

NEPTUNE E&P UKCS Limited

Registered No. 3386464

NEPTUNE E&P UKCS Limited
Annual Report and Financial Statements
31 December 2023

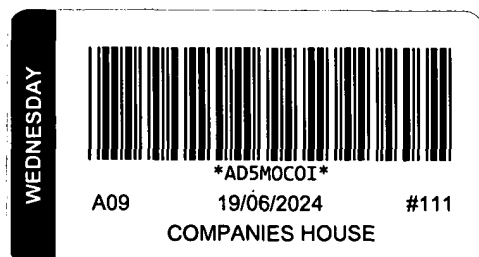


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General information

Registered No. 3386464

Directors

Harald Knoebl	(resigned on 31 January 2024)
William Laidlaw	(resigned on 31 January 2024)
Armand Lumens	(resigned on 31 January 2024)
Peter Jones	(resigned on 31 January 2024)
Alan Muirhead	(resigned on 31 January 2024)
Odin Estensen	(resigned on 31 January 2024)
Luciano Maria Vasques	(appointed on 31 January 2024)
Richard Philip Waterlow	(appointed on 31 January 2024)
Rosalyn Stallard	(appointed on 31 January 2024)

Company Secretary

Katharine Ash

Registered Office

Nova North
11 Bressenden Place
London
SW1E 5BY

Auditors

Ernst & Young LLP
4th Floor
Marischal Square
Broad Street
Aberdeen
AB10 1BL

Strategic report

The Directors present their Strategic report for Neptune E&P UKCS Limited (the "Company") for the year ended 31 December 2023.

Principal activities

The principal activity of the Company is oil and gas exploration and production. The majority of activities are conducted in the United Kingdom and its territorial waters. The Orca field spans across the United Kingdom and Dutch sectors of the North Sea, the field ceased production in August 2020.

Business review

The Company receives tariff income from the Esmond Transportation System. The Company is also undertaking an intensive programme of safe dismantlement and decommissioning of its operated and non-operated interests in the Southern North Sea area.

Key performance indicators

The Company's key performance indicators during the year were as follows:

	Units	2023	2022	Change %
Revenue	£m	0.5	0.1	400%
Gross profit / (loss)	£m	0.4	(0.0)	400%
Loss for the year after tax	£m	(12.0)	(0.9)	(1233)%
Decommissioning spend	£m	25.1	10.6	137%

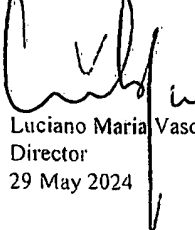
The Company no longer has an equity interest in any producing fields, all revenue is derived from tariff income.

During the year the Company has spent £25.1m on abandonment activity which was largely performed on the Boulton, Munro, Kelvin, Katy, CMS pipeline, Orca NL, Juliet and Murdoch.

Risks and uncertainties

As an oil and gas exploration and production company, exploration results, reserve and resource estimates and estimates for capital and operating expenditures involve inherent uncertainties. A field's production performance may be uncertain over time. The Company is exposed to various forms of financial risks, including (but not limited to): fluctuation in oil and gas prices; currency exchange rates; interest rates; and capital requirements. The Company is also exposed to uncertainties relating to political risks, the international capital markets and access to capital which may influence the speed with which growth can be accomplished.

The report was approved by the Board and signed on its behalf by:


 Luciano Maria Vasques
 Director
 29 May 2024

Director's report

The directors, as listed on page 1, present their report and financial statements for the year ended 31 December 2023.

Results and dividends

The total comprehensive loss for the year amounted to £12,021,000 (2021: Loss £947,000). No dividend was declared in either 2023 nor 2022.

Future developments

The Company continues to manage its asset base whilst ensuring the safe decommissioning of assets in the Southern North Sea.

Directors indemnity

The Company indemnifies the Directors in the articles of association to the extent allowed under section 232 of the Companies Act 2006.

Going Concern

As noted in the post balance sheet disclosure, on 23 June 2023, Eni Energy Group Limited (formerly Neptune Energy Group Limited ("NEGL")) announced that Eni International BV ("Eni") signed a sale and purchase agreement to acquire all the shares of NEGL, the ultimate holding company of Neptune E&P UKCS Limited, with Vår Energi ASA ("Vår Energi") simultaneously signing an inter-conditional sale and purchase agreement to acquire Neptune Energy Norge AS ("Norway") from Neptune Energy Group Holdings Limited, a wholly owned subsidiary of NEGL and the immediate parent of Neptune E&P UKCS Limited. Neptune's business in Germany is not part of the transaction, but is a condition precedent that ahead of completion of the Eni and Vår SPAs, that the German business (all Germany legal entities owned by Neptune) would be carved out.

Following the completion of the Eni acquisition of the Neptune Group on 31 January 2024, the Company forms part of the Eni Group and entered the Eni Group's cash pooling and funding arrangements through its relationship with Eni Energy Finance Limited (formerly Neptune Energy Finance Limited), a fellow Neptune Group subsidiary. Eni Energy Finance Limited (formerly Neptune Energy Finance Limited) is part of the Eni Group cash pooling arrangements. Owing to the principal activities of the Company, the Company's future cashflows are reliant on the Neptune Group. Any unfunded cash flow and liquidity requirements will be met by the Company's participation in the Eni Energy Finance Limited (formerly Neptune Energy Finance Limited) current account agreement.

As noted in the post balance sheet disclosures, on 23 April 2024, it was announced that Eni S.p.A and Ithaca Energy plc had entered into an agreement to set-up a new Business Combination in the UK Continental Shelf. Eni S.p.A will hand over control of the assets to Ithaca in exchange for shares. This Business Combination includes all of Neptune E&P UKCS Limited's assets. Completion of the transaction is expected in Q4 2024 and on completion Eni S.p.A will own approximately 38.5% of the group.

Following the performance of stress testing using severe but plausible assumptions and inquiries of both Eni S.p.A and Ithaca Energy PLC management to understand the available liquidity of both Groups, the Directors are satisfied that the Company has adequate financial resources to continue to operate for the going concern assessment period to 30 June 2025, and meet its obligations as they fall due. For the stress test scenarios calculated a 10% reduction in production along with a 25% reduction in oil price and 40% in gas price was applied and compared to the base budget data.

Director's report (continued)

Environment, Social and Governance (ESG)

Greenhouse gas emissions and energy performance

The Company's greenhouse gas emissions and energy consumption is disclosed in the financial statements of Eni Energy Group Limited (formerly Neptune Energy Group Limited), the ultimate parent company. Copies of the financial statements can be obtained from Company Secretary, Nova North, 11 Bressenden Place, London SW1E 5BY.

Post balance sheet events

On 31 January 2024, subsequent to the successful carve-out of the German and Norwegian business units, the sale of the wider Neptune Energy business to Eni, as originally announced on 23 June 2023, was finalised. Following the sale, the ultimate parent company of the Group is Eni S.p.A.

On 23 April 2024, it was announced that Eni S.p.A and Ithaca Energy plc had entered into an agreement to set-up a new Business Combination in the UK Continental Shelf. Eni S.p.A will hand over control of the assets to Ithaca in exchange for shares. This Business Combination includes all Neptune E&P UKCS Limited's assets. Completion of the transaction is expected in Q4 2024 and on completion Eni S.p.A will own approximately 38.5% of the group.

Disclosure of information to auditors

As far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing their report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Financial risk management

The Company Directors are required to comply with Eni (formerly Neptune Energy) Group risk management policies' which include specific guidelines on the management of market, credit and liquidity risk, and advice on the use of financial instruments.

Financial risks that are specific to the Company are disclosed in note 4 of these financial statements.

The Directors who served the Company during the period 1 January 2023 to date of this report are shown on page 1.

Appointment of auditors

In accordance with section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and remain in office as the auditors of the Company.

Director's report (continued)

Statement of Director's responsibilities

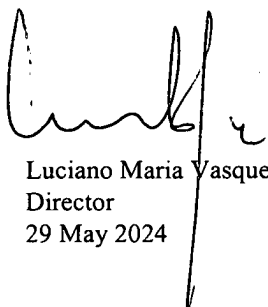
The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK law and regulations.

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) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom 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.

This report was approved by the Board and signed on its behalf by:



Luciano Maria Vasques
Director
29 May 2024

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF NEPTUNE E&P UKCS LIMITED

Opinion

We have audited the financial statements of Neptune E&P UKCS Limited for the year ended 31 December 2023 which comprise the Statement of profit and loss and other comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 17, including a summary of material accounting policy information. 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 2023 and of its loss 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. 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 30 June 2025.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. 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.

Independent Auditor's Report (continued)

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 contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- ▶ the strategic report and directors' report have 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 strategic report or 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, 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.

Independent Auditor's Report (continued)

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS101 'Reduce Disclosure Framework' and the Companies Act 2006) and the relevant direct and indirect tax compliance regulation in the United Kingdom. In addition, the Company has to comply with laws and regulations relating to its operations, including health and safety, employees, GDPR and anti-bribery and corruption.
- We understood how the company is complying with those frameworks by making enquiries of management to understand how the Company maintains and communicates its policies and procedures in these areas and corroborated this by reviewing supporting documentation.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved testing journals identified by specific risk criteria. We incorporated unpredictability into our testing of manual journals and into our testing of revenue recognition. We tested specific transactions back to source documentation or independent confirmation, ensuring appropriate authorisation of the transactions. We held enquiries with the legal department to assess whether any non-compliance of laws and regulations, or fraud have been identified, and furthermore we inspected correspondence received from the relevant authorities, such as HM Revenue and Customs, the Health and Safety Executive and the Oil and Gas Authority where relevant.

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.

Independent Auditor's Report (continued)

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.

Ernst & Young LLP

Clarke Cooper (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen
Date: 30 May 2024

Statement of profit and loss and other comprehensive income

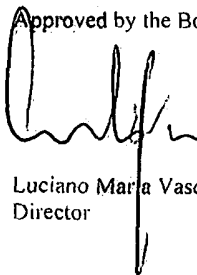
for the year ended 31 December 2023

	Notes	2023 £000	2022 £000
Continuing operations			
Revenue	5	483	144
Cost of sales		(44)	(152)
Gross profit / (loss)	6	<u>439</u>	<u>(8)</u>
Impairment write (off) / back	12	(21,880)	1,190
Other operating expenses	7	-	(16)
Other operating income	7	<u>68</u>	<u>-</u>
(Loss) / Profit before tax and finance costs		(21,373)	1,166
Finance costs	8	(2,507)	(1,364)
Finance income	8	<u>867</u>	<u>273</u>
(Loss) / Profit before tax		(23,013)	75
Taxation	11	<u>10,992</u>	<u>(1,022)</u>
Net Loss		(12,021)	(947)
Other comprehensive income		-	-
Total comprehensive loss for the period, net of tax		<u>(12,021)</u>	<u>(947)</u>

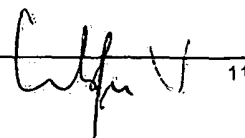
Statement of financial position
for the year ended 31 December 2023
Registered No. 3386464

	Notes	2023 £000	2022 £000
ASSETS			
Non-current assets			
Property, plant and equipment	12	-	-
Deferred tax assets	11	30,419	30,919
Income tax receivable		11,681	-
		<u>42,100</u>	<u>30,919</u>
Current assets			
Trade and other receivables	13	11,529	30,596
Inventories		43	20
Income tax receivable		5,064	11,368
		<u>16,636</u>	<u>41,984</u>
TOTAL ASSETS		<u>58,736</u>	<u>72,903</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Issued share capital	14	642,745	642,745
Retained (deficit)		(650,526)	(638,505)
TOTAL EQUITY		<u>(7,781)</u>	<u>4,240</u>
Non-current liabilities			
Provisions	15	25,442	29,574
		<u>25,442</u>	<u>29,574</u>
Current liabilities			
Trade and other payables	16	2,155	3,433
Current provisions	15	38,920	35,656
		<u>41,075</u>	<u>39,089</u>
TOTAL LIABILITIES		<u>66,517</u>	<u>68,663</u>
TOTAL EQUITY AND LIABILITIES		<u>58,736</u>	<u>72,903</u>

Approved by the Board on 29 May 2024 and signed on its behalf by:



Luciano Maria Vasques
Director



Statement of changes in equity
for the year end 31 December 2023

	<i>Issued capital</i>	<i>Retained deficit</i>	<i>Total equity</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2022	607,745	(637,558)	(29,813)
Total comprehensive loss from continuing operations	-	(947)	(947)
Shares issues in the year	35,000	-	35,000
At 31 December 2022	642,745	(638,505)	4,240
Total comprehensive loss from continuing operations	-	(12,021)	(12,021)
At 31 December 2023	642,745	(650,526)	(7,781)

Notes to the financial statements (continued)

at 31 December 2023

1. General information

The financial statements of Neptune E&P UKCS Limited for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the directors on 29 May 2024. Neptune E&P UKCS Limited is a private limited company incorporated and registered in England and Wales whose shares are 100% owned by Eni Energy Group Holdings Limited (formerly Neptune Energy Group Holdings Limited), a company incorporated in the United Kingdom.

Eni Energy Group Limited (formerly Neptune Energy Group Limited), a company incorporated in England and Wales, is the ultimate parent company in which the results of the company are consolidated. The smallest group into which the Company is consolidated is that of which Eni Energy Group Limited (formerly Neptune Energy Group Limited) is the parent undertaking. Copies of the Group consolidated accounts may be obtained from the Company Secretary, Nova North, 11 Bressenden Place, London SW1E 5BY.

2. Summary of material accounting policies

Basis of preparation

The Company has prepared its financial statements in accordance with Financial Reporting Standard 101 reduced Disclosure Framework (FRS¹⁰¹), using historical cost convention, except certain items measured at fair value.

The financial statements are presented in British Pound Sterling (Pounds). All values rounded to the nearest thousand Pounds (£000) except when otherwise indicated.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirement of UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Going concern

As noted in the post balance sheet disclosure, on 23 June 2023, Eni Energy Group Limited (formerly Neptune Energy Group Limited ("NEGL")) announced that Eni International BV ("Eni") signed a sale and purchase agreement to acquire all the shares of NEGL, the ultimate holding company of Neptune E&P UKCS Limited, with Vår Energi ASA ("Vår Energi") simultaneously signing an inter-conditional sale and purchase agreement to acquire Neptune Energy Norge AS ("Norway") from Neptune Energy Group Holdings Limited, a wholly owned subsidiary of NEGL and the immediate parent of Neptune E&P UKCS Limited. Neptune's business in Germany is not part of the transaction, but is a condition precedent that ahead of completion of the Eni and Vår SPAs, that the German business (all Germany legal entities owned by Neptune) would be carved out.

Following the completion of the Eni acquisition of the Neptune Group on 31 January 2024, the Company forms part of the Eni Group and entered the Eni Group's cash pooling and funding arrangements through its relationship with Eni Energy Finance Limited (formerly Neptune Energy Finance Limited), a fellow Neptune Group subsidiary. Eni Energy Finance Limited (formerly Neptune Energy Finance Limited) is part of the Eni Group cash pooling arrangements. Owing to the principal activities of the Company, the Company's future cashflows are reliant on the Neptune Group. Any unfunded cash flow and liquidity requirements will be met by the Company's participation in the Eni Energy Finance Limited (formerly Neptune Energy Finance Limited) current account agreement.

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Notes to the financial statements (continued)

at 31 December 2023

2. Summary of material accounting policies (continued)

Going concern (continued)

Following the performance of stress testing using severe but plausible assumptions and inquiries of both Eni S.p.A and Ithaca Energy PLC management to understand the available liquidity of both Groups, the Directors are satisfied that the Company has adequate financial resources to continue to operate for the going concern assessment period to 30 June 2025, and meet its obligations as they fall due. For the stress test scenarios calculated a 10% reduction in production along with a 25% reduction in oil price and 40% in gas price was applied and compared to the base budget data.

Summary of disclosure exemptions

The following disclosure exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS101:

- a) IFRS 7, 'Financial instruments : disclosures';
- b) Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- c) Paragraph 38 of IAS 1, 'Presentation of financial statements' to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1, 'Presentation of financial statements';
- d) Paragraphs 10(d), 10(f), 16, 38A, 38B to 38D, 40A to 40D, 111 and 134 to 136 of IAS 1, 'Presentation of financial statements';
- e) IAS 7, 'Statement of cash flows';
- f) Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors';
- g) Paragraphs 17 and 18A of IAS 24, 'Related party disclosures';
- h) The requirements in 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; and
- i) Paragraphs 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets'.

Foreign currency translation

The functional and presentational currency of Neptune E&P UKCS Limited is Pounds (£).

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction.

Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; and income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of each transaction).

Notes to the financial statements (continued)

at 31 December 2023

2. Summary of material accounting policies (continued)

Property, plant and equipment

Oil and gas assets

- i) Expenditure on the acquisition of proved properties and on the construction, installation or completion of facilities such as platforms, pipelines and the drilling of development wells, including any development or delineation wells, is capitalised within oil and gas assets.

In accordance with IAS 16, the initial cost of assets relating to the exploration and production includes an initial estimate of the costs of decommissioning, and restoring the site on which the facilities are located when production operations cease, when the entity has a present legal or constructive obligation for decommissioning or to restore the site. A corresponding provision for this decommissioning obligation is recorded for the amount of the asset component.

A corresponding provision for this decommissioning obligation is recorded for the amount of the asset component.

Borrowing costs that are directly attributable to the construction of the qualifying asset are capitalised as part of the cost of that asset.

- ii) *Depreciation of production assets:*

The depreciation of production assets, including decommissioning costs, starts when the oil or gas field is brought into production, and is based on the unit of production method. According to this method, the depletion rate is equal to the ratio of oil and gas production for the period to proved and probable reserves, as applied to the capitalised cost plus future estimated costs to develop those reserves.

Pipeline assets for which third party tariff income is the main source of revenue are depreciated on a straight line basis over a period not exceeding the projected useful economic life of the asset.

- iii) *Recognition and derecognition of assets*

Acquired assets are valued at their purchase price and assessed for impairment (if required). An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period in which the item is derecognised.

- iv) *Impairment of property, plant and equipment*

In accordance with IAS 36, impairment tests are carried out on items of property, plant and equipment where there is an indication that the assets may be impaired. Such indications may be based on events or changes in the market environment, or on internal sources of information.

The recoverable amount of an asset corresponds to the higher of its fair value less costs to sell and its value in use. Value in use is primarily determined based on the present value of future operating cash flows. Standard valuation techniques are used based on the discount rates; discount rates are determined on a post-tax basis and applied to post-tax cash flows. The recoverable amounts calculated on the basis of these discount rates are the same as the amounts obtained by applying the pre-tax discount rates to cash flows estimated on a pre-tax basis, as required by IAS 36.

Any impairment loss is recorded in the income statement under "Impairment losses". Impairment losses recorded in relation to property, plant and equipment may be subsequently reversed if the recoverable amount of the assets subsequently increases above carrying value. The increased carrying amount of an item of property, plant or equipment attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined (net of depreciation/amortisation) had no impairment loss been recognised in prior periods. Impairment losses in respect of intangible assets may not be reversed on a future change in circumstances that led to the impairment.

Notes to the financial statements (continued)

at 31 December 2023

2. Summary of material accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Provisions

A provision is recognised when the Company has a present legal or constructive obligation to plug wells, dismantle facilities or to restore a site. An asset is recorded simultaneously by including this decommissioning obligation in the carrying amount of the facilities concerned. Adjustments to the provision due to subsequent changes in the expected outflow of resources, the decommissioning date or the discount rate are deducted from or added to the cost of the corresponding asset. The impact of unwinding the discount ("accretion") is recognised in financial expenses for the period.

Provisions with a maturity of over 12 months are discounted when the effect of discounting is material. The discount rate (or rates) used reflect current market assessments of the time value of money, based on the relevant risk-free rate, adjusted if appropriate for any risks specific to the liability concerned.

Revenue

Revenue is recognised when the Company satisfies a performance obligation by transferring oil and gas to a customer. The title to oil and gas typically transfers to a customer at the same time as the customer takes physical possession of the commodity, which is when the performance obligation is fully satisfied.

Differences may arise in a joint operation between the Company's share of production entitlement from an oil or gas field and the volume which has been lifted and sold. Such "Under or Over lift" entitlement are recognised in current assets or liabilities, respectively, at net realisable value, with a corresponding adjustment through production costs. As a result, the reported operating result for each period reflects the Company's share of saleable production in that period.

Taxation

Current Tax

Current tax, including corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is recognised in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base. Deferred tax assets are recognised only to the extent that the deductible temporary differences will reverse in the future and it is probable that there will be sufficient taxable profit available against which the temporary differences can be utilised. The amount of deferred tax provided is using tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred taxes are reviewed at least annually at the end of the financial year to take into account factors including the impact of changes in tax laws and the prospects of recovering deferred tax assets arising from deductible temporary differences. Deferred tax assets and liabilities are not discounted.

Notes to the financial statements (continued)

at 31 December 2023

2. Summary of material accounting policies (continued)

Sales Tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on the purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Petroleum Revenue Tax

Provision is made for current Petroleum Revenue Tax (PRT) on revenue from petroleum sales less all allowable deductions for the period.

Deferred PRT is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

3. Significant accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates

Due to uncertainties inherent in the estimation process, the Company regularly revises its estimates in light of currently available information. Final outcomes could differ from those estimates.

Estimates of decommissioning provisions

Parameters having a significant influence on the amount of provisions for decommissioning costs include the forecast of costs to be incurred to decommission facilities, plug wells and restore sites used for production and drilling, the anticipated scope of such decommissioning obligations, which may depend on laws and regulation in force at the time, the timing of such expenditure and the discount rate applied to forecast cash flows. These parameters are based on information and estimates deemed to be appropriate by the Company at the current time. The modification of certain parameters could involve a significant adjustment of these provisions.

Measurement of recognised tax loss carry-forwards

Deferred tax assets are recognised on tax loss carry-forwards when it is probable that taxable profit will be available against which the tax loss carry-forwards can be utilised. The estimates of the taxable profit that will be available against which the unused tax losses can be utilised, are based on taxable temporary differences relating to the same taxation authority and the same taxable entity and estimates future taxable profits. These estimates and utilisations of tax loss carry-forwards are prepared on the basis of profit and loss forecasts as included in the medium-term business plan and, if necessary, on the basis of additional forecasts.

Notes to the financial statements (continued)

at 31 December 2023

4. Financial risk management

Company financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (e.g. currency risks), credit risk and liquidity risk. The Company's overall risk management programme focusses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Market risk (foreign exchange risk)

The Company operates internationally and is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar (USD) and Euros (EUR). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

Credit risk

Currently credit risk only arises from cash and cash equivalents, sales receivables and hedging derivatives. For banks and financial institutions, only independently rated parties with a minimum rating of 'BBB' are accepted.

Liquidity risk

Liquidity risk is the risk that the Company might not have sources of funding to meet its business needs. The Directors believe that the Company has sufficient cash, undrawn committed funds under its borrowing base facility and expected sources of liquidity to meet the business's forecast requirements.

5. Revenue

	<i>2023</i>	<i>2022</i>
	<i>£000</i>	<i>£000</i>
Tariff income	483	144
Total revenue	<u>483</u>	<u>144</u>

All revenue is generated in the United Kingdom.

6. Gross Profit

Gross profit is stated after charging:

	<i>2023</i>	<i>2022</i>
	<i>£000</i>	<i>£000</i>
Included in cost of sales:		
Net foreign exchange gain	<u>(27)</u>	<u>(42)</u>

Notes to the financial statements (continued)

at 31 December 2023

7. Other operating income / (expenses)

	2023	2022
	£000	£000
Other operating income / (expenses)		
Other operating income / (costs)	68	(16)
Total other operating expenses	<u>68</u>	<u>(16)</u>

8. Finance costs

	<i>Note</i>	2023	2022
		£000	£000
Finance costs			
Other finance costs		-	(124)
Interest payable to related parties		(2)	(2)
Third party interest payable		(105)	-
Unwinding of discount on decommissioning provision	15	(2,400)	(1,238)
Total finance costs		<u>(2,507)</u>	<u>(1,364)</u>
Finance income			
Interest receivable from related parties		845	273
Other finance income		22	-
Total finance income		<u>867</u>	<u>273</u>
Net finance costs		<u>(1,640)</u>	<u>(1,091)</u>

9. Employee expense

The Company had no employees during the current or preceding year.

The Directors received no remuneration for their services to the Company during the period. The Directors are employed by and receive remuneration for services from Eni Energy Group Holdings Limited (formerly Neptune Energy Group Holdings Limited), carrying out strategic planning and management for the Neptune Energy Group as a whole. The directors do not believe it practical to apportion their remuneration between their services as director of the company and as directors of other group companies.

10. Auditors' remuneration

	2023	2022
	£000	£000
Auditors' remuneration in respect of audit	<u>37</u>	<u>40</u>

The Company did not incur any non-audit related fees in the current or preceding year.

Notes to the financial statements (continued)

at 31 December 2023

11. Income tax

Major components of income tax (credit) / charge for the years ended 31 December 2023 and 2022 are:

	2023	2022
	£000	£000
Income statement		
<i>Current income tax</i>		
Current income tax credit	(11,510)	(5,164)
Adjustments in respect of current income tax of previous years	18	140
<i>Deferred income tax</i>		
Relating to origination and reversal of income tax temporary differences	153	5,609
Relating to origination and reversal of PRT temporary differences	(1,123)	437
Adjustments in respect of deferred tax from previous years	1,470	-
Income tax (credit) / charge reported in income statement	<u>(10,992)</u>	<u>1,022</u>

The effective tax rate for the period is 47.7% (2022: 1364%). A reconciliation of income tax (credit) / charge applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the years ended 31 December 2023 and 2022 is as follows:

	2023	2022
	£000	£000
Accounting (loss) / profit before income tax	<u>(23,010)</u>	<u>75</u>
*At UK statutory income tax rate of 40% (2022: 40%)	(9,542)	(79)
*At EPL tax rate of 35% (2022: 25%)	(8,348)	(29)
*At UK statutory income tax rate of 23.5% (2022: 19%)	198	52
Adjustments in respect of prior years	1,488	140
Deferred tax assets not recognised	-	61
Expenditure subject to tax at different statutory rates	6,335	447
Deferred PRT credit	(1,123)	437
EPL one time restatement	-	(7)
Total income tax (credit) / charge	<u>(10,992)</u>	<u>1,022</u>

* The reconciliation is based on the rate of tax applied to the associated ring fence, non-ring fence and EPL profits/losses.

Companies engaged in UK oil extraction activities are subject to ring fence corporation tax at a rate of 30% (2022: 30%) and the supplementary corporation tax at a rate of 10% (2022: 10%).

Notes to the financial statements (continued)

at 31 December 2023

11. Income tax (continued)

On 26 May 2022 the UK government announced the introduction of an Energy Profits Levy (EPL), a new 25% levy on profits arising on or after that day. EPL applies an additional 25% tax on UK oil and gas profits on top of the existing 40% headline rate of tax for oil and gas companies (30% Ring Fence Corporation Tax and 10% Supplementary Charge). On 17 November 2022, the rate was increased to 35%, effective from 1 January 2023, bringing the combined tax rate to 75%. Spring Budget 2024 extended the EPL by one year to March 2029, however, this has not been substantively enacted. Deferred taxes have been measured at applicable tax rates enacted or substantively enacted at the balance sheet date, based on future unwinding profile.

Petroleum revenue tax (PRT) also applies to the company's share of taxable profits from certain oil fields. PRT is currently chargeable at a rate of 0% (2022: 0%). Whilst PRT has been effectively abolished for future periods, the company recognises a deferred PRT asset to the extent future decommissioning expenditure can be carried back against profits of earlier chargeable periods.

Non-ring fence profits are subject to the main rate of corporation tax of 23.5% (2022: 19%). The main rate of corporation tax for non-ring fence profits increased to 25% from 1 April 2023, substantively enacted 24 May 2021. The change in tax rate will not impact the Company significantly as it conducts purely oil extraction activities. The corporate tax rates applicable to those activities (see above) are not affected by this change.

Deferred income tax

Deferred income tax included in the statement of financial position is as follows:

	<i>Balance Sheet</i>	
	<i>2023</i>	<i>2022</i>
	<i>£000</i>	<i>£000</i>
<i>Deferred corporation tax assets</i>		
Accelerated depreciation for tax purposes	11	15
Corporation tax on deferred PRT	(955)	(599)
Decommissioning provision	28,976	30,006
<i>Deferred PRT assets</i>		
Deferred PRT assets	2,387	1,497
Net deferred income tax asset	<u>30,419</u>	<u>30,919</u>

In accordance with IAS 12 'Income Taxes' the Company has assessed the recoverability of its deferred tax assets at 31 December 2023 and has recognised a deferred tax asset to the extent that future decommissioning expenditure can be carried back and set off against taxable profits of the company for earlier accounting periods.

The Company did not recognise a deferred tax asset in respect of ring fence corporation tax losses carried forward of £578,392k and supplementary charge losses carried forward of £574,993k (31 December 2022: ring fence corporation tax losses of £597,087k and supplementary charge losses carried forward of £575,026k), investment allowances of £297,987k and capital losses of £1,111k (31 December 2022: £297,987k and £1,111k) and EPL losses of £nil (31 December 2022: £42,447k) as it is not sufficiently certain that such balances will be recovered in the foreseeable future.

Notes to the financial statements (continued)
at 31 December 2023

12. Property, plant and equipment

	<i>Oil and gas assets £000</i>
At 1 January 2023, net of accumulated depreciation	-
Additions *	21,880
Impairment write-off for the year	<u>(21,880)</u>
At 31 December 2023, net of accumulated depreciation	<u>-</u>
At 1 January 2023	
Cost	-
Accumulated depreciation and impairment	<u>-</u>
Net carrying amount	<u>-</u>
At 31 December 2023	
Cost	21,880
Accumulated depreciation and impairment write-back	<u>(21,880)</u>
Net carrying amount	<u>-</u>

* Additions in the year represent revisions of Decommissioning liabilities which were fully impaired when incurred.

13. Trade and other receivables

	<i>2023 £000</i>	<i>2022 £000</i>
Trade receivables	26	110
Accrued income	24	28
Amounts owing from intercompany	11,389	30,433
Other Receivables	64	-
VAT receivable	26	25
	<u>11,529</u>	<u>30,596</u>

Amounts owed by related parties are unsecured, interest free, have no fixed repayment date and are repayable on demand.

There are no credit loss provisions included within trade receivables. When management considers the recovery of a receivable to be improbably, a provision is made against the carrying value of the receivable. The movement through the income statement would be included in other operating expenses and income (note 7).

Notes to the financial statements (continued)
at 31 December 2023

14. Issued capital and reserves

<i>Authorised</i>	<i>2023</i>	<i>2022</i>
	<i>No.</i>	<i>No.</i>
Ordinary shares of £1 each	200,000,000	200,000,000
Ordinary shares of £1 each	1,100,000,000	1,100,000,000
Ordinary shares of £1 each	35,000,000	35,000,000
	<u>1,335,000,000</u>	<u>1,335,000,000</u>
<i>Ordinary shares issued and fully paid</i>		
	<i>No.</i>	<i>No.</i>
At 1 January and 31 December 2021, 2022	<u>100</u>	<u>100</u>
<i>Ordinary shares issued and fully paid</i>		
	<i>2023</i>	<i>2022</i>
	<i>£000</i>	<i>£000</i>
At 1 January and 31 December	642,745	607,745
Issued during the year	-	35,000
	<u>642,745</u>	<u>642,745</u>

The Company is wholly-owned and is funded through share capital and loans from its immediate parent in order to enable it to meet its financial obligations and activities.

15. Provisions

	<i>Decommissioning</i>
	<i>£000</i>
At 1 January 2023	65,230
Additions during the year	23,041
Discount rate change	(1,161)
Unwinding of discount for the year	2,400
Utilisation	(25,148)
At 31 December 2023	<u>64,362</u>
Current 2023	38,920
Non-current 2023	25,442
	<u>64,362</u>
Current 2022	35,656
Non-current 2022	29,574
	<u>65,230</u>

Provision is made for the cost of decommissioning of production facilities at the end of the producing life of each field. It is anticipated that decommissioning will be incurred over the next 12 years. The exact timing of these costs is dependent upon a number of factors such as reservoir performance, near field developments, prices etc. Such provisions are on the basis of the Company's estimated liability for costs at the balance sheet date, discounted at rates of between 4.50% and 4.80% (2022: 3.70% and 4.10%).

Notes to the financial statements (continued)

at 31 December 2023

16. Trade and other payables

	2023	2022
	£000	£000
Accrued expenditure	907	3,153
JV creditors	1,026	-
Amounts owed to intercompany	221	124
Other payables	1	156
	<u>2,155</u>	<u>3,433</u>

Amounts owed to other related parties are unsecured, interest free, have no fixed repayment date and are repayable on demand.

17. Post Balance Sheet Events

On 31 January 2024, subsequent to the successful carve-out of the German and Norwegian business units, the sale of the wider Neptune Energy business to Eni, as originally announced on 23 June 2023, was finalised. Following the sale, the ultimate parent company of the Group is Eni S.p.A.

On 23 April 2024, it was announced that Eni S.p.A and Ithaca Energy plc had entered into an agreement to set-up a new Business Combination in the UK Continental Shelf. Eni S.p.A will hand over control of the assets to Ithaca in exchange for shares. This Business Combination includes all Neptune E&P UKCS Limited's assets. Completion of the transaction is expected in Q4 2024 and on completion Eni S.p.A will own approximately 38.5% of the group.