



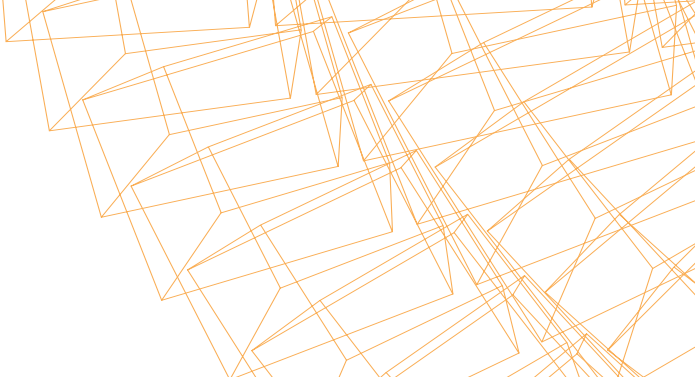


“The first half of 2005 highlighted the impact of Venture’s North Sea development programme. This year, production has risen threefold from 13,300 boepd in the first quarter to 40,000 boepd currently, with further growth anticipated for the remainder of this year and into 2006. Both of our key 2005 operated projects, Annabel and Gadwall, came on stream and are producing ahead of expectations. North Sea gas production, now represents over half of Venture’s total production, and is set to increase further in the near term. As a result, Venture is well placed to benefit from the current tight UK gas market.

Our results for the first half of 2005 reflect the strong underlying operating performance of Venture’s business, which was in line with expectations. However, our interim accounts were affected by issues relating to the introduction of IFRS and other non-cash adjustments. The effect of the majority of these is expected to unwind in the second half of the year.

With a broad and diversified asset base, an attractive development inventory and the key long term contracts in place, Venture is set to continue its current growth from delivery of its development programme for the foreseeable future.”

Mike Wagstaff
Chief Executive



Operational Highlights

Record production levels - average production up 35% to 24,255 boepd (2004 - 17,969 boepd)

52% of total first half production North Sea gas - over 100 MMcfpd (16,700 boepd) of new gas production added already in 2005

Two new operated developments (Annabel and Gadwall) brought on stream - production from both exceeds expectations

UKCS development programme on track - currently operating three drilling units

Three North Sea acquisitions - adding to long term development inventory

Withdrawal from Trinidad agreed - Venture will be a pure UK North Sea company

Financial Highlights

Strong operating performance in line with expectations

Revenue up 59% to £56.1 million (2004 - £35.2 million) - driven by higher production levels and commodity prices

Underlying operating performance up 118% to £20.1 million (2004 - £9.2 million)

Pre-tax loss of £5.9 million (2004 - pre-tax profit of £5.8 million) impacted by non-cash items:

- IFRS - £16.0 million
 - Non-cash foreign currency loss - £6.0 million
-

Total capital expenditure (including acquisitions) of £82.3 million (2004 - £10.7 million)

Chairman's and Chief Executive's Statement

During the first half of 2005 Venture achieved record production levels driven by its North Sea development programme. Production levels rose from an average of 13,300 boepd in the first quarter to in excess of 35,000 boepd in June. This first half growth resulted from restoration of 'Trees' production in February and the start of production from two new operated field developments, Annabel and Gadwall, in April.

Venture's current North Sea development programme, which commenced during 2004, is on track, with the achievement of its key milestones during the first half of 2005. Ongoing development activity during the remainder of this year and into 2006 is expected to deliver production growth into 2007. As a result of three acquisitions already announced in 2005 the Company also made important progress in expanding its undeveloped inventory in order to provide longer-term growth opportunities for 2007 and beyond. Venture's recently announced withdrawal from operations in Trinidad will enable the Company to direct its resources to the growth of its core business and will make Venture a pure UK North Sea focused development and production company.

Average daily production for the first half of the year increased by 35% to 24,255 boepd (first half 2004 - 17,969 boepd). Revenue increased by 59% to £56.1 million as a result of increased production volumes and higher realised commodity prices. However, statutory pre-tax profit fell to a loss of £5.9 million (£5.8 million profit in 2004). Financial operating performance was in line with expectations but was impacted by non-cash accounting adjustments related to the adoption of International Financial Reporting Standards ("IFRS") and foreign exchange movements totalling £22.0 million. Adjusting for these items, Venture delivered an underlying operating profit of £20.1 million - a 118% increase over the prior period (2004 - £9.2 million). The effect of the majority of these is expected to unwind in the second half of the year and Venture remains on track to deliver a step change in production, earnings and cashflow for the full year.

Operational Highlights

Since its entry into the UK sector of the North Sea just over five years ago, Venture has built a large and diversified asset base. During this time it has made over 20 acquisitions and drilled or worked-over more than 20 wells. In the North Sea, the Company currently has interests in a total of 31 oil and gas fields, of which 21 are operated by Venture. 11 fields are in production; five under development and 15 are development candidates. In addition, pending completion of the proposed sale, Venture has interests in five operated producing fields in Trinidad. The Company is approximately 18 months into its major North Sea development programme across all of the Company's three production hubs, 'A' Fields, 'Trees' and GKA.



UKCS - 'A' Fields

Venture's southern North Sea ("SNS") gas production hub, 'A' Fields, is now the Company's single largest contributor. During the first half of 2005, the 'A' Fields hub produced at an average rate of 12,546 boepd or 52% of the Group total (8,110 boepd and 45% in the first half of 2004). This increase in production was due to the Annabel field, which came on stream in early April, partially offset by an unanticipated 14 day shut-down of the third-party operated LOGGS gathering system in February.

The Annabel field (Venture operator - 100%) was successfully brought on stream in early April as a single sub-sea well tied back to the Audrey field production facilities. Since start-up, the Annabel reservoir has performed better than expected, which has enabled Venture to drill a second production well in the field. Since the end of the period, this well has been drilled, completed and tested at a flow rate of over 50 MMcfpd. The well is currently awaiting final sub-sea tie-in, which is anticipated for early in the fourth quarter.

During 2005, the Audrey field (Venture operator - 100%) has seen the benefit of the 2004 well intervention programme and the new commercial arrangements put in place last year, which resulted in steady production from the field. A sidetrack of an existing production well was drilled into the northwestern part of the field during the first half of 2005. This sidetrack, which targeted a location identified as a result of the geophysical re-mapping of the field carried out last year, encountered a more depleted reservoir than anticipated.

Production volumes from the Ann and Alison fields (Venture operator - 100%) have been in line with expectations during 2005. Venture is planning to drill an in-fill well in the southeastern part of the Ann field, which is not believed to be being effectively drained by existing wells. This well is scheduled to be drilled during the fourth quarter of 2005 and is expected to come on stream in early 2006.

Development activity on the multi-field Saturn project (ConocoPhillips operator - Venture 22%) continued during the first half of 2005 with the construction and installation of the production platform. Subsequent to the end of the period, the first production well was drilled and brought on stream in early September. Production is expected to rise from initial levels of around 70 MMcfpd to 170 MMcfpd during the first half of 2006, with the drilling of two additional production wells.

The Saturn partners have also approved the joint development of the Mimas field (ConocoPhillips operator - Venture 15%) as a satellite tie-back to the main Saturn field facilities. The operator is anticipating receiving regulatory approval for development of this field during 2005, with first gas production anticipated for fourth quarter 2006.

Chairman's and Chief Executive's Statement *continued*

UKCS - 'Trees'

During the first half of 2005, 'Trees' produced at an average rate of 6,914 boepd or 28% of total Group production (2004 - 7,211 boepd, 40%). This decrease was a result of the 'Trees' production being shut-in during the first part of the year, partially offset by the increased ownership of 100% of 'Trees' for the period.


All three producing 'Trees' fields, Birch, Larch and Sycamore, were shut-in in late November 2004 following a gas leak in a service line beneath the Marathon operated Brae 'A' platform. Investigative work was completed and a solution implemented that enabled production to recommence in early February. This resulted in a deferral of production during the first half of the year and material unanticipated one-off expenditures to restore production.

Production from Birch (Venture operated - 100%) continued to be an important contributor to the Group. During February, Venture conducted a workover on the principal Birch production well, Z-3, which significantly boosted production. Production performance from Larch (Venture operated - 100%) was in line with expectations and in August, Venture successfully completed a workover on the Larch production well, Z-6, to enhance gas lift performance.

The drilling of the first of two planned water injection wells, SW-1, on the Sycamore central part of the field (Venture operated - 100%), was completed in January. The well penetrated the reservoir section but proved not to be in communication with the production well, SP-3. As a result, the well has been suspended for future re-use and is anticipated to be sidetracked to a new bottom hole location during 2006. The second central Sycamore water injection well, SW-2, was spudded in August and is planned to provide pressure support for the other central Sycamore production well, SP-2.

During the first half of 2005, the third phase of the Sycamore project, development of the southern part of the Sycamore field, was accelerated into 2005 after Venture entered into commercial arrangements with Canadian Natural Resources Limited ("CNRL"), to drill an extended reach production well from CNRL's Tiffany platform. This should result in cost and time savings over the original plan to drill the well as a sub-sea tie-back to the existing 'Trees' infrastructure. Recently, Venture commenced drilling the challenging South Sycamore extended reach development well, SP-4, using the Tiffany platform rig. Completion of the well is anticipated in the fourth quarter of 2005.

In addition, Venture has also reached agreement with CNRL to drill the Ash exploration from the Tiffany platform well during 2006. This low risk prospect is located in the southern part of Block 16/12a and, in the event of success, Venture has also reached agreement on terms to produce the field utilising Tiffany's production and export facilities.



UKCS - GKA

During the first half of 2005, the Greater Kittiwake Area (“GKA”) produced at an average rate of 3,612 boepd or 15% of total Group production (2004 - 1,236 boepd and 7%). The near trebling of production during the period resulted from the contribution of the Gadwall field, which came on stream in mid-April, and production from Mallard, which was shut-in during the first half of 2004.

Production from the Kittiwake field (Venture operator - 50%) was in line with expectations for the first half of 2005. The Gadwall field (Venture operator - 50%) has been developed as a sub-sea satellite to the Kittiwake field and shares the Mallard sub-sea production facilities. The Gadwall field was brought on stream in mid-April and since then has performed in excess of expectations. This has enabled the field partners to commit to the drilling of a water injection well on the field, which is expected to be drilled during 2006.

Venture commenced the redevelopment of the Mallard field with the drilling of a new water injection well to provide effective pressure support for the Mallard production well. This operationally challenging well was successfully completed and tied-in during August and over 25,000 bpd of water is currently being injected into the Mallard reservoir.

The GKA partners approved the development of the Goosander field (Venture operator - 50%), as a sub-sea tie-back to Kittiwake. In keeping with Venture’s risk mitigation strategy, Goosander will be developed using a flexible phased approach. The initial production well will be tied-back to Kittiwake and, subject to production performance, a water injection well will be drilled subsequently. In addition, the sub-sea facilities have been designed to give the flexibility to tie-in future potential developments in the GKA area.

Venture conducted a review of the long-term export alternatives to replace the ageing Kittiwake loading buoy and export tanker. This study concluded that replacement with an alternative tanker based offloading system represented the best long term export solution for the area. Venture has been able to identify a used single anchor loading (“SAL”) system, which the Company is re-deploying from its existing location to GKA during the third quarter of 2005. Re-use of existing equipment will result in material savings, both in time and cost, over construction and installation of a brand new SAL system and should materially improve operational performance during the 2005/6 winter.

Chairman's and Chief Executive's Statement *continued*

UKCS - Other

During the first half of 2005, Venture has made substantial progress in the development of Chestnut and Pilot, its two principal undeveloped assets in the UK outside its three production hubs.

A development strategy for the Chestnut field (Venture operator - 69.75%), utilising a single producer/injector pair was agreed with field partners. The most economically attractive option is for a stand-alone development using an innovative, low cost floating production and storage system. A life of field contract has been agreed with Sevan Marine, the developer of the SSP floating production system. Work to bring this development solution to project sanction and regulatory approval is planned for the second half of 2005 with a target of first oil production in 2007.

The Pilot field (Venture operator - 47.5%), is a shallow heavy oil field located southwest of the Kittiwake field. Field development economics have been substantially improved by recent trends in energy prices. In response to this, further technical work was undertaken in 2004 to move this field towards possible development. Venture is planning to drill at least one low cost appraisal well in 2006 to prove the field's commerciality. The recent award to Venture of acreage adjacent to this field as part of the 23rd UKCS Licensing Round is expected to accelerate appraisal and development activity.


Trinidad

During the first half of 2005, production in Trinidad averaged 1,183 boepd or 5% of the Group total (2004 - 1,412 boepd and 8%). This reduction reflected natural decline from the assets and no investment activity.

During the period, Venture concluded a strategic review of its Trinidadian operations. As a result of their reduced materiality to the Group as a whole, the Board decided to withdraw from operations in Trinidad and during the first half of 2005 Venture reached agreement to sell its Trinidadian business to a local company, whilst retaining a 40% interest in the business. An Extraordinary General Meeting of the Company has been called for 4 October 2005 to approve this transaction, the completion of which is expected during the fourth quarter of 2005.

Corporate and Business Development

Venture's acquisition strategy has been to focus on the expansion of its three production hubs, building its gas business and acquiring the long-term development inventory to deliver production growth through 2007 and beyond. Despite the highly competitive acquisition



market in the North Sea, Venture has announced three acquisitions to date during 2005. These bring several operated field development opportunities and will materially increase Venture's longer-term development inventory.

In May, Venture announced the acquisition of a package of assets consisting of interests in seven undeveloped central North Sea oil and gas fields for a total consideration of up to \$18.75 million. In July, the Company announced the acquisition of additional interests in both the undeveloped Christian (oil) and Bligh (gas/condensate) discoveries. These fields are located immediately to the east of GKA and will help Venture expand this production hub.

In addition, during the period, Venture agreed to exchange its 12.5% non-operated interest in Block 16/13c in the 'Trees' area for a 33.3% interest in several part blocks containing the Channon gas prospect in the Southern North Sea, on which an exploration well is planned to be drilled. This low risk prospect, located within Blocks 47/8c and 47/3h, is planned to be drilled during 2006. Since the end of the period, Venture has agreed to increase its interest further in the Channon prospect to approximately 53% and become the operator.

As a development and production operator, Venture recognises the importance of access to equipment and services to its ability to deliver its business objectives. During 2004, Venture anticipated the current oilfield and equipment service market constraints and put in place a number of long-term contracts with key suppliers to assure its future business delivery. Principally, during 2005, Venture has extended the existing contract with Noble Drilling on the Julie Robertson jack-up drilling rig into 2007 and put in place a multi-year contract with Subsea 7 for all of Venture's sub-sea construction, engineering and maintenance work.

Board and Management

Marie-Louise Clayton joined the Venture Board in February 2005 as Finance Director, bringing extensive experience of financial management within larger businesses than Venture, which will benefit the Company during the current period of rapid growth. Marie-Louise has already made a major contribution to the strengthening of Venture's management team.

During April, Alan Jones joined Venture's Board as a non-executive Director and sits on both the Audit and Remuneration Committees. Alan brings extensive experience of project development and production operations from his more than 30 year career with BP in all parts of the world. Most recently, Alan has worked with UKOOA on its restructuring and has extensive experience of the regulatory and commercial environment in the UKCS.

Chairman's and Chief Executive's Statement *continued*

Current Trading and Outlook

Production levels across the Group remain broadly in line with expectations and production is anticipated to show a further increase during the fourth quarter of 2005. Current production levels are approximately 40,000 boepd, including 1,000 boepd in Trinidad.

Overall, our development programme is on track to meet our growth targets for 2005 and beyond. Attainment of Venture's 2005 production targets remains dependent on attaining some important development milestones between now and the end of the year. Achievement of the Company's production targets is subject to operational and other project risks. Some of these, such as the weather, are beyond our direct control. The majority of these delivery risks relate to exact project timing rather than fundamental value. Of these, the timing of bringing onstream the South Sycamore development well SP-4 now remains the biggest single factor in terms of delivery of Venture's production targets for 2005.

During the second half of 2005, we anticipate seeing a significant improvement in Venture's financial results resulting from three factors; increased production volumes, a reduction in the proportion of production hedged at prices substantially below current market levels and falling unit lifting costs. We also anticipate seeing an unwinding of the majority of the effects of one-off accounting charges which have impacted the first half of 2005's financial performance.

Summary

Overall, the first half of 2005 represented another very successful period of growth for Venture, which is anticipated to continue through the remainder of 2005 and beyond. With a broad and diversified asset base, an attractive development programme and the key contracts in place to enable the Company to deliver its development programme, we remain confident of the outlook for Venture's business.

John Morgan
Chairman

Mike Wagstaff
Chief Executive

22nd September 2005

Financial Review

Venture's interim results have been impacted by a number of issues that will be explained in this section. The underlying financial performance of the business has been in line with expectations for the half-year but it has been obscured in particular by accounting changes and a non-cash foreign exchange loss.

The Group will apply IFRS for the year ended 31 December 2005 and is required to restate comparative figures for 2004. The Group's date of transition to IFRS is 1 January 2004 and its first reporting period is for the six months ended 30 June 2005. The interim financial statements contain the consolidated financial results for the six months ended 30 June 2005, comparatives for the six months ended 30 June 2004 and for the year ended 31 December 2004, under the basis of preparation set out in Note 1 to the statements.

The adoption of IFRS has a material impact on both the Balance Sheet and Profit and Loss Account. The first section of this report explains those effects on the results for the first six months of 2005 and the second section focuses on the operating performance of the business if IFRS adjustments are excluded.

Impact of IFRS

There are a number of new Accounting Standards applicable to these statements, which Venture has fully reviewed. Of these, there are three standards that have a major bearing on the interim statements, as shown below:

- IFRS 2 - Share-based payments
- IAS 12 - Income Taxes
- IAS 39 - Financial Instruments: Recognition and Measurement

Adjustment of (Loss)/Profit from Ordinary Activities to Exclude IFRS

| | 30 June 2005 £million | Six months ended 30 June 2004 £million | Year ended 31 December 2004 £million |
|---|--------------------------|--|--|
| (Loss)/profit for the period from ordinary activities | (2.8) | 3.3 | (6.9) |
| IFRS 2 – Share-based payments | 1.7 | 0.7 | 1.4 |
| IAS 12 – Income Taxes | 1.6 | 0.6 | 1.6 |
| – Depreciation | (1.6) | (0.6) | (1.6) |
| IAS 39 – Derivative instruments | 7.5 | - | - |
| Profit/(loss) for the period from ordinary activities excluding IFRS adjustments | 6.4 | 4.0 | (5.5) |

Financial Review *continued*

Summarised Analysis of IFRS Adjustments on the Balance Sheet


| | As at 30 June 2005 £million | As at 30 June 2004 £million | As at 31 December 2004 £million |
|----------------------------------|--|--|--|
| Property, plant and equipment | 20.3 | 9.7 | 20.5 |
| Provisions | (2.3) | (0.6) | (1.1) |
| Deferred tax asset/(liabilities) | 11.5 | (8.9) | (19.1) |
| Derivative financial instruments | (71.5) | - | - |
| Adjustment to Net Assets | (42.0) | 0.2 | 0.3 |

Detailed reconciliations relating to 2004 are included in Note 8 of Notes to the Interim Accounts.

IFRS 2 requires all share-based transactions to be fair valued and a charge made to the Profit and Loss to reflect the 'cost' of their provision. Venture has a number of share-based compensation schemes and in this period their collective impact is to reduce profit after tax by £1.7 million. In the Balance Sheet, under Shareholders' equity, a reserve is established to recognise the equity component of the transaction. Any component of the transaction that may be cash settled is included in provisions, offset by a deferred tax asset. There is no cash impact in the period.

IAS 12 establishes principles for accounting for current and deferred income taxes. IAS 12 requires deferred taxation to be calculated by reference to temporary differences, which are determined by reference to the tax base of an asset relative to its carrying amount in the financial statements. Under the requirements of IAS 12, Venture has recorded deferred tax liabilities to reflect temporary differences related to certain of its previous acquisitions. As a result, the fair values of these assets have been restated in accordance with IFRS 3 'Business Combinations' to record the deferred tax 'gross-up'. On the Balance Sheet, the increase to property, plant and equipment of £20.3 million is offset by an increase in deferred tax liabilities. In the current period Profit and Loss account, the increase in the charge for depreciation of £1.6 million is offset by an equal and opposite tax credit, producing no net effect on profit after tax. There is no cash impact in the period.

IAS 39 is a broad standard that is currently the subject of much comment and interpretation. It applies to all Venture's oil and gas hedging contracts. The detailed accounting rules and subsequent treatment is complex and is not covered here. In summary, the rules revolve around the 'effectiveness' of a hedge, determined by various indices. If a hedge can be shown to be 'effective' then only the Balance Sheet is impacted. However if a hedge cannot be shown to be 'effective', hedge accounting cannot be used and the contracts have to be



'marked to market' at the end of each reporting period, with any resultant profit or loss over the remaining period of the contract being charged to the Profit and Loss Account. This treatment can create extreme volatility in charges against profits.

In summary, Venture's oil hedges meet the rules that allow their values to be reflected in the Balance Sheet, whereas the existing gas hedge contracts do not meet these rules and are reflected in the Profit and Loss Account. The gas hedges were taken out before IFRS in the early days of the gas market when the indices by which IAS 39 measures 'effectiveness' were not fully in place. The overall effect of this is to reduce Profit after Tax for the period by £7.5 million and net assets by £42.9 million. The Profit and Loss charge represents the theoretical cost of buying out the gas hedges at market prices prevailing on 30 June 2005. As a going concern, this is not considered by Venture to be a realistic representation of its ongoing operations so it has been highlighted separately. As 2005 progresses, the effect of this hedge diminishes such that, by the end of the year, the Profit and Loss impact will be minimal.

Venture's Balance Sheet demonstrates the potentially adverse effect of the implementation of IAS 39 on the Net Assets of a business. The Standard requires Net Assets to include the cumulative notional 'cost' calculated at 30 June 2005 of terminating all hedges at that date, in Venture's case an amount of £71.5 million shown as a liability, which is offset by a deferred tax asset. £12.6 million of this is attributable to the gas hedges shown in the Profit and Loss, which will substantially unwind by the end of the year. The other side of this entry is the creation of a 'negative' Cashflow reserve, and a reduction in the Profit and Loss Account. As the gas is produced and sold, the value achieved will be reported in the normal way through the Revenue line. The Balance Sheet entries under IAS 39 will continue to vary with commodity price movements, introducing a degree of volatility to the accounts.

On an ongoing basis, Venture will maintain its Hedging Policy. Normally and where appropriate, the Company may hedge up to 50% of proven production to protect cashflows against commodity price fluctuation and ensure the availability of funds to meet the capital expenditure requirements of the development programme. As far as possible, it is Venture's intention to meet the hedge accounting requirements of IAS 39 such that the accounting impact of hedges is restricted to the Balance Sheet, thus minimising the volatility in the Profit and Loss Account that can be created by marking to market. In future, in common with all companies that have hedge contracts in place, the Balance Sheet will continue to carry a large cashflow reserve representing the cost/benefit of open hedging transactions in place at the Balance Sheet date. There is no cash effect.

The material impacts of the adoption of IFRS are covered above and it is important to understand their effect on the Financial Statements of Venture. The following section focuses on the operational financial performance of the business.

Financial Review *continued*

Financial Review of Operations

Revenue of £56.1 million for the six months ended 30 June 2005 was 59% higher than that achieved in the same period in 2004, reflecting a 35% increase in production to 24,255 boepd and the benefit of higher commodity prices. Despite this, an operating loss of £1.9 million was reported, principally due to the adoption of IFRS, as shown above, and non-cash temporary foreign exchange charges. The table below identifies the effect of each of these elements has on the reported profit of the Group, eliminating similar charges included in the comparative period for 2004. On a like-for-like basis an underlying operating profit of £20.1 million was generated in 2005 (2004 £9.2 million), an increase of 118%.

Analysis of Underlying Operating (Loss)/Profit

| | 30 June 2005 £million | Six months ended 30 June 2004 £million |
|------------------------------------|--------------------------|--|
| Operating (loss)/profit | (1.9) | 8.3 |
| IFRS impact | 16.0 | 1.4 |
| Operating profit pre-IFRS | 14.1 | 9.7 |
| Foreign currency loss/(gains) | 6.0 | (0.4) |
| Other | - | 0.1 |
| Underlying operating profit | 20.1 | 9.2 |

The foreign currency loss is a non-cash item resulting from the strengthening of the US dollar against sterling during the first half of this year. This loss was generated by the revaluation of Venture's dollar based loan on 30 June 2005. During the second half of the year the loan was repaid then drawn down in sterling realising an exchange gain that eliminates this loss. As the loan is now sterling denominated there will be no further revaluation adjustments generated from this source.

After adjusting for these non-cash items Venture made an underlying Operating Profit of £20.1 million, including the benefit of the settlement of the Brae riser insurance claim for business interruption and damage.

Finance expenses for the period totalled £4.7 million, an increase of £2.0 million over the first half of 2004 made up of bank interest and finance expense related to decommissioning liabilities. The increase in bank interest reflects the higher utilisation of the bank facility from £31 million at 30 June 2004 to £150 million at 30 June 2005. The increase in funding has been driven by the asset acquisitions made and planned capital development program.

This is partially offset by a £1.1 million credit derived from the capitalisation of interest on development projects. In addition, Gadwall and Annabel coming onstream have increased the non-cash finance expense on future decommissioning liabilities by £0.5 million to a total of £1.8 million.

| Key Statistics (Including IFRS where Applicable) | June 2005 £/boe | June 2004 £/boe |
|---|----------------------------|----------------------------|
| Effective realised price (See Glossary) | 14.09 | 12.75 |
| Lifting costs (see Glossary) | 6.10 | 6.42 |
| Depreciation, depletion and amortisation | 3.67 | 2.46 |

Venture achieved an average realised price of £14.09/boe, an increase of 10% over 2004, reflecting the higher commodity prices offset by the large proportion of production volumes hedged at prices below market levels. The ability to fully benefit from the higher commodity prices was restricted by the loss of 'Trees' production due to the Brae riser leak until 4 February and 14 days lost gas production from 'A' Fields due to the LOGGS shutdown. In terms of production, gas accounted for 52% and oil 48%, whilst revenue was split 60% gas and 40% oil. The increased proportion of gas reflects the contribution of the Annabel project and the loss of production from 'Trees'. On average during the first half of the year 55% of Venture's actual production was hedged. This is higher than anticipated as a result of reduced production and is expected to fall to 45% in the second half of 2005.

As a result of increased production volumes across Venture's three production hubs, lifting costs have decreased by 5% from £6.42/boe to £6.10/boe. Excluding the Brae shut down costs (£3.5 million), lifting costs were £5.31 per boe, a reduction of 17% from 2004. This is in line with expectations and demonstrates the benefit of increased production volumes through the fixed cost infrastructure.

The unit rate of depreciation, depletion and amortisation has increased. This is a result of the IAS 12 charge of £1.6 million (2004 - £0.6 million) and the impact of bringing new projects onstream.

The effective tax rate for 2005 was 52% compared with 42% in 2004 and is deferred as a result of Venture's tax position. The deferred tax liability in the Balance Sheet at 30 June 2005 is £12.6 million (2004 - £27.5 million). The reduction is mainly due to the treatment of deferred tax on the hedging instruments.

Financial Review *continued*

Balance Sheet

Venture had fixed tangible assets of £335.9 million at the Balance Sheet date of 30 June 2005 (2004 - £198.3 million), reflecting asset acquisitions and continuing field developments during the last twelve months. The Balance Sheet shows a movement from net current assets of £9.4 million at 30 June 2004 to net current liabilities of £20.3 million at 30 June 2005. This change is predominantly attributable to IAS 39 causing a liability of £58.7 million to be included under current liabilities. Excluding IAS 39, net current assets would be £38.4 million (2004 - £9.4 million) and net assets £124.6 million (2004 - £102.5 million). The increase in debtors and creditors reflects the growth in the business and the change from a crude oil overlift to an underlift position. "Assets held for sale" in current assets and current liabilities refer to Venture's investment in Trinidad, which is in the process of being sold.

A new banking facility with Royal Bank of Scotland was concluded on 22 July providing a debt capacity of £325 million. It is anticipated that this facility will be syndicated shortly. On 26 July £29 million was raised through the successful placing of convertible bonds.

Reserves


Apart from the first six months of production, total proven and probable oil and gas reserves remain unchanged from 31 December 2004. No revisions have been made since the end of 2004 pending the outcome of the Company's evaluation of recent acquisitions and development activities.

Cashflow

Cashflow generated from operating activities was £3.9 million (2004 - £13.0 million) for the first six months. A negative working capital movement of £25.0 million was accounted for by the Brae riser failure and the need to post cash margins to the hedge counter-party to cover the increased margin of market price of oil over the hedged price. In addition, debtors increased as a result of new developments coming onstream and the increase in creditors reflected the underlying growth in the Company's operations. The net cash used in the business has been financed by increased borrowings. The larger debt capacity will not only allow the business to grow but will support the continued acquisition programme.

Summary

Overall, the presentation of Venture's interim results has been affected by the adoption of IFRS and a foreign currency charge that has subsequently been reversed. Once these items



are removed Venture's financial performance is in line with its production increases and expectations.

As 2005 continues, Venture expects to see the financial benefit of three factors. First, increased production volumes will generate stronger cashflows and profitability. Second, on the assumption that commodity prices remain strong for the second half of the year and with a greater proportion of production being unhedged, the Company should be able to deliver more of the revenues achieved to profit and cashflow. Third, lower unit lifting costs will generate greater cashflow per unit of production.

The benefit of these factors combined with the reversal during the second half of the negative foreign currency charge (£6.0 million) and a significant unwinding of the effect of the mark to market gas hedges (£7.5 million), provide a strong base from which to achieve Venture's full year expectations.

Marie-Louise Clayton
Finance Director

22 September 2005

Independent Review Report to Venture Production plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2005, which comprises the consolidated interim balance sheet as at 30 June 2005 and the related consolidated interim statements of income, cashflows and statement of recognised income and expense for the six months then ended, and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' Responsibilities


The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

As disclosed in Note 1, the next financial statements of the Group will be prepared in accordance with accounting standards adopted for use in the European Union. This interim report has been prepared in accordance with the basis set out in Note 1.

The accounting policies are consistent with those that the directors intend to use in the next annual financial statements. As explained in Note 1, there is, however, a possibility that the directors may determine that some changes are necessary when preparing the full annual financial statements for the first time in accordance with accounting standards adopted for use in the European Union. The IFRS standards and IFRIC interpretations that will be applicable and adopted for use in the European Union at 31 December 2005 are not known with certainty at the time of preparing this interim financial information.

Review Work Performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company for the purpose of



the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, 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.

Review Conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

PricewaterhouseCoopers LLP
Chartered Accountants

22 September 2005

Notes:

The maintenance and integrity of the Venture Production plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Group Profit and Loss Account

For the six months ended 30 June 2005

| | Notes | Unaudited six months ended | | Unaudited Year ended |
|---|-------|----------------------------|----------------------|--------------------------|
| | | 30 June 2005 £000 | 30 June 2004 £000 | 31 December 2004 £000 |
| Revenue | 2 | 56,097 | 35,190 | 81,451 |
| Cost of sales before exceptional item | | (45,029) | (25,558) | (63,146) |
| Exceptional item | 3 | - | (3,037) | (18,052) |
| Cost of sales | | (45,029) | (28,595) | (81,198) |
| Gross profit | 4 | 11,068 | 6,595 | 253 |
| Administrative expenses | | (4,459) | (1,882) | (4,388) |
| (Loss)/gain on foreign exchange | | (5,967) | 425 | 2,579 |
| Change in fair value of derivative financial instruments | 5 | (12,588) | - | - |
| Other operating income | 5 | 10,079 | 3,153 | 3,317 |
| Operating (loss)/profit | | (1,867) | 8,291 | 1,761 |
| Finance income | | 652 | 186 | 476 |
| Finance expense | | (4,688) | (2,713) | (5,764) |
| (Loss)/profit before taxation | | (5,903) | 5,764 | (3,527) |
| Taxation | 6 | 3,096 | (2,438) | (3,367) |
| (Loss)/profit for the period from ordinary activities after taxation | | (2,807) | 3,326 | (6,894) |
| Earnings per Ordinary Share | | | | |
| Basic Earnings per Share | 7 | (2.3)p | 3.1p | (6.3)p |
| Diluted Earnings per Share | 7 | (2.3)p | 2.9p | (6.3)p |

All items dealt with in arriving at the loss for the period relate to continuing activities.

Statements of recognised income and expense

For the six months ended 30 June 2005

| | Unaudited six months ended | | Unaudited Year ended |
|--|----------------------------|--------------|----------------------|
| | 30 June 2005 | 30 June 2004 | 31 December 2004 |
| Notes | £000 | £000 | £000 |
| (Loss)/profit for the financial period | (2,807) | 3,326 | (6,894) |
| Change in fair value of derivative financial instruments | (31,871) | - | - |
| Total recognised (expense)/income for the period | (34,678) | 3,326 | (6,894) |

At 1 January 2005, a cashflow reserve of £38.4 million was established under the transitional arrangements of IAS 39.

Group Balance Sheet

As at 30 June 2005

| | Unaudited 30 June 2005 £000 | Unaudited 30 June 2004 £000 | Unaudited 31 December 2004 £000 |
|---|-----------------------------------|-----------------------------------|---------------------------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 335,909 | 198,260 | 283,350 |
| Current assets | | | |
| Inventories | 2,923 | 3,811 | 932 |
| Trade and other receivables | 62,356 | 15,855 | 29,890 |
| Assets held for sale | 21,908 | - | - |
| Income tax receivable | 1 | 57 | - |
| Cash and cash equivalents | 6,106 | 4,199 | 3,755 |
| | 93,294 | 23,922 | 34,577 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 49,902 | 14,483 | 40,267 |
| Assets held for sale | 5,028 | - | - |
| Derivative financial instruments | 58,693 | - | - |
| Income taxes payable | - | - | 74 |
| | 113,623 | 14,483 | 40,341 |
| Net current (liabilities)/assets | (20,329) | 9,439 | (5,764) |
| Non-current liabilities | | | |
| Borrowings | 150,566 | 31,272 | 64,499 |
| Deferred tax liabilities | 12,643 | 27,463 | 39,539 |
| Derivative financial instruments | 12,833 | - | - |
| Other non-current liabilities | 5,700 | 7,378 | 7,378 |
| Provisions | 52,144 | 39,100 | 48,707 |
| | 233,886 | 105,213 | 160,123 |
| Net assets | 81,694 | 102,486 | 117,463 |
| Shareholders' equity | | | |
| Ordinary shares | 490 | 433 | 490 |
| Share premium | 103,279 | 78,770 | 103,195 |
| Other reserves | 4,023 | 991 | 1,706 |
| Cashflow reserve | (35,363) | - | - |
| Retained earnings | 9,265 | 22,292 | 12,072 |
| Total shareholders' equity | 81,694 | 102,486 | 117,463 |

Group Cashflow Statement

For the six months ended 30 June 2005

| | Unaudited six months ended 30 June 2005 £000 | Unaudited six months ended 30 June 2004 £000 | Unaudited year ended 31 December 2004 £000 |
|--|--|--|--|
| Cashflow from operating activities | | | |
| Operating (loss)/profit | (1,867) | 8,291 | 1,761 |
| Depreciation, Depletion and Abandonment | 16,098 | 8,032 | 15,960 |
| Exceptional item (Note 3) | - | 3,037 | 18,052 |
| Share-based transactions | 1,887 | 810 | 1,607 |
| Hedging ineffectiveness | 12,588 | - | - |
| Other non cash movements | 221 | (15) | (57) |
| Increase in inventories | (2,002) | (2,912) | (33) |
| (Increase)/decrease in trade and other receivables | (33,840) | 409 | (13,626) |
| Increase/(decrease) in trade and other payables | 10,806 | (4,624) | 21,155 |
| Net cash inflow generated from operations | 3,891 | 13,028 | 44,819 |
| Interest received | 652 | 186 | 476 |
| Interest paid | (2,843) | (1,319) | (2,891) |
| Tax (paid)/received | (75) | 1,704 | 1,704 |
| Net cash from operating activities | 1,625 | 13,599 | 44,108 |
| Cashflow from investing activities | | | |
| Purchase of property, plant and equipment | (82,258) | (10,718) | (99,377) |
| Net cash used in investing activities | (82,258) | (10,718) | (99,377) |
| Cashflow from financing activities | | | |
| Net proceeds from issue of ordinary share capital | 68 | 1,103 | 25,543 |
| Proceeds from borrowing | 86,067 | - | 29,140 |
| Proceeds from employee share options exercised | 27 | 348 | 345 |
| Repayment of borrowings | - | (4,087) | - |
| Net cash from/(used) in financing activities | 86,162 | (2,636) | 55,028 |

Group Cashflow Statement *continued*

For the six months ended 30 June 2005

| | Unaudited six months ended | | Unaudited |
|---|----------------------------|--------------|------------------|
| | 30 June 2005 | 30 June 2004 | year ended |
| | £000 | £000 | 31 December 2004 |
| | | | £000 |
| Net increase/(decrease) in cash and cash equivalents | 5,529 | 245 | (241) |
| Opening cash and cash equivalents | 3,755 | 3,939 | 3,939 |
| Translation difference | (121) | 15 | 57 |
| Closing cash and cash equivalents | 9,163 | 4,199 | 3,755 |

Closing cash and cash equivalents include £3,057,000 classified under Assets held for sale on the Balance Sheet.

Notes to the Interim Accounts

For the six months ended 30 June 2005

1 Accounting policies for the period ended 30 June 2005

Basis of preparation

Introduction

Prior to 2005, the Group prepared its audited annual financial statements under UK Generally Accepted Accounting Principles ('UK GAAP'). For the year ended 31 December 2005, the Group is required to prepare its annual consolidated financial statements in accordance with accounting standards adopted for use in the European Union ('EU'). As such, those financial statements will take account of the requirements and options in IFRS 1 'First-time Adoption of International Financial Reporting Standards' (IFRS) as they relate to the 2004 comparatives included therein.

Certain requirements and options in IFRS 1 relating to comparative financial information presented on first-time adoption, may result in a different application of accounting policies in the 2004 restated financial information, to that which would apply if the 2004 financial statements were the first financial statements of the Group prepared in accordance with IFRS. An explanation of how transition from UK GAAP to IFRS has affected the Group's financial position, income statement and cashflows is set out in Note 9. The reconciliations set out in Note 8 are based on the IFRS expected to be applicable as at 31 December 2005 and the interpretation of those standards, however these are not known with certainty. These condensed consolidated financial statements are based on the directors' understanding of issued standards and interpretations and current facts and circumstances, which may change. For example, amended or additional standards or interpretations may be issued by the IASB. IFRS is currently being applied in the United Kingdom and in a large number of other countries simultaneously for the first time. Due to a number of new and revised standards issued after December 2003, there is not yet a significant body of established practice on which to draw in forming opinions regarding interpretation and application of IFRS; accordingly, practice is continuing to evolve. At this preliminary stage, therefore, the full financial effect of reporting under IFRS as it will be applied and reported on in the Group's first financial statements for the year ended 31 December 2005 cannot be determined with certainty.

The financial statements have been prepared using the historical cost and fair value conventions on the basis of the accounting policies set out below, which the Group expects to apply to its financial statements for 31 December 2005 which are to be prepared in accordance with IFRS.

The comparative figures for the year ended 31 December 2004 are unaudited and do not constitute statutory financial statements for the purpose of Section 240 of the Companies Act 1985. They have been extracted from the Company's published accounts, a copy of which has been delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain a statement under either Section 237(2) or (3) of the Companies Act 1985.

Notes to the Interim Accounts continued

For the six months ended 30 June 2005

The preparation of financial statements requires the directors to make certain estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expenses during the reported period. Although these estimates are based on the directors' best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Transitional arrangements

IFRS 1 sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to establish accounting policies in line with those standards expected to be valid as at 31 December 2005 and in general, apply these policies retrospectively to prepare the IFRS opening balance sheet at a transition date of 1 January 2004.

The following accounting policies have been consistently applied to all periods presented, except those relating to the classification and measurement of financial instruments. The Group has made use of the exemption available under IFRS 1 to apply the standards related to financial instruments, IAS 32 and IAS 39, from 1 January 2005.

The Group has applied the requirements of IFRS 2 Share-based Payment. In accordance with the transitional provisions of that standard, only those awards that were granted after 7 November 2002, and had not vested at 1 January 2005, are included.


Fundamental accounting concept

The Company had net current liabilities at the balance sheet date of £20.3 million, predominantly due to the recognition of derivative financial instruments under IAS 39. These liabilities will be settled during the next 12 months with proceeds from production in that period. On this basis, the directors have prepared the accounts under the going concern basis. The accounts have been prepared under the going concern concept because the directors of the Company believe there are sufficient funds available as and where necessary to allow the Group to continue its operations for at least 12 months from the date of the accounts.

Consolidation

Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.



The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated as part of the consolidation process. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Joint Ventures

The Group conducts some activity through joint ventures where the venturers have a direct ownership interest and control the assets of the venture. The results, assets and liabilities of the jointly controlled ventures are included in the Group Financial Statements in proportion to the Group's interest.

Revenue Recognition

Revenue comprises the fair value for the sale of goods and services, net of VAT. Revenue is recognised as follows:

(a) Sale of goods

Sale of goods represents the sale of oil, gas and natural gas liquids and follows an entitlement basis. Consequently for sales in respect of oil liftings sold, adjustments for overlift (liftings greater than production entitlement) and underlift (production entitlement greater than liftings) are recorded against cost of sales at market value.

(b) Tariff income

Tariff income is recognised when the products are physically transferred into a vessel, pipe or other delivery mechanism.

Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in pounds sterling, the Group's functional and presentation currency.

Notes to the Interim Accounts continued

For the six months ended 30 June 2005

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cashflow hedges.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, Plant and Equipment

Expenditure relating to oil and gas activities is capitalised in accordance with the 'successful efforts' method of accounting. All capitalised costs associated with developed fields are considered to be tangible for the purposes of these accounts. Such costs are amortised on a unit of production basis that is calculated to write off the historic cost of each asset in line with the depletion of proved reserves. Where such capitalised costs relate to an asset that will be shared with future developments, the costs are amortised on a unit of production basis that is calculated based on proven and probable reserves.

Acquisition costs relating to oil and gas activities are recorded at fair value in accordance with the sale and purchase agreement.


All property, plant and equipment is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

| | |
|---------------------|--------|
| Plant and machinery | 10-33% |
| Office equipment | 25% |
| Motor vehicles | 25% |
| Buildings | 5% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.



Rentals payable under operating leases are charged to the income statement on a straight-line basis.

Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Profit and Loss account for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's net realisable value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cashflows (cash-generating units).

Inventories

Inventories are stated at the lower of cost and net realisable value and comprise oil in tanks and pipelines and materials.

Assets held for sale

Assets held for sale are stated at fair value on the basis that they are available for immediate sale in their present condition, subject only to terms that are usual and customary for sales of such assets and that the sale is highly probable at the balance sheet date.

Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, bank overdrafts and deposits held at call with banks with maturity dates of less than three months. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business are included in the cost of acquisition as part of the purchase consideration.

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Notes to the Interim Accounts continued

For the six months ended 30 June 2005

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Capitalised Interest

Interest is capitalised gross of related tax relief during the period of construction, where it relates either to the financing of major projects with long periods of development, or to dedicated financing of other projects. All other interest is charged against income.

Derivative Financial Instruments and Hedging

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their 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 Group designates derivatives as hedges of highly probable forecast transactions (cashflow hedge).

The Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cashflows of hedged items. At the point of settlement, any payments or receipts relating to hedge transactions are included in revenue.

Cashflow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cashflow hedges, are recognised in equity net of deferred income tax. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity, including the associated deferred income taxes, are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as at fair value through profit or loss, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Deferred Income Tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax 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, it is not accounted for. 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 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 is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Pension costs

Contributions made to personal pension schemes of employees, which are administered independently of the Company, are charged to the Profit and Loss account as incurred. The Company has no other liability in respect of defined benefit schemes.

Share-based payments

The fair value of share-based awards is determined at the date of grant of the award allowing for the effect of any market-based performance conditions. This fair value, adjusted by the Group's estimate of the number of awards that will eventually vest as a result of non-market conditions, is expensed uniformly over the vesting period.

The fair values are calculated using a binomial option pricing model with suitable modifications to allow for employee turnover after vesting and early exercise. The inputs to the model include the share price at date of grant, exercise price, expected volatility, expected dividends, risk free rate of interest and patterns of early exercise of the plan participants.

Notes to the Interim Accounts continued

For the six months ended 30 June 2005

Decommissioning

Provision for decommissioning is recognised in full at the commencement of oil and natural gas production. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the production and transportation facilities. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset. Unwinding of discount is treated as a finance cost.

New accounting standards

IFRS 6 'Exploration for and Evaluation of Mineral Resources' was issued in December 2004 and applies to annual periods beginning on or after 1 January 2006. However, the Group has decided to adopt the standard early and this is reflected in these interim financial statements.

2 Segmental Reporting

In the opinion of the directors the operations of the Group comprise one class of business, the production and sale of hydrocarbons. Its primary segment reporting will be by geographical region.

Geographical Regions

Revenue is analysed as follows:

| Revenue | Six months ended | | Year ended |
|----------------|------------------|---------------|------------------|
| | 30 June 2005 | 30 June 2004 | 31 December 2004 |
| | £000 | £000 | £000 |
| United Kingdom | 51,890 | 32,207 | 76,422 |
| Trinidad | 4,207 | 2,983 | 5,029 |
| | 56,097 | 35,190 | 81,451 |

There is no material difference between sales by destination and origin.

Group (loss)/profit on ordinary activities is analysed as follows:

| (Loss)/profit on ordinary activities | 30 June 2005 | Six months ended 30 June 2004 | Year ended 31 December 2004 |
|--------------------------------------|----------------|----------------------------------|--------------------------------|
| | £000 | £000 | £000 |
| United Kingdom | (3,724) | 5,544 | 17,358 |
| Trinidad | 917 | (2,218) | (24,252) |
| | (2,807) | 3,326 | (6,894) |

Group net assets are analysed as follows:

| Net assets | 30 June 2005 | Six months ended 30 June 2004 | Year ended 31 December 2004 |
|----------------|---------------|----------------------------------|--------------------------------|
| | £000 | £000 | £000 |
| United Kingdom | 64,814 | 66,357 | 102,395 |
| Trinidad | 16,880 | 36,129 | 15,068 |
| | 81,694 | 102,486 | 117,463 |

3 Exceptional item

The exceptional item in 2004 relates to an impairment write down of Trinidad assets.

4 Gross profit

The following items have been included in arriving at gross profit:

| | 30 June 2005 | Six months ended 30 June 2004 | Year ended 31 December 2004 |
|--|--------------|----------------------------------|--------------------------------|
| | £000 | £000 | £000 |
| Crude oil over/(under)lift | 45 | (3,403) | 4,798 |
| Operating expenses | 21,097 | 16,004 | 35,700 |
| Well workover expenses | 3,915 | 532 | 891 |
| Depreciation, depletion and amortisation | 16,098 | 8,032 | 15,960 |

5 Operating (loss) / profit

The change in fair value of derivative financial instruments is the effect of the movement of the market values of hedge contracts that do not qualify for hedge accounting under IAS 39.

Included in other operating income is £10.0 million for an agreed insurance claim relating to the Brae Riser (2004 - £3.2 million insurance claim relating to the Mallard shutdown).

Notes to the Interim Accounts continued

For the six months ended 30 June 2005

6 Taxation

In respect of the Group's UK operations, tax has been calculated based on a rate of 30% plus the supplementary tax of 10% (2004: 30% plus 10% supplementary) and the Trinidad tax rate at 55% (2004: 55%). The effective tax rate for 2005 was 52% compared with 42% in 2004. It should be noted that this tax credit/charge is all deferred as a result of Venture's tax positions in both UK and Trinidad.

7 Earnings per Ordinary Share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held in the employee share trust. For fully diluted earnings per share the weighted average number of ordinary shares in issue during the year is adjusted to assume conversion of all dilutive potential ordinary shares.

The calculation of earnings per ordinary share shown is based upon the following:

| | 30 June 2005 £000 | Six months ended 30 June 2004 £000 | Year ended 31 December 2004 £000 |
|---|----------------------|--|--|
| (Loss)/profit for the period | (2,807) | 3,326 | (6,894) |
| Weighted average number of ordinary shares for the period | | | |
| - Basic | 122,283 | 107,774 | 110,190 |
| - Fully Diluted | 122,283 | 115,433 | 110,190 |
| Earnings per share | | | |
| - Basic | (2.3)p | 3.1p | (6.3)p |
| - Fully Diluted | (2.3)p | 2.9p | (6.3)p |

8 Reconciliation of UK GAAP to IFRS

Reconciliation of equity at 1 January 2004 (Date of transition to IFRS)

| | Note | Previous GAAP £000 | Effect of transition to IFRS £000 | IFRS £000 |
|--|---------|--------------------------|--|--------------|
| Property, plant and equipment | (c) | 178,609 | 10,429 | 189,038 |
| Inventories | | 899 | - | 899 |
| Trade and other receivables | | 16,264 | - | 16,264 |
| Current tax assets | | 1,761 | - | 1,761 |
| Cash and cash equivalents | | 3,939 | - | 3,939 |
| Total current assets | | 22,863 | - | 22,863 |
| Total assets | | 201,472 | 10,429 | 211,901 |
| Borrowings | | (35,359) | - | (35,359) |
| Trade and other payables | | (19,107) | - | (19,107) |
| Provisions | (b) | (27,452) | (25) | (27,477) |
| Other liabilities | (c) | (22,795) | (10,238) | (33,033) |
| Total liabilities | | (104,713) | (10,263) | (114,976) |
| Total assets less total liabilities | | 96,759 | 166 | 96,925 |
| Share capital and share premium | | 77,859 | - | 77,859 |
| Other reserves | (b) | (175) | 275 | 100 |
| Retained earnings | (b),(c) | 19,075 | (109) | 18,966 |
| Total Shareholders' Equity | | 96,759 | 166 | 96,925 |

Notes to the Interim Accounts continued

For the six months ended 30 June 2005

Reconciliation of equity at 30 June 2004

| | Note | Previous GAAP £000 | Effect of transition to IFRS £000 | IFRS £000 |
|--|---------|--------------------------|--|------------------|
| Property, plant and equipment | (c) | 188,553 | 9,707 | 198,260 |
| Inventories | | 3,811 | - | 3,811 |
| Trade and other receivables | | 15,855 | - | 15,855 |
| Current tax assets | | 57 | - | 57 |
| Cash and cash equivalents | | 4,199 | - | 4,199 |
| Total current assets | | 23,922 | - | 23,922 |
| Total assets | | 212,475 | 9,707 | 222,182 |
| Borrowings | | (31,272) | - | (31,272) |
| Trade and other payables | | (14,483) | - | (14,483) |
| Provisions | (b) | (38,557) | (543) | (39,100) |
| Other liabilities | (c) | (25,909) | (8,932) | (34,841) |
| Total liabilities | | (110,221) | (9,475) | (119,696) |
| Total assets less total liabilities | | 102,254 | 232 | 102,486 |
| Share capital and share premium | | 79,203 | - | 79,203 |
| Other reserves | (b) | (68) | 1,059 | 991 |
| Retained earnings | (b),(c) | 23,119 | (827) | 22,292 |
| Total Shareholders' Equity | | 102,254 | 232 | 102,486 |

Reconciliation of equity at 31 December 2004

| | Note | Previous GAAP £000 | Effect of transition to IFRS £000 | IFRS £000 |
|--|---------|--------------------------|--|------------------|
| Property, plant and equipment | (c) | 262,900 | 20,450 | 283,350 |
| Inventories | | 932 | - | 932 |
| Trade and other receivables | | 29,890 | - | 29,890 |
| Cash and cash equivalents | | 3,755 | - | 3,755 |
| Total current assets | | 34,577 | - | 34,577 |
| Total assets | | 297,477 | 20,450 | 317,927 |
| Borrowings | | (64,499) | - | (64,499) |
| Trade and other payables | | (40,267) | - | (40,267) |
| Current tax liabilities | | (74) | - | (74) |
| Provisions | (b) | (47,649) | (1,058) | (48,707) |
| Other liabilities | (c) | (27,809) | (19,108) | (46,917) |
| Total liabilities | | (180,298) | (20,166) | (200,464) |
| Total assets less total liabilities | | 117,179 | 284 | 117,463 |
| Share capital and share premium | | 103,685 | - | 103,685 |
| Other reserves | (b) | (113) | 1,819 | 1,706 |
| Retained earnings | (b),(c) | 13,607 | (1,535) | 12,072 |
| Total Shareholders' Equity | | 117,179 | 284 | 117,463 |

Notes to the Interim Accounts continued

For the six months ended 30 June 2005

Reconciliation of profit for the period ended 30 June 2004

| | Note | Previous GAAP £000 | Effect of transition to IFRS £000 | IFRS £000 |
|--------------------------------------|---------|--------------------------|--|--------------|
| Revenue | | 35,190 | - | 35,190 |
| Cost of sales | (c) | (28,011) | (584) | (28,595) |
| Gross profit | | 7,179 | (584) | 6,595 |
| Administrative expenses | (b) | (647) | (810) | (1,457) |
| Other operating income/(expenses) | | 3,153 | - | 3,153 |
| Operating profit | | 9,685 | (1,394) | 8,291 |
| Finance costs – net | | (2,527) | - | (2,527) |
| Taxation | (b),(c) | (3,114) | 676 | (2,438) |
| Net profit | | 4,044 | (718) | 3,326 |

Reconciliation of loss for the year ended 31 December 2004

| | Note | Previous GAAP £000 | Effect of transition to IFRS £000 | IFRS £000 |
|--------------------------------------|---------|--------------------------|--|--------------|
| Revenue | | 81,451 | - | 81,451 |
| Cost of sales | (c) | (79,596) | (1,602) | (81,198) |
| Gross profit | | 1,855 | (1,602) | 253 |
| Administrative expenses | (b) | (202) | (1,607) | (1,809) |
| Other operating income/(expenses) | | 3,317 | - | 3,317 |
| Operating profit | | 4,970 | (3,209) | 1,761 |
| Finance costs - net | | (5,288) | - | (5,288) |
| Taxation | (b),(c) | (5,150) | 1,783 | (3,367) |
| Net loss | | (5,468) | (1,426) | (6,894) |

9 Explanation of reconciling items between UK GAAP and IFRS

- (a) Transitional date and first-time adoption of IFRS;** the Group's transition date to IFRS is 1 January 2004. All adjustments on first time adoption were recorded in shareholders' equity on the date of transaction except for adjustments relating to IAS 39, which were recorded in Shareholders' equity at 1 January 2005.

IFRS 1 'First-Time Adoption of International Financial Reporting Standards' sets out the transition rules which must be applied when IFRS is adopted for the first time. As a result, certain of the requirements and options in IFRS 1 may result in a different application of accounting policies in the 2004 restated financial information from that which would apply if the 2004 financial statements were the first financial statements.

- (b) Employee benefits (share-based payments);** under UK GAAP, charges were based on the intrinsic value of awarded shares at grant date. Under IFRS the income statement cost is based on the fair value of all share-based awards at grant date if equity settled, or at the balance sheet date if cash settled. The cost is calculated using option pricing models and, for equity-settled awards, applies to all options granted after 7 November 2002 and amortised over the vesting period of the options.
- (c) Taxation;** under IFRS, deferred tax is recognised on the basis of temporary differences between the carrying value of assets and liabilities in the balance sheet, and their tax bases. IAS 12 requires that deferred tax is recognised on temporary differences arising on acquisitions that are categorised as business combinations. Deferred tax is recognised at the date of acquisition as part of the assessment of the fair value of assets and liabilities acquired and is provided on balances previously excluded, such as cost of reserves. An additional deferred tax liability has been recognised in respect of these temporary differences and the fair values assigned to property plant and equipment were increased accordingly. This results in an increase to depreciation, offset by a reduction in the tax charge.
- (d) Financial instruments and derivatives;** under IFRS, the Group adopted IAS 32 and IAS 39 'Financial Instruments: Recognition and Measurement' at the effective date of 1 January 2005. IAS 39 covers the recognition, measurement and derecognition of financial instruments for which there is no UK equivalent standard. The Group decided to take the exemption granted in IFRS 1, which removed the requirement to produce 2004 comparatives. Financial assets and liabilities recognised at 30 June 2004 and at 31 December 2004 have therefore been valued in accordance with the requirements of UK GAAP.

10 Explanation of adjustments to the cashflow statements for 2004

The cashflow statement has been prepared in conformity with IAS 7 'Cashflow Statements'. Translation differences relating to cash and cash equivalents are now highlighted on the cashflow statement, other than this the only difference from UK GAAP is presentational.

Glossary

| | |
|-------|--|
| Bcf | billions of cubic feet |
| boe | barrels of oil equivalent |
| boepd | barrels of oil equivalent per day |
| bopd | barrels of oil per day |
| km | kilometres |
| Mboe | thousands of barrels of oil equivalent per day |
| MMcfd | millions of cubic feet per day |
| MMbo | millions of barrels of oil |
| MMboe | millions of barrels of oil equivalent |

Lifting costs are defined as: Royalty costs, production expense, workover and projects, transport and process costs and general lease expenses.

Effective realised price is defined as: Revenue divided by Sales Volume

Note: 6 Bcf = 1 Mmboe



Venture Production plc Interim Report and Accounts for the six months ended 30 June 2005

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