Newfield Petroleum UK Limited

Directors' Report and Financial Statements
Year ended 31 December 2003

Registered number: 4487586

Directors' report

For the period ended 31 December 2003

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report for the year to 31 December 2003. All comparative figures shown for "2002" relate to the period from incorporation of 16 July 2002 to 31 December 2002.

Principal activities and business review

Newfield Petroleum UK Limited ("Newfield") was incorporated on 16 July 2002 with share capital of £100. During the year the issued share capital was increased to £7,537,300.

In December the company acquired a 20% interest in block 49/9b, which includes the Windermere producing gas field, and a 40.2632% interest in block 49/4a, which includes the undeveloped Chiswick prospect. The company also acquired a 100% interest in block 49/4b.

The company is pursuing various acquisition and farm-in opportunities, in order to acquire a portfolio of interests and to find and develop significant new reserves.

Results and dividends

The company made a loss of £893,286 (2002 £418,042) for the year to 31 December 2003. The directors do not recommend the payment of a dividend.

Directors' responsibilities

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 for that year. 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 taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report (continued)
For the period ended 31 December 2003

Directors and their interests

The directors who served during the period were as follows:

D. R. Phillips
W. D. Schneider
D. A. Trice

None of the directors who held office at 31 December 2003 had any beneficial interests in the shares, options to acquire shares, debentures or loan stock of the company requiring disclosure under Schedule 7 Companies Act 1985.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and not having to be re-elected, will therefore do so for the ensuing year.

21 Dartmouth Street,
London
SW1H 9BP

19 July 2004

On behalf of the Board

D. R. Phillips
Director

Independent auditors' report to the members of Newfield Petroleum UK Limited

We have audited the financial statements of Newfield Petroleum UK Limited (the "Company") for the year to 31 December 2003, which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 the company's affairs at 31 December 2003 and of its loss for the year to 31 December 2003 and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
WC2N 6RH

19 July 2004

Profit and loss account

For the period ended 31 December 2003

	Notes	2003 £	2002 £
Turnover	2	105,000	-
Cost of sales		(79,728)	-
Gross Profit		25,272	-
Administrative costs	3	(826,397)	(405,338)
Operating (Loss)	4	(801,125)	(405,338)
Interest receivable and similar income	5	1,403	-
Interest payable and similar charges	6	(93,564)	(12,704)
(Loss) on ordinary activities before taxation		(893,286)	(418,042)
Tax on (loss) on ordinary activities	7	-	-
(Loss) for the period	14	(893,286)	(418,042)
Retained profit/(loss), beginning of the period		(418,042)	-
Retained (loss) at the end of the period		(1,311,328)	(418,042)

There were no recognised gains or losses during 2003 other than those included in the profit and loss account for the period.

The accompanying statement of principal accounting policies and other notes are an integral part of these financial statements.

Balance Sheet

31 December 2003

	Notes	2003	2002
		£	£
Fixed assets			
Intangible assets	8	4,300,872	1,348,676
Tangible assets	8	2,351,718	148,605
		6,652,590	1,497,281
Current assets			
Debtors	9	236,750	171,429
Cash at bank and in hand		78,199	84,497
		314,949	255,926
Creditors			
Amounts falling due within one year	10	(97,341)	(114,019)
Net current assets		217,608	141,907
Total assets less current liabilities		6,870,198	1,639,188
Creditors			
Amounts falling due after more than one year	11	(46)	(2,057,130)
Provisions for liabilities and charges	12	(644,180)	-
Net assets/(liabilities)		6,225,972	(417,942)
Capital and reserves			
Equity:			
Called-up share capital	13	7,537,300	100
Profit and loss account	14	(1,311,328)	(418,042)
Total capital employed		6,225,972	(417,942)

Signed on behalf of the Board

D. R. Phillips Director

19 July 2004

The accompanying statement of principal accounting policies and other notes are an integral part of these financial statements.

Notes to financial statements
31 December 2003

1. Statement of principal accounting policies
A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below.

(a) Basis of accounting
The financial statements have been prepared under the historical cost convention in accordance with applicable financial reporting and accounting standards. The financial statements are prepared on a going concern basis, which the directors believe to be appropriate, as the parent company has confirmed that it will continue to provide financial support to the company for the foreseeable future.

(b) Consortium accounting
The company's exploration, development and production activities are generally conducted in joint ventures with other companies and are accounted for as joint arrangements that are not entities under Financial Reporting Standard 9 ("FRS 9") such that the company accounts directly for its share of transactions conducted through the joint arrangement.

(c) Intangible oil and gas assets
Intangible oil and gas assets comprise the pre-licence, licence acquisition, exploration and appraisal costs relating either to unevaluated properties or properties waiting further evaluation. When a decision to develop these properties has been taken, or there is evidence of impairment, the costs are transferred to the tangible oil and gas assets cost pool.

(d) Exploration and development expenditure
The company follows the full-cost method of accounting for oil and gas properties under which all exploration and development expenditure including financing costs and related foreign exchange differences in respect of properties under development is capitalised in a depreciable cost pool. Proceeds from the disposal of interests are deducted from the cost pool.

(e) Depreciation
All capitalised costs within the pool of tangible oil and gas assets together with estimated future development costs are depreciated using the unit of production method based on commercial reserves. Other tangible fixed assets are depreciated on a straight-line basis over their estimated economic lives.

(f) Ceiling test
Each year management assesses the recoverability of the oil and gas asset pool by comparison with the estimated discounted future net revenues of proven reserves within the pool in accordance with Financial Reporting Standard 11. A provision is made where there has been impairment in the capitalised value of the cost pool.

(g) Commercial reserves
Commercial reserves are proved developed and undeveloped oil and gas reserves, as defined in the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" published by the Oil Industry Accounting Committee.

(h) Deferred taxation
Provision is made for deferred corporation tax at current rates of tax on timing differences between results stated in the financial statements and results computed for corporation tax purposes, only where it is expected that a taxation liability will arise in the foreseeable future when the timing differences reverse. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more than likely than not, there will be suitable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted. No deferred tax assets have been recognised as of 31 December 2003.

(i) Foreign currency
Foreign currency transactions are translated at the average monthly exchange rate. Foreign currency balances at year end are translated at the exchange rates ruling at the balance sheet date, except those covered by foreign exchange contracts in which case the forward exchange rate is used. Foreign currency gains or losses related to exploration and development projects, and the financing thereof, are capitalised and amortised as described above. Other exchange gains and losses are recognised in the profit and loss account.

(j) Effect of changing estimates
Changes in reserve and throughput estimates, anticipated future development costs, future abandonment costs and other variables used in unit of production calculations are accounted for prospectively over the estimated remaining life of the relevant field, with effect from the beginning of the period in which they arise.

(k) Turnover
Turnover represents the invoiced value for the sale of oil, gas and condensate.

2. Turnover

Sales during the year to north west Europe amounted to £105,000.

3. Administrative costs

	2003	2002
	£	£
Overhead costs	(1,060,481)	(449,511)
Less amount capitalised	304,572	75,362
Depreciation of other fixed assets	(70,488)	(31,189)
	(826,397)	(405,338)

4. Operating loss

	2003	2002
	£	£
Operating loss for the period is stated after charging:		
Auditors' remuneration – audit fee	6,000	5,000
Employee costs	165,848	66,660
Depreciation of tangible assets	98,897	31,189
Depreciation of abandonment asset	11,319	-

4. Operating loss (cont.)

The average number of employees (excluding non-executive directors) during the period was	1	1
Employee costs in the period amounted to:		
	£	£
Directors' emoluments	152,215	59,949
Social security costs	13,333	6,711

5. Interest receivable and similar income

	2003	2002
	£	£
Bank interest	1,403	-

6. Interest payable and similar charges

	2003	2002
	£	£
Interest payable and similar charges	(93,564)	(24,296)
Less: interest payable capitalised in year	-	11,592
	(93,564)	(12,704)

7. Tax on profit on ordinary activities

The charge for the year is made up as follows:

	2003	2002
	£	£
UK corporation tax	-	-

Factors affecting the tax charge for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2003	2002
	£	£
(Loss) on ordinary activities before taxation	(893,286)	(418,042)
(Loss) on ordinary activities multiplied by aggregate standard corporation tax rates in the UK – 40% (2002 – 37%)	(357,314)	
Effects of:		
Expenses not deductible for tax purposes	4,105	
Accelerated capital allowances and other timing differences	2,997,098	
Tax losses carried forward	4,158,712	
Current year current tax charge	-	

No provision has been made in these accounts for a potential net deferred tax asset of £230,208 resulting from carry forward trading losses and accelerated capital allowances. A deferred tax asset would only be recognised where there is reasonable certainty that suitable taxable profits will be generated in the future.

8. Fixed Assets

	Intangible Assets	Tangible Assets		Total
	Exploration and Appraisal Costs	Oil & Gas	Office Equipment	
	£	£	£	£
Cost				
At 1 January 2003	1,348,676	-	179,794	1,528,470
Additions	2,952,196	2,261,036	52,293	5,265,525
At 31 December 2003	4,300,872	2,261,036	232,087	6,793,995
Depreciation				
At 1 January 2003	-	-	31,189	31,189
Charge for year	-	39,728	70,488	110,216
At 31 December 2003	-	39,728	101,677	141,405
Net book value				
At 31 December 2003	4,300,872	2,221,308	130,410	6,652,590
At 31 December 2002	1,348,676	-	148,605	1,497,281

9. Debtors: due within one year

	2003	2002
	£	£
Trade debtors	105,000	-
Other debtors	131,750	171,429
	236,750	171,429

10. Creditors: Amounts falling due within one year

	2003	2002
	£	£
Trade creditors	40,000	98,348
Other creditors	39,191	10,250
Taxation and social security	18,150	5,421
	97,341	114,019

11. Creditors: Amounts falling due after more than one year

	2003	2002
	£	£
Amount due to parent company	46	2,057,130

Amounts due to parent company are unsecured and payable on demand. The parent company has confirmed that it will not demand repayment of the amounts due within one year.

12. Provisions for liabilities and charges

	Abandonment provision	**Deferred corporation tax**	**Total**
	£	£	£
At beginning of year	-	-	-
Amounts provided	644,180	-	644,180
At end of year	644,180	-	644,180

13. Called-up share capital

	2003	2002
	£	£
Equity share capital		
Authorised:		
100 ordinary shares of £1 each	-	100
1,000,000 ordinary shares of £100 each	100,000,000	-
Allotted, called-up and fully paid:		
100 ordinary shares of £1 each	-	100
75,373 ordinary shares of £100 each	7,537,300	-

14. Movements on reserves

The movement on reserves for the period is as follows:

	Profit and Loss Account
	£
At 1 January 2003	(418,042)
Loss for the year	(893,286)
At 31 December 2003	(1,311,328)

15. Reconciliation of movement in shareholder's funds

	2003	2002
	£	£
Opening shareholder's funds	(417,942)	-
Loss for the period	(893,286)	(418,042)
Net proceeds of issue of equity share capital	7,537,200	100
Closing shareholder's funds	6,225,972	(417,942)

16. Guarantees and other financial commitments

The company has no capital commitments. The company rents office space on a quarterly basis for which the commitment is £28,819.

17. Contingent liability

The company has agreed that, depending on the development programme, further payments may be made to the seller of the Chiswick interest in line with the original Purchase Agreement. The maximum potential exposure is £1.4m.

18. Cashflow statement

The company is a wholly owned subsidiary of Newfield Exploration Company and is included within the consolidated statements of Newfield Exploration Company, which are publicly available at the address set out in Note 19. Consequently, the company has taken advantage of the exemption from preparing a cashflow statement under the terms of Financial Reporting Standard 1.

19. Ultimate parent company

The company is a subsidiary undertaking of Newfield Exploration Company, a company incorporated in the United States of America, which has agreed to provide continuing financial support to enable the company to continue its operations.

The largest group in which the results of Newfield Petroleum UK Limited are consolidated is that headed by Newfield Exploration Company, whose principal place of business is the United States of America. The consolidated accounts of this group are available to the public and may be obtained from 363 N. Sam Houston Pkwy. E, Suite 2020, Houston, Texas 77060, USA.

18. Related party balances

The company is a 100% subsidiary of Newfield Exploration Company and, therefore, utilises the exemption contained in paragraph 3 (c) of FRS 8 Related Party Disclosures, not to disclose any transactions with any entities that are a part of that group. The address at which the consolidated financial statements are publicly available is detailed in Note 17.