

Registered Number: 4480539

CH4 Limited

Report and Financial Statements

31 December 2004



Registered No. 4480539

Directors

Francis R Gugen
Mark C Routh
Philip A Kirk
Robert H Poddubiuk
Hans N J Versteeg

Secretary

Philip A Kirk

Auditors

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

Bankers

Deutsche Bank AG
Winchester House
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London EC2N 2DB

The Royal Bank of Scotland plc
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Solicitors

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Registered Office

36 Baskerville Road
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Directors' report

The directors present their report and the company financial statements for the year ended 31 December 2004.

Results and dividends

The loss for the year after taxation was €1,136,369 (2003 loss – €5,598).

The directors are unable to recommend the payment of a dividend.

Principal activity and review of the business

The principal activity of the company is the exploration for, development, production and transportation of natural gas.

On 19 May 2004, the company completed its acquisition of the Markham UK/Dutch gas field and a non-operated interest in the J3C field in the Netherlands. This was achieved via the acquisition of 100% of the issued share capital of both CH4 DMF Limited (formerly Eni DMF Limited) and CH4 Nederland BV (formerly Eni Nederland BV), a company incorporated in the Netherlands, and the acquisition of a further direct interest in the Markham field. Financing for the acquisition was provided by 3i plc and a number of offshore funds managed by the US-based fund manager the Trust Company of the West ('TCW') a Société Générale affiliate company.

On 14 September 2004, the results of the 22nd UK Offshore Licensing Round were announced with CH4 Limited being awarded the one traditional licence it applied for covering three part blocks to the North-west of Markham. Whilst a significant amount of technical work and seismic reprocessing has already been performed, further work is ongoing and the group is working towards an early drilling date.

After a successful Markham platform summer shutdown, where the main generator and diesel fire water pump systems were replaced, the B6 well was spudded on 5 October 2004 targeting the western extension to the Markham field. The well was completed safely and brought into production in February 2005 more than doubling existing output from the field. Equally positively, early reservoir modelling work indicates further infill or extension drilling potential. Whilst the associated detailed well planning work has still to be performed, the company hopes to start realising this potential with its planned activity in 2006. With the positive impact of the B6 well reserve additions, the company anticipates being profitable through 2005 and is in a robust funding position with more than adequate cash reserves for its current operating requirements.

Directors and their interests

The directors who served during the year ended 31 December 2004 were as follows:

F R Gugen

M C Routh

P A Kirk

R H Poddubiuk (appointed 1 June 2004)

H N J Versteeg (appointed 19 December 2004)

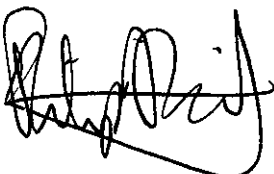
F R Gugen holds 40,625 £1 ordinary shares, M C Routh holds 118,250 £1 ordinary shares, P A Kirk holds 104,250 £1 ordinary shares, R H Poddubiuk holds 5,000 £1 ordinary shares, and H N J Versteeg holds 5,000 £1 ordinary shares in CH4 Energy Limited, the ultimate parent undertaking of CH4 Limited.

Directors' report

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board

A handwritten signature in black ink, appearing to be 'R. J. O' followed by a large flourish.

Director

17 March 2005

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements, and having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

Independent auditors' report

to the members of CH4 Limited

We have audited the company's financial statements for the year ended 31 December 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, and the related notes 1 to 19. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

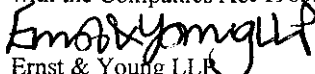
Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP

Registered Auditor

London

17 March 2005

Profit and loss account

for the year ended 31 December 2004

	Notes	2004 €	2003 €
Turnover		8,737,336	-
Operating costs		(7,416,251)	(2,838)
Operating profit	2	1,321,085	(2,838)
Net interest payable	3	(3,429,407)	(5,159)
Dividends received		2,000,000	-
Profit/(loss) on ordinary activities before taxation		(108,322)	(7,997)
Tax credit/(charge) on profit on ordinary activities	6	(1,028,047)	2,399
Retained profit/(loss) for the year		(1,136,369)	(5,598)

Statement of total recognised gains and losses

for the year ended 31 December 2004

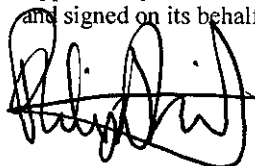
There are no recognised gains or losses in the period other than as stated above.

Balance sheet

at 31 December 2004

	Notes	2004 €	2003 €
Fixed assets			
Tangible fixed assets	7	37,094,572	172,073
Investments	8	14,605,890	-
		<u>51,700,462</u>	<u>172,073</u>
Current assets			
Debtors	9	12,565,928	-
Cash at bank and in hand		6,931,317	465,284
		<u>19,497,245</u>	<u>465,284</u>
Current liabilities			
Creditors: amounts falling due within one year	10	(12,714,877)	(268,828)
Net current assets		<u>6,782,368</u>	<u>196,456</u>
Total assets less current liabilities		<u>58,482,830</u>	<u>368,529</u>
Creditors: amounts falling due after more than one year	11	(50,562,436)	(376,525)
Provisions for liabilities and charges			
Deferred taxation	6	(1,164,498)	2,399
Decommissioning	13	(7,897,862)	-
		<u>(1,141,966)</u>	<u>(5,597)</u>
Capital and reserves			
Called-up share capital	14	1	1
Profit and loss account	15	(1,141,967)	(5,598)
Equity shareholders' funds	16	<u>(1,141,966)</u>	<u>(5,597)</u>

Approved by the board of directors on
and signed on its behalf by:



Director

17 March 2005

Notes to the financial statements

at 31 December 2004

1. Accounting Policies

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards. The financial statements have also been prepared in accordance with the Oil Industry Accounting Committee Statement of Recommended Practice – “Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities” with the exception that the company has elected not to disclose commercial reserve quantities.

Since the company's earning stream is in euros, the company has adopted the euro as its functional and reporting currency.

Group accounts

Group accounts are not submitted as the company is exempt from the obligation to prepare group accounts under Section 228(1) of the Companies Act 1985. The results of subsidiary undertakings are dealt with in the consolidated accounts of the ultimate parent undertaking, CH4 Energy Limited, a company registered in England and Wales. The accounts present information about the company as an individual undertaking and not about the group

Turnover

Turnover represents amounts invoiced to third parties net of VAT and other sales related taxes in respect of liftings sold and processing tariff income.

Capitalised costs

The tangible fixed assets include 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 a field development approval has been granted, and capital expenditure incurred when a field is in production. Acquisition costs represent the cash value of the consideration inclusive of professional fees and costs incurred directly in relation to the acquisition.

Intangible fixed assets comprise costs relating to the exploration and appraisal of properties which the directors consider to be unevaluated until reserves are appraised as commercial, at which time they are transferred to tangible fixed assets. Where properties are appraised to have no commercial value, the associated costs are written off in the period in which the determination is made. All licence fees, geological and geophysical expenses are written off as incurred.

Depreciation is provided on all tangible fixed assets using the unit of production method based on proved developed gas reserves at the balance sheet date. When there is a change in the estimated total recoverable proved developed reserves of a field, that change is accounted for prospectively in the depreciation charge over the revised remaining reserves.

Decommissioning

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

Ceiling tests

An estimate of the discounted future net revenues is made where there are indicators of impairment and compared to the net capitalised expenditure held. To the extent that the carrying amount exceeds the estimate, the fixed asset is written down through the profit and loss account.

Notes to the financial statements

at 31 December 2004

Overlifts and underlifts

The company values overlifts and underlifts of gas and condensate production compared to its entitlement at market value.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. All exchange differences are included in the profit and loss account.

Taxation

UK tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less, tax, with the following exceptions:

- Provision is made for gains on disposals of assets that have been rolled over into replacement assets only where there is a commitment to dispose of the replacement assets;
- Provision is not made for the remittance of a subsidiary, associate or joint venture's earnings that would cause tax to be payable where no commitment has been made to the remittance of the earnings; and
- Deferred tax assets are recognised to the extent that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a discounted basis at the tax rates that are expected to apply in periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The company does not provide for deferred petroleum revenue tax where a field is not expected to be accountable to any material degree for such tax.

Capital instruments

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if they are not included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

2. Operating profit

Operating profit is stated after charging:

	2004	2003
	€	€
Audit Fees	32,625	2,838
Depreciation of tangible fixed assets	3,994,618	-

Notes to the financial statements

at 31 December 2004

3. Net interest receivable/(payable)

	2004 €	2003 €
Foreign exchange	6,381,116	-
Interest receivable	216,422	-
Bank charges	(31,883)	-
Unwinding of discount in relation to decommissioning provision	(234,992)	-
Interest payable on loans	(9,760,070)	(5,159)
	<u>(3,429,407)</u>	<u>(5,159)</u>

4. Directors' remuneration

The directors did not receive any remuneration, taxable benefit or pension contribution in respect of their services to the company during the year.

5. Staff costs & pension arrangements

There were no staff costs incurred during the period. The average number of persons employed during the period was three and they were all directors. The company does not operate any defined benefit schemes and does not make any contributions on behalf of employees.

6. Tax on profit on ordinary activities

(a) The tax charge is made up as follows:

	2004 €	2003 €
UK Corporation tax on profits for the period	(138,850)	-
Total current tax (note 6(b))	<u>(138,850)</u>	<u>-</u>
Deferred taxation:		
Origination and reversal of timing differences	59,256	(2,399)
Change in discount	1,107,641	-
Deferred tax (note 6(c))	<u>1,166,897</u>	<u>(2,399)</u>
Tax charge/(credit) on profit on ordinary activities	<u>1,028,047</u>	<u>(2,399)</u>

Notes to the financial statements

at 31 December 2004

(b) Factors affecting the current tax charge:

The tax assessed on the profit on ordinary activities for the year is greater than the standard rate of corporation tax applicable to oil and gas exploration companies in the UK of 40% (2003 - 30%). The differences are reconciled below:

	2004 €	2003 €
(Loss) on ordinary activities before taxation	(108,322)	(7,997)
(Loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 40% (2003: 30%)	(43,329)	(2,399)
Factors affecting the charge:		
Capital allowances (greater) than depreciation	(9,598,984)	-
Double tax relief on foreign dividend	(800,000)	-
Current year tax losses not utilised	10,259,582	-
Charge on non-ring-fence losses	43,881	-
Total current tax (credit) for the year (note 6(a))	(138,850)	(2,399)

(c) Analysis of deferred taxation:

	2004 €	2003 €
Accelerated capital allowances	12,960,313	-
Decommissioning	(3,159,145)	-
Unutilised tax losses	(9,744,311)	(2,399)
Undiscounted provision for deferred tax	56,857	(2,399)
Discount	1,107,641	-
Discounted provision/(asset) for deferred taxation	1,164,498	(2,399)
(Asset) at start of period	(2,399)	-
Deferred tax charge/(credit) in profit and loss account for period (note 6(a))	1,166,897	(2,399)
Provision/(asset) at end of period	1,164,498	(2,399)

Notes to the financial statements

at 31 December 2004

7. Tangible fixed assets

	<i>Payments on account</i>	<i>Fields in production</i>	<i>Total</i>
	€	€	€
Cost:			
At 1 January 2004	172,073	-	172,073
Transfers	(172,073)	172,073	-
Additions	-	40,917,117	40,917,117
Disposals	-	-	-
At 31 December 2004	-	41,089,190	41,089,190
Deprecation:			
At 1 January 2004	-	-	-
Charge for the period	-	3,994,618	3,994,618
Disposals	-	-	-
At 31 December 2004	-	3,994,618	3,994,618
Net book value:			
At 31 December 2004	-	37,094,572	37,094,572
At 31 December 2003	172,073	-	172,073

8. Investments

	2004	2003
	€	€
Shares in group undertakings	14,605,890	-

On 19 May 2004, the company completed the acquisition of 100% of the issued share capital of CH4 DMF Limited (formerly Eni DMF Limited) and CH4 Nederland BV (formerly Eni Nederland BV).

At 31 December 2004, the principal subsidiary undertakings of CH4 Limited which were all wholly owned were:

	Country of incorporation	Main activity
CH4 DMF Limited	UK	Gas exploration and production
CH4 Nederland BV	Netherlands	Gas exploration and production

Notes to the financial statements

at 31 December 2004

9. Debtors

All amounts falling due within one year:

	2004	2003
	€	€
Trade debtors	2,149,382	-
Amounts owed by group undertakings	3,594,700	-
Prepayments	312,059	-
Other debtors	668,818	-
Stock underlift	5,840,969	-
	<u>12,565,928</u>	<u>-</u>

10. Creditors:

All amounts falling due within one year:

	2004	2003
	€	€
Current instalments due on loans to group undertakings	9,151,832	-
Amounts owed to group undertakings	289,635	-
Accruals and other creditors	3,273,410	268,828
	<u>12,714,877</u>	<u>268,828</u>

11. Creditors:

All amounts falling due after more than one year:

	2004	2003
	€	€
Amounts owed to group undertakings	1,326,319	-
Loans	49,236,117	376,525
	<u>50,562,436</u>	<u>376,525</u>

12. Loans

	2004	2003
	€	€
Amounts falling due:		
In one year or less or on demand	9,151,832	-
In more than two years but not more than five years	2,400,000	-
In more than five years	48,750,870	1,902,157
Less: unamortised expenses	(1,914,753)	(1,525,632)
	<u>58,387,949</u>	<u>376,525</u>
Less: included in creditors: amounts falling due within one year	(9,151,832)	-
	<u>49,236,117</u>	<u>376,525</u>

Notes to the financial statements

at 31 December 2004

Details of loans not wholly repayable within five years are as follows:

	2004	2003
	€	€
US\$ 61,500,000 loan at 13.29% per annum, repayable in full on 15 December 2010	43,385,673	376,525
€ 6,000,000 loan at 25% per annum, repayable in full by 1 July 2012	5,850,444	-
	<u>49,236,117</u>	<u>376,525</u>

The US dollar loan is from a sister subsidiary, CH4 Finance B.V., a company incorporated in the Netherlands, which has issued a number of loan notes to funds managed by TCW. US dollar and euro interest is accrued on the loan at a weighted average rate of 13.29% per annum. The euro loan is from the immediate parent company CH4 Holdings Limited which has passed through a loan that the ultimate parent company CH4 Energy Limited received from 3i. Both loans were made to finance the Markham acquisition. CH4 Limited has given fixed and floating charges over its assets to Deutsche Bank AG acting as collateral agent for TCW, CH4 Finance B.V., the note holders, and 3i.

13. Decommissioning

	€
Balance as at 1 January 2004	-
Addition	7,662,870
Unwinding of discount	234,992
Balance as at 31 December 2004	<u>7,897,862</u>

The estimated cost of decommissioning at the end of the producing lives of North Sea fields is based upon engineering estimates and expert reports. Provision is made for the estimated decommissioning costs at the balance sheet date, discounted at a rate of 2.5% to the present value.

14. Share capital

<i>Authorised</i>	2004	2003
	£	£
1,000 ordinary shares of £1 each	1,000	1,000
	<u>1,000</u>	<u>1,000</u>
<i>Allotted, called up and fully paid</i>	€	€
1 ordinary shares of £1 each	1	1
	<u>1</u>	<u>1</u>

Notes to the financial statements

at 31 December 2004

15. Reserves

	<i>Profit and loss account €</i>
At 1 January 2004	(5,598)
(Loss) for the year	(1,136,369)
At 31 December 2004	<u>(1,141,967)</u>

16. Reconciliation of movements in shareholders' funds

	<i>2004 €</i>	<i>2003 €</i>
(Loss) for the year	(1,136,369)	(5,598)
Opening shareholders' funds	(5,597)	1
Closing shareholders' funds	<u>(1,141,966)</u>	<u>(5,597)</u>

17. Cash flow

In accordance with Financial Reporting Standard No. 1 (FRS 1) the company is exempt from the requirement of FRS 1 to provide a cash flow statement as a consolidated statement will be given in the financial statements of the company's ultimate parent company CH4 Energy Limited.

18. Subsequent events

The directors are not aware of any subsequent events that require disclosure.

19. Ultimate parent company

The directors regard CH4 Energy Limited incorporated in England and Wales as the ultimate parent company.