>Transactions with owners in their capacity as owners:</i>			
Dividend declared to the equity shareholders	-	(145,000)	(145,000)
<b>Balance at 31 December 2019</b>	<b>-</b>	<b>169,441</b>	<b>169,441</b>

**ENI ELGIN/FRANKLIN LIMITED (Registered Number: 3772746)**  
**BALANCE SHEET**

**AS AT 31 DECEMBER 2019**

	Note	2019 £'000	2018 £'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	12	54,755	70,122
Trade and other receivables	11	12,579	50,504
Inventories	13	17,848	16,882
		<u>85,182</u>	<u>137,508</u>
<b>Non-current assets</b>			
Property, plant and equipment	9	439,370	455,458
Intangible assets	10	262	319
Deferred tax asset	16	77,851	65,810
		<u>517,483</u>	<u>521,587</u>
<b>Total assets</b>		<u>602,665</u>	<u>659,095</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	14	22,619	43,409
Current tax liability		32,035	48,780
		<u>54,654</u>	<u>92,189</u>
<b>Non-current liabilities</b>			
Provisions	15	196,804	167,285
Deferred tax liability	16	181,766	187,486
		<u>378,570</u>	<u>354,771</u>
<b>Total liabilities</b>		<u>433,224</u>	<u>446,960</u>
<b>Shareholders' equity</b>			
Share capital	17	-	-
Retained earnings		169,441	212,135
		<u>169,441</u>	<u>212,135</u>
<b>Total equity shareholders' equity</b>		<u>169,441</u>	<u>212,135</u>
<b>Total liabilities and equity shareholders' equity</b>		<u>602,665</u>	<u>659,095</u>

The financial statements from page 9 to 25 were approved by the Board on 3 March 2020 and were signed by an authorised director on behalf of the Board at a later date.

On behalf of the Board

G L Ferrara  
Director

*gian luigi ferrara*  
gian luigi ferrara (May 1, 2020)

1 May 2020

## **STATEMENT OF ACCOUNTING POLICIES**

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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 in the United Kingdom. The company has a registered office as disclosed on page 1.

The company is a participant in consortia involved in the exploration and exploitation of oil and gas in the UK sector of the North Sea and West of Shetland. 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. The company is a limited company which is incorporated and domiciled in the UK.

### **Basis of preparation**

These financial statements were prepared in accordance with the Companies Act 2006, 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 that have been measured at fair value through profit or loss. The accounting policies have been applied consistently, other than where new policies have been adopted due to the changes in accounting standards.

The financial statements have been prepared on a going concern basis. See page 5 of the Directors' report for further details.

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 the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- (h) 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;
- (i) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures; and
- (j) 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.
- (k) paragraph 118(e) of IAS 38 Intangible assets

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.

### **Changes in accounting policies and disclosures**

#### *New and amended standards and interpretations*

The company applied for the first time standards, amendments and interpretations to existing standards, issued by the International Accounting Standards Board (IASB) and endorsed by the EU, which are relevant to the company and are effective for the annual accounting periods beginning on or after 1 January 2019. The company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments applied for the first time in 2019, they did not have a material impact on the financial statements of the company. In particular the adoption of IFRS 16 "Leases" did not have a material impact on the opening balances of the company's financial statements.

#### **IFRS 16 "Leases"**

IFRS 16 requires lessees to recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payments.

**STATEMENT OF ACCOUNTING POLICIES**

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**Property, plant and equipment**

Property plant and equipment includes oil and gas properties representing the company's share of expenditure in respect of exploration appraisal and development costs of fields where a decision to exploit their reserves has been made field development programme approval has been granted and capital expenditure incurred when the fields are in production.

Interest costs incurred during the development stage of fields are capitalised from the date at which field development programme approval is granted until production commences.

These assets except 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.

**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 evaluation assets**

Exploration costs represent the company's share of expenditure by consortia and previously as operator on the exploration of the sea bed for oil and natural gas up to the date of any decision to exploit various finds. Where no decision has been made by the balance sheet date to exploit a find, the costs are accounted for in accordance with the successful efforts method. The cost of drilling exploratory wells is carried forward as an intangible asset if in the opinion of the directors there is a reasonable prospect of development of the related fields commencing within three years of 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 intangible assets as exploration and appraisal costs until the results of the drilling are determined.

Exploration costs written off during the year are presented in depreciation, amortisation and impairments in the statement of comprehensive income.

**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.

**STATEMENT OF ACCOUNTING POLICIES**

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**Impairment of assets**

At the end of each reporting period, the company reviews the carrying amounts of its property, plant and equipment, intangible assets and those investments measured at cost, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs of disposal and value in use. Management has assessed its cash generating unit (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 (CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (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.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, the company's current bank accounts and short-term deposits originally due, generally, within 90 days, readily convertible to known amount of cash and subject to an insignificant risk of changes in value.

Cash deposited in some bank accounts held with Banque Eni SA (BESA)<sup>[1]</sup> may be subject to cash pooling arrangements with the ultimate parent company Eni SpA<sup>[2]</sup>. The company has the full availability of these bank accounts without any restrictions; neither BESA nor the ultimate parent company can block withdrawals. Cash pooling accounts are balanced on a daily basis and the true intent of these accounts is to ensure settlements of payments to vendors and/or cash collections from customers.

Deposits held with Eni Finance International S.A. (EFI)<sup>[3]</sup> are classified as cash equivalents considering that: (i) they are highly liquid, available on demand or in the short term and have terms that are similar to those which would be expected if the deposits had been made with an independent third party financial institution; (ii) EFI maintains sufficient cash and liquid resources, along with access to credit lines, to meet all inter-company obligations simultaneously. The company has full availability of the deposits held with EFI (i.e. no restriction to modify maturity date); if the company needs to anticipate or terminate earlier a deposit, there is no penalty on the change of period requested.

**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. 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 statement of comprehensive income.

**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.

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.

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<sup>[1]</sup> BESA is a Belgian regulated bank subject to the banking regulatory requirements.

<sup>[2]</sup> Although Eni SpA is not a financial institution, it performs its financial activities within specific Board approved limits.

<sup>[3]</sup> EFI is the company responsible for the centralised funding of some foreign Eni Group companies and for collecting their financial surpluses.

**STATEMENT OF ACCOUNTING POLICIES**

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**Taxation (continued)**

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 recognition**

The company is principally engaged in oil and gas exploration and production. Revenue from contracts with customers is recognised when or as the company satisfies a performance obligation by transferring control of a promised good or service to the customer. The company has generally concluded that it is the principal in its revenue contracts because it typically controls the products before transferring them to the customer. The transfer of control generally coincides with title passing to the customer and products having reached the processing terminal or when the products are lifted.

The company principally satisfies its performance obligations at a point in time. When, or as, a performance obligation is satisfied, the group recognises as revenue the amount of the transaction price that is allocated to that performance obligation. The transaction price is the amount of consideration to which the company expects to be entitled in exchange for those products. Contracts from the sale of commodities are typically priced by reference to quoted prices.

Interest income is recognised on a time proportion basis.

**Over/underlift balances**

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 'underlift' or 'overlift'.

The company applies the sales method for the measurement and presentation of the over/underlift balances with underlift valued at cost and overlift valued at market price. The movements of the year are presented within the Other service costs and expenses.

**Provisions**

Provisions are recognised when: (i) there is a present 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 or 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 entry to property, plant and equipment is also recognised. The increase in the provision with the passage of time (unwinding of discount) is recognised as interest expense. The asset is depreciated on a unit of production basis. Changes to the present value of the estimated future decommissioning cost are accounted for as adjustments to the provision and property, plant and equipment.

**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 it is paid.



## STATEMENT OF ACCOUNTING POLICIES

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### Financial instruments

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. Trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient are measured at the transaction price determined under IFRS 15 "Revenue from contracts with customers".

#### *Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The company's financial assets held at amortised cost includes trade and other receivables.

#### *Impairment of financial assets*

The company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the company applies a simplified approach in calculating ECLs. Therefore, the company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the company may also consider a financial asset to be in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

#### *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 IFRS 9 are satisfied.

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

### Fair value measurement

The company measures financial instruments, such as derivatives at fair value at each reporting date. 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.

## **STATEMENT OF ACCOUNTING POLICIES**

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### **Fair value measurement (continued)**

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.

### **Derivative financial instruments**

Within the ordinary course of business the company routinely enters into sale and purchase transactions for commodities. The majority of these transactions take the form of contracts that were entered into and continue to be held for the purpose of delivery of the commodity in accordance with the entity's expected purchase, sale or usage requirements. These contracts are not within the scope of IAS 39.

In addition, the company uses various commodity based derivative instruments to manage some of the risks arising from fluctuations in commodity prices. Such contracts include physical and net settled forwards, and therefore fall within the scope of IAS 39.

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

#### **a) Derivatives at fair value through profit or loss**

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the statement of comprehensive income within net gains and losses on derivative financial instruments. These derivatives are classified within current assets and current liabilities.

### **Derivative financial instruments valuation**

Commodity contracts that meet the definition of a derivative and which are not used for own use purpose are initially recognised at fair value and are subsequently measured at fair value. The fair values of financial instruments measured at the fair values that are quoted in active markets are based on bid price for assets and offer prices for liabilities. When independent prices are not available the fair values are derived by using valuation techniques which refer to available market data. These include comparisons to other instruments where market observable prices exist, discounted cash flow analysis, option pricing models and often valuation techniques commonly used by market participant.

### **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 exploration and evaluation assets, decommissioning provisions, recovery of deferred tax assets and contingencies. Although the company uses its best estimates and judgements, actual results could differ from the estimates and assumptions used.

## STATEMENT OF ACCOUNTING POLICIES

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

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 judgement.

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.

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.

- (i) 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.
- (ii) 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.

Within the fair value computation of the acquired property, plant and equipment and the goodwill impairment test, the company included possible reserves in its determination of cash flows. Such possible reserves are included based on a risk probability weighing. In this specific case, management assessed the uncertainty not to be higher than for probable reserves. This was based on the assumption that no additional capital expenditure will be required to access those possible reserves as well as expected better operational performance following the transfer of the ownership to Eni.

#### *b) Impairment of assets*

The company assesses its property, plant and equipment, intangible assets and those investments measured at cost, for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets are not recoverable. Such indicators include changes in the company's business plans, changes in commodity prices leading to unprofitable performance and, for oil and gas properties, significant downward revisions of estimated proved reserve quantities.

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

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

#### *c) Decommissioning provision*

Obligations to remove property, plant and equipment and restore land or seabed require significant estimates in calculating the amount of the obligation and determining the amount required to be recorded at present value in the financial statements. Estimating future decommissioning obligations is complex. It requires management to make estimates and judgements with respect to decommissioning 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 decommissioning 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 value of a liability for decommissioning obligations in the period when it is incurred (typically, at the time, the asset is installed at the production location).

The recognised decommissioning provisions are based on future decommissioning cost estimates and incorporate many assumptions such as: expected recoverable quantities of crude oil and natural gas, decommissioning time, future inflation rates and the discount rate.

#### *d) 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, as well as the availability of future profits against which tax deductions represented by the deferred tax assets can be offset. 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. Estimating deferred tax assets therefore requires significant judgement.

#### *e) 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.

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 incorporated in Italy with registered office at Piazzale Enrico Mattei 1, 00144 Rome, will produce consolidated financial statements for the year ended 31 December 2019, which will be available from its website [www.eni.com](http://www.eni.com) or on request to Eni S.p.A., Via Emilia 1, 20097 San Donato Milanese (MI), Italy.

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

**2 Directors and employee information**

The directors of the company are also the directors of other affiliate companies and/or the parent undertaking. The emoluments paid to the directors for the services provided to this company have been paid by the immediate parent undertaking Eni UK Limited, and a fair allocation to the company would be approximately £389,110 (2018: £188,924).

A fair allocation of the highest paid director would be £151,634 (2018: £74,970).

**3 Revenue**

	<b>2019</b> <b>£'000</b>	2018 £'000
Group undertakings	<b>256,467</b>	396,305
Third parties	<b>10,952</b>	5,724
	<b>267,419</b>	402,029

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 the United Kingdom.

**4 Other income**

	<b>2019</b> <b>£'000</b>	2018 £'000
Group undertaking	-	6,922
Third parties	<b>263</b>	641
	<b>263</b>	7,563

**5 Other service costs and expenses**

	<b>2019</b> <b>£'000</b>	2018 £'000
Parent company	<b>3,847</b>	3,364
Third parties	<b>13,137</b>	48,783
	<b>16,984</b>	52,147

Other service costs and expenses from third parties includes a decrease of £22.4 million (2018 – increase of £14.5 million) in respect of 'overlift' representing the excess of the company's liftings over its entitlement in the current year.

During 2019 auditors' remuneration was borne by Eni UK Limited and for the purpose of disclosure, a fair allocation of the audit fees to the company would be £4,957 (2018 - £7,834).

# ENI ELGIN/FRANKLIN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 6 Interest receivable and similar income

	2019 £'000	2018 £'000
Group undertaking	461	840

### 7 Interest payable and similar charges

	2019 £'000	2018 £'000
Group undertakings	11	6
Unwinding of discount decommissioning provision (note 15)	5,142	4,875
Third parties	97	12
Foreign exchange loss	144	232
	5,394	5,125

### 8 Taxation

	2019 £'000	2018 £'000
<b>Current tax at 40% (2018 - 40%)</b>		
-UK corporation tax on profits for the period	80,174	130,840
-Adjustment to current tax in respect of prior periods	(627)	(231)
<b>Total current tax</b>	<b>79,547</b>	<b>130,609</b>
<b>Deferred tax (note 16)</b>		
-Current year	(17,761)	(26,759)
<b>Total deferred tax</b>	<b>(17,761)</b>	<b>(26,759)</b>
<b>Total taxes</b>	<b>61,786</b>	<b>103,850</b>

#### Factors affecting tax charge for the year

The tax assessed for the period is lower (2018 - lower) than the standard rate of corporation tax applicable to oil and gas exploration and production companies in the UK of 40% (2018 – 40%). The differences are explained below:

	2019 £'000	2018 £'000
<b>Profit before taxation</b>	<b>164,092</b>	<b>264,735</b>
Taxation on profit before tax @ 40% (2018 – 40%)	65,637	105,894
Impact of different tax rates	(12)	(175)
Income not taxable	(109)	(94)
Adjustment to current tax in respect of prior periods	(627)	(231)
Group relief surrendered	(87)	(160)
Tax credit	(443)	-
Tax allowances	(2,573)	(1,384)
<b>Total taxes</b>	<b>61,786</b>	<b>103,850</b>

# ENI ELGIN/FRANKLIN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 9 Property, plant and equipment

	Oil and gas properties £'000
<b>Cost</b>	
At 1 January 2019	1,589,901
Additions	34,240
Revision of decommissioning estimate (note 15)	31,288
<b>At 31 December 2019</b>	<b>1,655,429</b>
<b>Accumulated depreciation</b>	
At 1 January 2019	1,134,443
Charge for the year	81,616
<b>At 31 December 2019</b>	<b>1,216,059</b>
<b>Net Book Value</b>	
<b>At 31 December 2019</b>	<b>439,370</b>
At 31 December 2018	455,458
Undepreciated Work-in-progress amounts to £13,538,000 (2018 - £nil).	

### 10 Intangible assets

<b>Exploration and appraisal costs</b>	£'000
<b>Cost</b>	
At 1 January 2019	8,849
Additions	-
<b>At 31 December 2019</b>	<b>8,849</b>
<b>Accumulated amortisation</b>	
At 1 January 2019	8,530
Charge for the year	57
<b>At 31 December 2019</b>	<b>8,587</b>
<b>Net Book Value</b>	
<b>At 31 December 2019</b>	<b>262</b>
At 31 December 2018	319

### 11 Trade and other receivables

	2019 £'000	2018 £'000
Amounts owed by group undertakings	11,802	49,904
Other receivables	777	600
	<b>12,579</b>	<b>50,504</b>

# ENI ELGIN/FRANKLIN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 12 Cash and cash equivalents

	2019 £'000	2018 £'000
Group undertaking	555	922
Short term deposit – Group undertaking	54,200	69,200
	<b>54,755</b>	<b>70,122</b>

### 13 Inventories

	2019 £'000	2018 £'000
Consumable stocks	17,848	16,882

### 14 Trade and other payables

	2019 £'000	2018 £'000
Amounts owed by group undertakings	1,348	6,378
Accruals and deferred payments	14,433	8,638
Other payables	6,838	28,393
	<b>22,619</b>	<b>43,409</b>

### 15 Provisions

	Decommissioning £'000	Other provisions £'000	Total £'000
At 1 January 2019	164,522	2,763	167,285
Change during the year	-	(585)	(585)
Utilised during the year	(6,326)	-	(6,326)
Revision of cost estimate (note 9)	31,288	-	31,288
Unwinding of discount (note 7)	5,142	-	5,142
<b>At 31 December 2019</b>	<b>194,626</b>	<b>2,178</b>	<b>196,804</b>

#### Decommissioning

A provision of £195 million has been recognised for decommissioning costs relating to the Elgin/ Franklin 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 1.187% to 2.134%. The estimate life of field interests is between 2020 and 2034. The increase in cost estimates follows a detailed review by the joint venture consortia operators of expected decommissioning costs.

#### General risk

During 2019 the company has recognised an oil insurance provision of £2,178,000 (2018 – £2,763,000).



NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Deferred tax

Deferred tax is calculated in full on temporary differences using a tax rate of 40% (2018 - 40%) in respect of ring fence activity and 17% (2018 - 17%) in respect of non-ring fenced activity. The movement on the deferred tax account is shown below:

	2019 £'000	2018 £'000
At 1 January	121,676	148,435
Credit to the income statement	(17,761)	(26,759)
<b>At 31 December</b>	<b>103,915</b>	<b>121,676</b>

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances. The movement in deferred tax assets and liabilities during the period are shown below:

Deferred tax liabilities

	Derivatives £'000	Accelerated Capital Allowances £'000	Total £'000
At 1 January 2018	-	218,651	218,651
Utilised during the year	-	(30,060)	(30,060)
<b>At 31 December 2018</b>	<b>-</b>	<b>188,591</b>	<b>188,591</b>
Utilised during the year	-	(5,954)	(5,954)
<b>At 31 December 2019</b>	<b>-</b>	<b>182,637</b>	<b>182,637</b>

Deferred tax assets

	Decommissioning £'000	Insurance £'000	Derivatives £'000	Total £'000
At 1 January 2018	69,618	598	-	70,216
Utilised during the year	(3,808)	507	-	(3,301)
<b>At 31 December 2018</b>	<b>65,810</b>	<b>1,105</b>	<b>-</b>	<b>66,915</b>
Provided/utilised during the year	12,041	(234)	-	11,807
<b>At 31 December 2019</b>	<b>77,851</b>	<b>871</b>	<b>-</b>	<b>78,722</b>

Deferred tax assets have been offset against the deferred tax liabilities above with the exception of the deferred tax asset on the decommissioning provision. The net deferred tax liability to be disclosed as a non-current liability is therefore £181,766,000 (2018 – £187,486,000).

The deferred tax asset relating to decommissioning is £77,851,000 (2018 – £65,810,000) and is disclosed as a non-current asset.

Unrecognised deferred tax assets

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate, to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements. In November 2019, the Prime Minister announced that he intended to cancel the future reduction in corporate tax rate from 19% to 17%. This announcement does not constitute substantive enactment and therefore deferred taxes at the balance sheet date continue to be measured at the enacted tax rate of 17%. However, it is possible that the corporation tax rate remains at 19% after 1 April 2020.

The deferred corporation tax asset calculated at the rate of 17% (2018 - 17%) which was not recognised in the financial statements amounted to:

	2019 £'000	2018 £'000
Unrecognised tax losses carried forward	737	879

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 tax asset has not been recognised.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Share capital

	Allotted, called up and fully paid	
	2019 £	2018 £
Ordinary shares of £1 each	100	100

Under the Companies Act 2006, there is no requirement for the company to have an authorised share capital and the company's Articles of Association do not set a maximum amount of shares that the company may allot.

18. Commitments

The company has interests in various consortia engaged in exploration and development of oil and gas. As a member of these consortia, the company is committed to pay its share of the costs of development. It is anticipated that this may involve capital expenditure in 2020 of approximately £33 million (2019 - £39 million).

19. Post balance sheet events

The emergence and spread of the virus Covid-19 in early 2020 has affected business and economic activities in China and around the world, including UK. The subsequent rapid spread to a growing number of countries around the world triggered a profound correction in the prices of oil and other energy commodities due to the sudden drop in consumption because of increasingly stringent measures adopted by governments to contain the epidemic with serious repercussions on production. In early April, the members of the OPEC + cartel reached an agreement on production cuts required by some of them to react to the effects of Covid-19, however, oil and gas prices continue to be under significant pressure of over-supply and other factors.

The short-term trend in oil and gas prices will depend predominantly on the timing of containment of the spread of the pandemic and as well as the ways in which the crisis will be managed. In a possible worst-case scenario, the pandemic could cause a global recession with significant negative consequences on hydrocarbon demand and commodity prices. This development would have significant effects on the company's results, cash flow, liquidity and business prospects, including the returns for the shareholder. However, Eni group and the company maintain a high degree of financial flexibility in order to deal with unforeseen events and significant reductions in oil and gas prices and demand, which the directors consider to be sufficient to mitigate the impact of such a worst-case scenario.

Eni group and the company are continually monitoring developments in the Oil & Gas sector related to Covid-19 and market conditions.

The company has implemented a number of actions to ensure with the contributions of the Operators, the ability to continue production in the North Sea. The company is working to contain its general and administration costs, cut or delay investments in activities, which were not critical or mandatory and also suspend or defer expenditures for projects that became presently uneconomical. The company is taking actions to reduce operating costs including tariffs and is also supporting the Operators to pursue the same actions.

The new scenario, management assumptions and consequent effects on Company's economic results, cash flow, liquidity and business prospects are currently unpredictable and in accordance with IAS 10, has to be accounted for as a non-adjusting event.