ARTHUR ANDERSEN

Perenco UK Limited

Accounts 31 December 1998
together with directors' and auditors' reports

Registered number: 1421481

Directors' report

For the year ended 31 December 1998

The directors present their annual report on the affairs of the company together with the accounts and auditors' report for the year ended 31 December 1998.

Principal activities

The principal activities of the company comprise oil and gas exploration and production and the provision of technical and engineering services to the energy industry.

Results and dividends

The results of the company for the year are set out in the profit and loss account on page 4. The directors recommend that no dividend be paid in respect of the year ended 31 December 1998 (1997 - £nil).

Directors and their interests

The directors who held office during the year and subsequently are shown below.

P.C. Spink (resigned 12 February 1999)
A.P. Eager (resigned 12 February 1999)
G. Martin (appointed 12 February 1999)
A. Heavey (appointed 12 February 1999)

The directors holding office at the beginning and end of the year have no interests requiring disclosure.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts 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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report (continued)

Fixed assets

A summary of movements on fixed assets during the year is shown in note 9 to the accounts.

First Floor
Ames House
6 Duke of York Street
London
SW1Y 6LJ

By order of the Board,

G. Martin
Secretary

19 April 1999

Auditors' report

London

To the Shareholders of Perenco UK Limited:

We have audited the accounts on pages 4 to 11 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on page 1, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the company's state of affairs at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

19 April 1999

Profit and loss account

For the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Turnover	2	3,215	3,097
Cost of sales	3	(2,558)	(2,498)
Gross profit		657	599
Administrative expenses		(197)	(85)
Operating profit	4	460	514
Investment income	6	38	13
Interest payable	7	(602)	(607)
Loss on ordinary activities before and after taxation		(104)	(80)
Accumulated deficit, brought forward		(4,540)	(4,460)
Accumulated deficit, carried forward		(4,644)	(4,540)

The accompanying notes are an integral part of this profit and loss account.

There were no recognised gains or losses in either year other than as above.

Balance sheet

31 December 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	9	6,941	7,529
Current assets			
Debtors	10	573	976
Cash at bank and in hand		2	284
		575	1,260
Creditors: Amounts falling due within one year	11	(8,968)	(7,519)
Net current liabilities		(8,393)	(6,259)
Total assets less current liabilities		(1,452)	1,270
Creditors: Amounts falling due after more than one year	12	-	(2,643)
Provisions for liabilities and charges	13	(92)	(67)
Net liabilities		(1,544)	(1,440)
Capital and reserves			
Called-up share capital	14	3,100	3,100
Profit and loss account		(4,644)	(4,540)
Shareholders' funds	15	(1,544)	(1,440)

Signed on behalf of the Board

G. Martin Director

A. Graham Martin

19 April 1999

The accompanying notes are an integral part of this balance sheet.

Notes to accounts

31 December 1998

1 Accounting policies

The following principal accounting policies which have been applied consistently throughout the year and with the preceding year, were adopted in arriving at the financial information set out in these accounts.

a) Basis of accounting

The accounts have been prepared under the historical cost convention modified to include the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

b) Joint operations

The company's oil and gas activities are conducted principally as co-licensee in joint operations with other companies.

The accounts reflect the company's share of income and expenditure arising from these ventures.

c) Turnover

Turnover represents the company's invoiced sales of oil and gas, all of which arise in the United Kingdom.

d) Exploration and development costs

Oil and gas properties are carried in a fixed asset pool established through valuations in 1988 and 1989 with subsequent additions at cost.

Capitalisation

Costs of acquisition, exploration, appraisal and development of oil and gas properties are capitalised under the principles of full cost accounting.

All costs, including geological, geophysical, engineering and general and administrative expenses directly related to these activities are capitalised in a full cost pool. Financing costs in respect of borrowings relating to these activities are capitalised. Interest costs are expensed insofar as they relate to borrowing associated with proved developed producing reserves.

Proceeds of disposal of licence interests are credited to the pool, and no gain or loss is recognised.

Depreciation

All expenditure carried within the full cost pool is depreciated on a unit of production basis using the ratio of the production in the year to the estimated quantity of commercial reserves at the end of the year plus the production in the period. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the anticipated future field development costs at current year end unescalated prices.

Changes in cost and reserve estimates are dealt with prospectively.

Notes to accounts (continued)

1 Accounting policies (continued)

d) Exploration and development costs (continued)

Ceiling test

A ceiling test is carried out at each balance sheet date to assess whether the net book value of capitalised costs is covered by the related anticipated discounted future net revenues. Any deficiency arising under this comparison is provided.

e) Office equipment and motor vehicles

Depreciation on cost is provided on a straight line basis over the estimated useful lives of assets at rates between 25% and 33% per annum.

f) Foreign currency

Transactions denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the balance sheet date, exchange differences being reflected in the profit and loss account.

g) Deferred taxation

Deferred taxation is provided at anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts to the extent that it is possible that a liability will crystallise in the future.

h) Decommissioning costs

Estimated decommissioning costs are provided field by field on a unit of production basis.

i) Cash flow statement

No cash flow statement has been prepared. The company's former UK parent company, Perenco PLC, has prepared consolidated accounts for 1998 which incorporate the results of the company and which include a consolidated cash flow statement prepared in accordance with Financial Reporting Standard No. 1 (Revised).

2 Turnover and loss on ordinary activities

The company's turnover and loss on ordinary activities before taxation for the year were derived from oil and gas production in the United Kingdom.

Notes to accounts (continued)

3 Cost of sales

	1998 £'000	1997 £'000
Other operating costs	1,901	1,873
Royalties	99	95
Depletion and amortisation	534	506
Decommissioning	24	24
	2,558	2,498

4 Operating profit

	1998 £'000	1997 £'000
Operating profit is stated after charging:		
Depreciation	66	76
Other operating lease rentals	129	179
Auditors' remuneration and expenses		
- Audit fees	12	12
- Other fees	10	9
Staff costs (note 5)	656	619

5 Staff costs

	1998 £'000	1997 £'000
Wages and salaries	597	522
Social security costs	32	64
Other pension costs	27	33
	656	619

The average monthly number of persons employed by the company during the year was 11 (1997 - 17).

The directors did not receive any emoluments in respect of their services to the company in the year (1997 - nil)

6 Investment income

	1998 £'000	1997 £'000
Interest receivable and similar income	38	13

Notes to accounts (continued)

7 Interest payable

	1998 £'000	1997 £'000
Interest payable to third parties	278	294
Interest on intercompany loans (note 11)	324	313
	602	607

8 Tax on profit on ordinary activities

There was no tax charge for the year. The company has unutilised tax losses carried forward of £ 7.1m (1997 - £7.4m).

9 Tangible fixed assets

	Oil and gas properties £'000	Office equipment and motor vehicles £'000	Total £'000
Cost			
As at 31 December 1997	16,418	846	17,264
Additions	180	183	363
Disposals	-	(1,004)	(1,004)
As at 31 December 1998	16,598	25	16,623
Depreciation			
As at 31 December 1997	9,136	599	9,735
Charge for the year	534	66	600
Disposals	-	(653)	(653)
As at 31 December 1998	9,670	12	9,682
Net book value at 31 December 1997	7,282	247	7,529
Net book value at 31 December 1998	6,928	13	6,941

The 'full cost pool' of oil and gas properties includes properties carried at valuations established by the directors in 1988 and 1989 in conjunction with corporate acquisitions by the company's UK parent company.

Notes to accounts (continued)

10 Debtors

Amounts falling due within one year:

	1998 £'000	1997 £'000
Trade debtors	557	610
Due from former group undertakings	-	240
Prepayments and accrued income	16	126
	573	976

11 Creditors: Amounts falling due within one year

	1998 £'000	1997 £'000
Current portion of long term bank loan (note 12)	-	597
Bank overdraft	48	-
Trade creditors	86	311
Amounts owed to former group undertakings	8,272	6,089
VAT	90	32
Social security and PAYE	6	37
Accruals	466	458
	8,968	7,519

On 12 February 1999 the company was sold to Tullow Oil Plc. In connection with this transaction Tullow Oil Plc advanced loans to the company in order to fund the discharge of all liabilities owing to the company's former group undertakings.

The directors have received assurances from Tullow Oil Plc that no repayment of these new loans will be required in excess of the company's free cash balances in order that the company can continue to operate as a going concern.

Notes to accounts (continued)

12 Creditors: Amounts falling due after more than one year

	1998 £'000	1997 £'000
Bank loan	-	2,643

13 Provisions for liabilities and charges

a) Decommissioning costs

	1998 £'000	1997 £'000
Beginning of year	67	44
Charge for the year	25	23
End of year	92	67

13 Provisions for liabilities and charges (continued)

b) Deferred taxation

The full potential liability for deferred corporation tax, calculated on the liability method at 31%, arising from accelerated capital allowances, is fully offset by intercompany interest accruals and tax losses carried forward.

14 Called-up share capital

	1998 £'000	1997 £'000
Authorised, allotted, called-up and fully paid		
3,100,000 ordinary shares of £1 each	3,100	3,100

15 Movement on shareholders' funds

The movement on shareholders' funds represents the loss for the year.

16 Capital commitments

At 31 December 1998 the company was contracted to nil expenditure (1997 – nil) on exploration and development activities.

17 Ultimate parent company

From 12 February 1999 the company's ultimate parent company is Tullow Oil Plc registered in the Republic of Ireland. The accounts of that company are available to the public and may be obtained from First Floor, Ames House, 6 Duke of York Street, London SW1Y 6LJ.