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**TULLOW UK GAS LIMITED**  
**ABBREVIATED ACCOUNTS**  
**YEAR ENDED 31ST DECEMBER 2002**

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**TULLOW UK GAS LIMITED**

**AUDITORS' REPORT TO TULLOW UK GAS LIMITED**

**PURSUANT TO PARAGRAPH 24 OF SCHEDULE 8 TO THE COMPANIES ACT 1985**

We have examined the abbreviated accounts on pages 4 to 9, together with the financial statements of Tullow UK Gas Limited prepared under section 226 of the Companies Act 1985 for the year ended 31st December 2002.

**Respective responsibilities of directors and auditors**

The directors are responsible for preparing the abbreviated accounts in accordance with Schedule 8 to the Companies Act 1985. It is our responsibility to form an independent opinion as to the company's entitlement to the exemptions claimed in the directors' statement on page 6 and whether the abbreviated accounts have been properly prepared in accordance with that Schedule.

**Basis of opinion**

We have carried out the procedures we considered necessary to confirm, by reference to the audited financial statements, that the company is entitled to the exemptions and that the abbreviated accounts have been properly prepared from those financial statements. The scope of our work for the purpose of this report does not include examining or dealing with events after the date of our report on the full financial statements.

**Opinion**

In our opinion the company is entitled under sections 246 and 247 of the Companies Act 1985 to the exemptions conferred by Section A of Part 111 of Schedule 8 to that act, in respect of the year ended 31st December 2002, and the abbreviated accounts on pages 3 to 8 have been properly prepared in accordance with that Schedule.

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**TULLOW UK GAS LIMITED**

**AUDITORS' REPORT TO TULLOW UK GAS LIMITED**

**PURSUANT TO PARAGRAPH 24 OF SCHEDULE 8 OF THE COMPANIES ACT 1985**

... continued

**Other Information**

On 11th April 2003 we reported to Tullow UK Gas Limited, to the members on the financial statements prepared under Section 226 of the Companies Act 1985 for the year ended 31st December 2002, and our report was as follows:

'We have audited the financial statements of Tullow UK Gas Limited for the year ended 31st December 2002, which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Accounting Policies, and the related notes numbered 1 to 16. These statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's Members, as a body, in accordance with Section 225 of the Companies Act 1985. Our audit work was undertaken so that we might state to the Company's Members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective Responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom 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.

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

We read the other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and Statement of Directors' Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Continued ...

**TULLOW UK GAS LIMITED**

**AUDITORS' REPORT TO TULLOW UK GAS LIMITED**

**PURSUANT TO PARAGRAPH 24 OF SCHEDULE 8 TO THE COMPANIES ACT 1985**

... continued

**Respective Responsibilities of Directors and Auditors**

As described on page 3 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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.

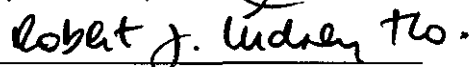
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

**Going Concern**

In forming our opinion we have considered the adequacy of the disclosures made in Note 1 to the financial statements covering the manner in which the Company is financed. In view of the significance of this uncertainty, we consider that it should be drawn to our attention but our opinion is not qualified in that respect.

**Opinion**

In our opinion, the financial statements, give a true and fair view of the state of the Company's affairs at 31st December, 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act, 1985.

  
Robert J. Kidney & Co.

29th April 2003

Robert J. Kidney & Co.,  
Chartered Accountants,  
Registered Auditors,  
11 Adelaide Road,  
Dublin 2.

We certify that this is a true copy of the Auditors' Special Report issued to the Directors on 11th April 2003.

 Director

 Secretary

**TULLOW UK GAS LIMITED**

**FINANCIAL STATEMENTS**

**YEAR ENDED 31ST DECEMBER 2002**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law in the United Kingdom 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 as at the end of the year and of the profit or loss of the Company 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;

Comply with applicable accounting standards subject to any material departures disclosed and explained in the financial statements;

Prepare 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 which enable them to comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

**Approved by the board on 11th April 2003**



**A. HEAVEY**



**T. HICKEY**

**DIRECTOR**

**DIRECTOR**

**TULLOW UK GAS LIMITED**  
**STATEMENT OF ACCOUNTING POLICIES**  
**YEAR ENDED 31ST DECEMBER 2002**

The principal accounting policies of the Company are as follows:

**Basis of Accounting**

The financial statements are prepared under the historical cost convention and the UK Statement of Recommended Practice 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' and in accordance with applicable UK accounting standards.

The Company is engaged in oil and gas exploration and development through unincorporated joint ventures. The company consolidates its share of the results and net assets of these joint ventures. In addition where the Company acts as operator to the joint venture, the gross liabilities and receivables (including amounts due or from non-operating partners) of the joint venture are included in the Company's Balance Sheet.

**Cost Of Exploration**

All pre-licence, licence acquisition, exploration and appraisal costs are initially capitalised as intangible fixed assets in cost centres by well, field or country as appropriate pending determination of commercial reserves. Administration costs, depreciation and interest payable are capitalised insofar as they relate to specific exploration and development activities.

These costs are then written off unless commercial reserves have been established or the determination process has not been completed.

Following the discovery of a commercially viable field the attributable costs are transferred to tangible fixed assets in single field cost centres.

Commercial reserves are proven and probable oil and gas reserves, as defined in the UK Statement of Recommended Practice 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities'.

**Depletion and Amortisation - Discovery Fields**

All expenditure carried within each field is amortised on a unit of production basis which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves on a field by field basis at the end of the period plus the production in the period. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs. Changes in the estimates of commercial reserves or future field development costs dealt with prospectively.

**TULLOW UK GAS LIMITED**  
**STATEMENT OF ACCOUNTING POLICIES**  
**YEAR ENDED 31ST DECEMBER 2002**

Where there has been a change in economic conditions that indicate a possible impairment in a discovery field, the recoverability of the net book value relating to that field is assessed by comparison with the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs. Any impairment identified is charged to the profit and loss account as additional depreciation, depletion and amortisation. Where conditions giving rise to impairment subsequently reverse, the effect of any impairment charge is also reversed as a credit to the profit and loss account, net of any amortisation that would have been charged since the impairment.

**Decommissioning**

Provision for decommissioning is recognised in full at the commencement of oil and gas production. The amount recognised is the the present value of estimated future expenditure determined in accordance with local conditions and requirements and is reassessed each year in accordance with local conditions and requirements. A corresponding tangible fixed asset of an amount equal to the provision is also created. This is subsequently amortised on a unit of production basis. Changes in the estimates of commercial reserves or decommissioning cost estimates are dealt with prospectively.

**Foreign Currencies**

Sterling is the reporting currency of the company. Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the Balance Sheet date with a corresponding credit or charge to the profit and loss account. However exchange gains and losses arising on long-term Parent Company loans are dealt with in Reserves.

**Taxation**

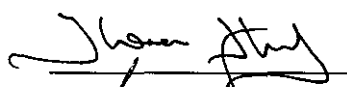
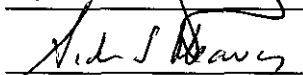
Current tax, including UK corporation tax, is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Deferred Taxation is provided on all material timing differences to the extent that a liability is expected to arise in the foreseeable future. Provision is made at the rates which are expected to be applied when the liabilities are expected to crystallise.

**TULLOW UK GAS LIMITED****BALANCE SHEET AS AT 31ST DECEMBER 2002**

	<b><u>NOTES</u></b>	<b><u>2002</u></b> <b><u>£</u></b>	<b><u>2001</u></b> <b><u>£'000</u></b>
<b>FIXED ASSETS</b>			
Tangible	3	5,358,024	5,527,966
<b>CURRENT ASSETS</b>			
Debtors	4	493,139	450,602
Cash at Bank and in Hand		70,447	146,883
		563,586	597,485
<b>CREDITORS (Amounts falling due within one year)</b>			
Trade and Other Creditors	5	(561,836)	(635,812)
Bank Loans and Overdrafts	6	(612,720)	(966,000)
		(1,174,556)	(1,601,812)
<b>NET CURRENT LIABILITIES</b>		(610,970)	(1,004,327)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		4,747,054	4,523,639
<b>CREDITORS (Amounts falling due after more than one year)</b>			
Bank Loans	7	(920,920)	(1,357,000)
Parent Company	6	(6,330,874)	(5,227,178)
Provision for Charges	8	(91,993)	(91,993)
		(7,343,787)	(6,676,171)
<b>NET ASSETS</b>		(2,596,733)	(2,152,532)
<b>CAPITAL AND RESERVES</b>			
Called Up Share Capital	9	3,100,000	3,100,000
Profit and Loss Account	10	(5,696,733)	(5,252,532)
<b>SHAREHOLDERS' DEFICIT</b>		(2,596,733)	(2,152,532)

The company has taken advantage of the exemptions conferred by Section A of Part 111 of Schedule 8 to the Companies Act, 1985 and, in the directors' opinion, the company is entitled to those exemptions on the grounds that it is a small company within the definitions of that Act.

 Director  
 Director

The notes on pages 8 to 10 form part of these abbreviated accounts.



**TULLOW UK GAS LIMITED****NOTES ON THE ABBREVIATED ACCOUNTS****YEAR ENDED 31ST DECEMBER 2002****NOTE 1. BASIS OF PREPARING THESE FINANCIAL STATEMENTS**

The Company meets its capital expenditure and working capital requirements through a loan from its parent company for which no fixed repayment terms exist.

The nature of the Company's business is such that considerable sums are required to carry out exploration work and until such time as income of the Company exceeds expenditure, it is reliant on the parent company to finance its requirements. On the basis of discussions with the parent company, the Directors consider that in the circumstances it is appropriate to prepare the statements on the going concern basis.

**NOTE 2. PARENT COMPANY**

The company is a wholly owned subsidiary of Tullow Oil Plc which is incorporated in Ireland. The company's ultimate parent is Tullow Oil Plc incorporated in England & Wales.

**NOTE 3. TANGIBLE FIXED ASSETS**

	<b>Exploration and Development Discovery Fields £</b>
<b>Cost</b>	
At 31st December 2001	7,324,735
Additions	(1,116)
	<hr/>
At 31st December 2002	7,323,619
	<hr/>
<b>Amortisation and Depreciation</b>	
At 31st December 2001	1,796,769
Charged to Profit and Loss Account	168,826
	<hr/>
At 31st December 2002	1,965,595
	<hr/>
<b>Net Book Value</b>	
At 31st December 2002	5,358,024
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At 31st December 2001	5,527,966
	<hr/>

**NOTE 4. DEBTORS**

(Amounts falling due within one year)

	<b>2002 £</b>	<b>2001 £</b>
Trade Debtors	348,000	223,899
Other Debtors and Prepayments	100,697	188,577
Prepayments and Accrued Income	44,442	38,126
	<hr/>	<hr/>
	493,139	450,602
	<hr/>	<hr/>

**TULLOW UK GAS LIMITED****NOTES ON THE ABBREVIATED ACCOUNTS****YEAR ENDED 31ST DECEMBER 2002**

<b>NOTE 5. TRADE AND OTHER CREDITORS</b>	<b>2002</b>	<b>2001</b>
(Amounts falling due within one year)	<b>£</b>	<b>£</b>
Trade Creditors	181,755	199,045
VAT	6,480	55,292
Accruals	373,601	381,474
	<u>561,836</u>	<u>635,812</u>
 <b>NOTE 6. BANK LOANS</b>	 <b>2002</b>	 <b>2001</b>
(Amounts falling due within one year)	<b>£</b>	<b>£</b>
Term Loan	<u>612,720</u>	<u>966,000</u>
 (Amounts falling due after more than one year)		
Term Loan - One to two Years	612,720	966,000
- Three to Five Years	308,200	391,000
	<u>920,920</u>	<u>1,357,000</u>

The bank borrowings are secured as follows:

- (a) Pledge over the issued share capital of the company.
- (d) First floating charge over the assets of the company.
- (e) Guarantee by Tullow Oil plc.

<b>NOTE 7. PARENT COMPANY</b>	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>£</b>
Amount due to Tullow Oil Plc (Ireland)	<u>(6,330,874)</u>	<u>(5,227,178)</u>

The Directors have received assurances from Tullow Oil plc that no repayment of the parent company loan will be required in excess of the Company's free cash balances in order that the Company can continue as a going concern.

<b>NOTE 8. PROVISIONS FOR LIABILITIES AND CHARGES</b>	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>£</b>
<b>Decommissioning Costs</b>		
Balance at beginning of Year	91,993	91,993
Charge for Year	-	-
Balance at end of Year	<u>91,993</u>	<u>91,993</u>

At 31st December 2002 the provision for the decommissioning of the Company's natural gas facilities at the end of their economic lives was £STG91,993. The provision has been estimated using existing technology at current prices. The costs are expected to be incurred over the next 10 years.

**TULLOW UK GAS LIMITED****NOTES ON THE ABBREVIATED ACCOUNTS****YEAR ENDED 31ST DECEMBER 2002**

<b>NOTE 9. CALLED UP SHARE CAPITAL</b>	<b>2002 £</b>	<b>2001 £</b>
<b><i>Authorised, Allotted and Fully Paid</i></b>		
3,100,000 Ordinary Shares of £1 Each	<u>3,100,000</u>	<u>3,100,000</u>
 <b>NOTE 10. PROFIT AND LOSS ACCOUNT</b>	 <b>2002 £</b>	 <b>2001 £</b>
At 1st January	(5,252,532)	(5,109,937)
Loss for Year	(186,305)	(214,133)
Exchange Movement on Parent Company Loan	<u>(257,896)</u>	<u>71,539</u>
At 31st December	<u>(5,696,733)</u>	<u>(5,252,531)</u>

**NOTE 11. APPROVAL OF FULL FINANCIAL STATEMENTS**

The full financial statements were approved by the Directors on 11th April 2003.

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