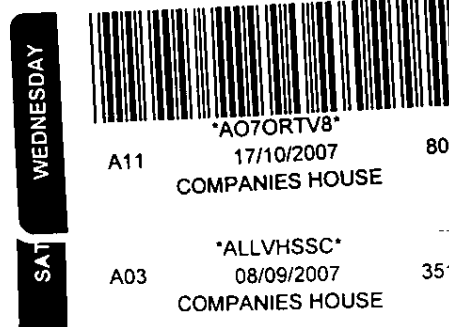


Newfield UK Holdings Limited

Directors' Report and Financial Statements
Year ended 31 December 2006

Registered number 4487600



Directors' report

For the period ended 31 December 2006

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 2006.

Principal activities and business review

Newfield UK Holdings Limited was incorporated on 16 July 2002. The company owns the issued share capital of Newfield Petroleum UK Limited and Newfield North Sea Limited.

On 27 December 2005, the company, as operator, spudded the 49/10a-5 Grove appraisal well which was suspended as a producer on 7 April 2006. The 49/10a-6 well at the West Grove location was spudded on 9 June 2006 and was completed in August. The Ensco 85 rig returned to the number 5 well before spudding the 49/10a-7 well on 7th November, this well being completed on 25 January 2007. The development plan for the Grove gas field was approved by the Board on 17 March and a production platform was installed during July 2006. First production was achieved in April 2007.

In September 2006, the company agreed to sell 15% of its Grove field interests to Sojitz Energy Project Limited and the consideration has been deducted from the carrying value of the pool of tangible assets. Agreement was also reached with Sojitz to farm-in to up to four exploration wells in order to acquire a 20% interest in each well. The first of these, the West Cutter well 49/9a-8, spudded on 3 February 2007 but was plugged and abandoned as a dry well on 1 March. This was immediately followed by the 48/6-42 (Auburn) well which was also plugged and abandoned, on 23 March. The Ensco 85 then moved to 48/7c to spud the Seven Seas appraisal well on 1 April.

In January 2007, it was announced that the company had been awarded licences for blocks 47/9d, 48/12e and 48/30b as a result of a successful application in the 24th Licensing Round.

Financial risk management

The group's operations expose it to a variety of financial risks that include the effects of changes in market prices, credit risk, liquidity risk and interest rate risk. The group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the group by monitoring levels of debt finance and the related finance costs. Given the size of the group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board.

Price risk

The group is exposed to commodity price risk as a result of its operations. However, given the size of the group's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The directors will revisit the appropriateness of this policy should the group's operations change in size or nature. The group has no exposure to equity securities price risk as it holds no listed or other equity investments.

Directors' report (continued)

For the period ended 31 December 2006

Credit risk

The group has implemented policies that require appropriate credit checks on potential customers before sales are made. Where debt finance is utilised, this is subject to pre-approval by the board of directors and such approval is limited to financial institutions with an AA rating or better. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the board.

Liquidity risk

The group finances its operations mainly through obtaining funds from headquarters in Houston. This is based on plans approved by the board of directors of capital expenditures required to develop the properties acquired in the UK and purchase additional properties where opportunities are identified. Overall, the group actively aims to maintain a mixture of long-term and short-term debt finance that is designed to ensure the group has sufficient available funds for operations and planned expansions.

Interest rate cash flow risk

The group has both interest bearing assets and interest bearing liabilities. Interest bearing assets include only cash balances which earn interest at current market rates. The directors will revisit the appropriateness of this policy should the group's operations change in size or nature.

Future developments

The group 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 group made a loss after taxation of £926,963 (2005: £1,743,137) for the year to 31 December 2006. The directors do not recommend the payment of a dividend.

Policy and practice on payment of creditors

It is group policy to agree settlement terms with suppliers of payment within thirty days of the date of the invoice. The average number of creditor days for the company was 25 days.

Employment policies

The group is committed to pursuing an equal opportunities policy covering recruitment and selection, training and development, appraisal and promotion. The group recognises the diversity of its employees, its customers and the community at large and seeks to use employees' talents and abilities to the full. This approach extends to the fair treatment of people with disabilities, in relation to their recruitment, training and development. Full consideration is given to the retention of staff who become disabled during employment.

Directors' report (continued)

For the period ended 31 December 2006

Employee communications

The group is committed to effective communications, which it maintains through regular information releases and staff briefings. Formal communications with employees take place through these channels.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss for that year. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2006 and that accounting standards have been followed.

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

Changes in accounting policy

The group has adopted FRS20, "Share-based payment" in these financial statements. The adoption of this standard represents a change in accounting policy and comparative periods have been restated. The adoption of each of these standards represents a change in accounting policy, and accordingly the comparative figures have been restated where required. The impact of the restatement on the results was to record an additional expense of £537,699, £369,323 for 2006 and 2005, respectively. The cumulative charge for periods prior to 2005 was £381,308. In addition, the balance sheet impact of the restatement was to increase fixed assets reported in 2006 and 2005 by £684,344 and £470,048, respectively.

Directors and their interests

The directors who served during the period were as follows:

D R Phillips
T W Rathert
W D Schneider
D A Trice

None of the directors who held office at 31 December 2006 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.

Statement of disclosure of information to auditors

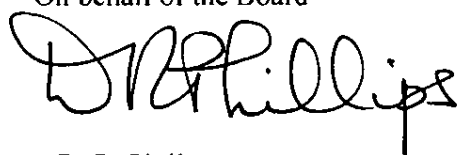
As of the date of this report the directors confirm that, so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and they have taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

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

17 Hanover Square
London
W1S 1HU

On behalf of the Board

A handwritten signature in black ink, appearing to read 'D R Phillips', with a stylized flourish at the end.

D R Phillips
Director

13th August 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF NEWFIELD UK HOLDING LIMITED

We have audited the financial statements of Newfield UK Holdings Ltd for the year ended 31 December 2006 which comprise the Profit and Loss account, the Consolidated Balance Sheet, Company Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

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

Basis of audit opinion

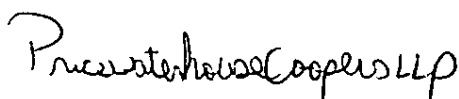
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors, London
3 October 2007

Consolidated Profit and loss account
For the period ended 31 December 2006

| | <u>Notes</u> | <u>2006</u> £ | <u>Restated</u> <u>2005</u> £ |
|---|--------------|---------------------|-------------------------------------|
| Turnover | 2 | - | 367,411 |
| Cost of sales | 3 | (388,511) | (346,248) |
| Gross profit/(loss) | | <u>(388,511)</u> | <u>21,163</u> |
| Foreign exchange gain | 14 | 5,550,403 | - |
| Administrative expenses | 4 | <u>(2,555,490)</u> | <u>(1,844,419)</u> |
| Operating profit/(loss) | 5 | 2,606,402 | (1,823,256) |
| Interest receivable and similar income | 6 | 280,303 | 224,295 |
| Interest payable and similar charges | 7 | <u>(2,133,359)</u> | <u>(62,878)</u> |
| Profit/(loss) on ordinary activities before taxation | | 753,346 | (1,661,839) |
| Tax on profit/(loss) on ordinary activities | 8 | <u>(1,680,309)</u> | <u>(81,298)</u> |
| Loss for the financial year | 18 | (926,963) | (1,743,137) |
| Retained (loss) at the beginning of the financial year | | <u>(13,690,528)</u> | <u>(11,947,391)</u> |
| Retained (loss) at the end of the financial year | | <u>(14,617,491)</u> | <u>(13,690,528)</u> |

All results for the year ended 31 December 2006 are derived from continuing operations. There were no recognised gains or losses during 2006 other than those included in the profit and loss account for the period. The notes on pages 10 to 20 form part of these financial statements.

Consolidated Balance Sheet

31 December 2006

| | <u>Notes</u> | <u>2006</u> £ | <u>Restated</u> <u>2005</u> £ |
|--|--------------|---------------------|-------------------------------------|
| Fixed assets | | | |
| Intangible assets | 9 | 33,861,561 | 10,058,488 |
| Tangible assets | 9 | <u>69,307,809</u> | <u>18,050,903</u> |
| | | <u>103,169,370</u> | <u>28,109,391</u> |
| Current assets | | | |
| Debtors | 12 | 2,431,525 | 519,403 |
| Cash at bank and in hand | | <u>14,617,307</u> | <u>879,090</u> |
| | | <u>17,048,832</u> | <u>1,398,493</u> |
| Creditors | | | |
| Amounts falling due within one year | 13 | <u>(17,127,476)</u> | <u>(1,272,337)</u> |
| Net current assets/(liabilities) | | <u>(78,644)</u> | <u>126,156</u> |
| Total assets less current liabilities | | 103,090,726 | 28,235,547 |
| Creditors | | | |
| Amounts falling due after more than one year | 14 | (74,114,756) | (37,931,820) |
| Provisions for liabilities and charges | 16 | (3,837,461) | (794,155) |
| | | <hr/> | <hr/> |
| Net assets | | 25,138,509 | (10,490,428) |
| Capital and reserves – equity interests | | | |
| Equity | | | |
| Called-up share capital | 17 | 379,983 | 40,000 |
| Share Premium Account | 18 | 39,376,017 | 3,160,100 |
| Profit and loss account | 18 | <u>(14,617,491)</u> | <u>(13,690,528)</u> |
| | | <hr/> | <hr/> |
| Total shareholder's funds | 19 | 25,138,509 | (10,490,428) |
| | | <hr/> | <hr/> |

The notes on pages 10 to 20 form part of these financial statements

Signed on behalf of the Board



D R Phillips

Director

13th August 2007

Company Balance Sheet

31 December 2006

| | <u>Notes</u> | <u>2006</u> £ | Restated <u>2005</u> £ |
|--|--------------|------------------|------------------------------|
| Fixed assets | | | |
| Investments in subsidiary undertakings | 10 | 39,756,100 | 39,756,100 |
| Loans to group undertakings | 11 | 77,493,664 | - |
| Current assets | | | |
| Debtors | 12 | 2,135,387 | 461 |
| Creditors | | | |
| Amounts falling due within one year | 13 | (3,682,610) | - |
| Net current assets | | (1,547,223) | 461 |
| Total assets less current liabilities | | 115,702,541 | 39,756,561 |
| Creditors | | | |
| Amounts falling due after more than one year | 14 | (71,943,362) | (36,556,461) |
| Net assets | | 43 759 179 | 3,200,100 |
| Capital and reserves | | | |
| Called-up share capital | 17 | 379,983 | 40,000 |
| Share premium account | 18 | 39,376,017 | 3,160,100 |
| Profit and loss account | 18 | 4,003,179 | - |
| Shareholder's funds | 19 | 43,759,179 | 3,200,100 |

The notes on pages 10 to 20 form part of these financial statements

Signed on behalf of the Board


D R Phillips Director

13th August 2007

Notes to financial statements

31 December 2006

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. The directors have placed reliance upon the letter of continuing financial support described in note 22.

(b) Consolidation

The Groups financial statements consolidate the financial statements of Newfield UK Holdings Limited and its subsidiary undertakings, Newfield Petroleum UK Limited and Newfield North Sea Limited. The financial statements have been prepared in accordance with Financial Reporting Standard 2 (Accounting for Subsidiary undertakings).

(c) Joint Venture 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.

(d) 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.

(e) Exploration and development expenditure

The company follows the full-cost method of accounting for oil and gas properties as set out in the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" published by the UK Oil Industry Accounting Committee. Proceeds from the disposal of interests are deducted from the cost pool.

(f) 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 3 years.

(g) 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.

(h) Commercial reserves

Commercial reserves are proved and probable 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

(i) Abandonment

Provision is made for the present value of the future cost of abandonment of production platforms, pipelines and terminal facilities. This provision is recognised when the asset is installed. The estimated costs, based on engineering cost levels prevailing at the balance sheet date, are computed on the basis of the latest assumptions as to the scope and method of abandonment. The corresponding amount is capitalised as part of tangible fixed assets and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the reassessment of estimated cost of decommissioning is capitalised, whilst the charge arising from the unwinding of the discount applied to the abandonment provision is treated as a component of the interest charge.

(j) 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 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 2006 or 31 December 2005.

(k) 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. Exchange gains and losses are recognised in the profit and loss account. Year-end exchange rates used were \$1.96 (2006) and \$1.72 (2005).

(l) 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.

(m) Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

(n) Turnover

Turnover represents the invoiced value for the sale of oil, gas and condensate and is recognised upon delivery of the product.

(o) Cash flow statement and related party disclosures

The company has taken advantage of the exemption from preparing a cashflow statement under the terms of FRS 1. The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Newfield Exploration Company group or investees of the Newfield Exploration Company.

(p) Changes in accounting policy

The group has adopted FRS20 "Share-based payment" and FRS21 "Events after the balance sheet date" in the period. The adoption of each of these standards represents a change in accounting policy, and accordingly the comparative figures have been restated where required. The impact of the restatement on the results was to increase the reported loss for 2006, 2005 and 2004 by £537,699, £369,323 and £381,308, respectively. In addition, the balance sheet impact of the restatement was to increase fixed assets reported in 2006 and 2005 by £684,344 and £470,048, respectively.

(q) Employee Share Schemes

Cash-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non market-based vesting conditions). The fair value determined at the grant date is expensed on a straight line basis together with the corresponding increase in liability over the vesting period, based on the company's estimate of the number of shares that will vest.

(r) Investments

Investments are included in the company balance sheet at cost less any provisions for impairment.

2. Turnover

Turnover relates to principal activities of the business and arises wholly in North West Europe. There were no sales during the year (2005 £367,411).

3. Cost of sales

Cost of sales relates to charges incurred for the use of pipelines adjacent to the company's fields in the North Sea. This reservation fee is paid on monthly basis whether or not throughput is achieved as planned.

4. Administrative Expenses

| | <u>2006</u> | <u>2005</u> |
|------------------------------------|--------------------|--------------------|
| | £ | £ |
| Overhead costs | (2,489,869) | (1,776,877) |
| Depreciation of other fixed assets | <u>(65,621)</u> | <u>(67,542)</u> |
| | <u>(2,555,490)</u> | <u>(1,844,419)</u> |

5. Operating loss

| | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|
| | £ | £ |
| Operating profit/(loss) for the period is stated after charging | | |
| Auditors' remuneration – audit fee | 23,000 | 12,000 |
| Employee costs | 976,967 | 526,603 |
| Depreciation of tangible assets | 65,621 | 127,427 |
| Depreciation of abandonment asset | - | 70,201 |
| Foreign currency loss/(gain) | (5,094,656) | 7,369 |
| Operating lease costs – office rent | 194,308 | 140,741 |

The average number of employees (excluding non-executive directors) during the period was

8 6

Employee costs in the period amounted to

| | £ | £ |
|---|---------|---------|
| Staff costs, excluding executive director | 558,830 | 290,564 |
| Social security costs | 97,260 | 43,534 |
| Directors' emoluments | 320,877 | 192,505 |

6. Interest receivable and similar income

| | <u>2006</u> | <u>2005</u> |
|----------------|----------------|----------------|
| | £ | £ |
| Bank interest | 209,662 | 78,757 |
| Other interest | 70,391 | 145,288 |
| Other income | <u>250</u> | <u>250</u> |
| | <u>280,303</u> | <u>224,295</u> |

7. Interest payable and similar charges

| | <u>2006</u> | <u>2005</u> |
|--|--------------------|-----------------|
| | £ | £ |
| Interest payable and similar charges | (2,060,426) | (46,948) |
| Unwinding of discount on decommissioning provision | <u>(72,933)</u> | <u>(15,930)</u> |
| | <u>(2,133,359)</u> | <u>(62,878)</u> |

8. Tax on profit on ordinary activities

Group and company

Factors affecting the tax charge for the financial year

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

| | <u>2006</u> £ | <u>2005</u> £ |
|--|------------------|------------------|
| Profit/(Loss) on ordinary activities before taxation | 753,346 | (1,661,839) |
| Profit/(Loss) on ordinary activities multiplied by aggregate standard corporation tax rates in the UK – 30% (2005 – 30%) | 226,004 | (498,552) |
| Effects of | | |
| Expenses not deductible for tax purposes | 1,893,305 | 59,020 |
| Accelerated capital allowances and other timing differences | (44,094,781) | (7,354,007) |
| (Credit)/charge for repayment/payment of tax on interest received | (35,339) | 81,298 |
| Losses not utilised | 43,540,451 | 7,959,723 |
| Supplemental oil and gas tax – 20% (2004 – 10%) | 150,669 | (166,184) |
| Current year current tax charge | 1,680,309 | 81,298 |

No entry has been made in these accounts for a potential net deferred tax asset of £21,154,251 (2005 £8,764,382) 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.

9. Fixed Assets

Group and Company

| | <u>Intangible Assets</u> | <u>Tangible Assets</u> | | <u>Total</u> |
|-----------------------|------------------------------------|------------------------|---------------------|--------------------|
| | Exploration and Appraisal Costs | Oil & Gas | Office Equipment | |
| | £ | £ | £ | £ |
| Cost | | | | |
| At 1 January 2006 | 10,058,488 | 28,154,944 | 364,392 | 38,577,824 |
| Additions | 23,803,073 | 67,033,127 | 73,059 | 90,909,259 |
| Disposals | - | (15,783,659) | - | (15,783,659) |
| At 31 December 2006 | <u>33,861,561</u> | <u>79,404,412</u> | <u>437,451</u> | <u>113,703,424</u> |
| Depreciation | | | | |
| At 1 January 2006 | - | 10,217,461 | 250,972 | 10,468,433 |
| Charge for year | - | - | 65,621 | 65,621 |
| At 31 December 2006 | <u>-</u> | <u>10,217,461</u> | <u>316,593</u> | <u>10,534,054</u> |
| Net book value | | | | |
| At 31 December 2006 | 33,861,561 | 69,186,951 | 120,858 | 103,169,370 |
| At 31 December 2005 | 10,058,488 | 17,937,483 | 113,420 | 28,109,391 |

Oil and gas tangible assets relate to the development and evaluated property costs capitalised in the UK full cost pool and include abandonment costs capitalised, the net book amount of which at 31 December 2006 is £3,837,461 (2005: £794,155)

The disposal of tangible assets relates to the sale of 15% of the Grove field to Sojitz Energy Project Limited on 8 September 2006

10. Fixed Asset Investments

| | Shares in subsidiary undertakings £ |
|--|--|
| Balance as at 31 st December 2005 | 39,756,100 |
| Additions | - |
| Balance as at 31 st December 2006 | <u>39,756,100</u> |

Shares in subsidiary undertakings include investments of £39,756,000 in Newfield Petroleum UK Limited and £100 in Newfield North Sea Limited. Newfield Petroleum UK Limited is the operating company in the group having interests in gas fields in the Southern North Sea Basin. Newfield North Sea Limited is a non trading dormant company. Both companies are wholly owned subsidiaries of Newfield UK Holdings Limited.

11. Loans to Group Undertakings

| | <u>Group</u> <u>2006</u> £ | <u>Group</u> <u>2005</u> £ | <u>Company</u> <u>2006</u> £ | <u>Company</u> <u>2005</u> £ |
|-----------------------------|----------------------------------|----------------------------------|------------------------------------|------------------------------------|
| Loans to Group Undertakings | - | - | <u>77,493,664</u> | - |
| | - | - | <u>77,493,664</u> | - |

Loans to Group Undertakings relate to a loan that is due from Newfield Petroleum UK Ltd and is unsecured and payable on demand. The group will not demand repayment of the amounts due within one year. As of 1 January 2006, the loan due became interest bearing. Interest for the year of £2,135,387 has been included in debtors due within one year (see Note 12).

12. Debtors: due within one year

| | <u>Group</u> <u>2006</u> £ | <u>Group</u> <u>2005</u> £ | <u>Company</u> <u>2006</u> £ | <u>Company</u> <u>2005</u> £ |
|-----------------------------|----------------------------------|----------------------------------|------------------------------------|------------------------------------|
| Receivables from subsidiary | - | - | 2,135,387 | 461 |
| Other debtors | 1,992,474 | 236,428 | - | - |
| Prepayments | <u>439,051</u> | <u>282,975</u> | - | - |
| | <u>2,431,525</u> | <u>519,403</u> | <u>2,135,387</u> | <u>461</u> |

Other debtors mostly relate to refundable value added tax and JV receivables.

13. Creditors: Amounts falling due within one year

| | <u>Group</u> <u>2006</u> £ | <u>Group</u> <u>2005</u> £ | <u>Company</u> <u>2006</u> £ | <u>Company</u> <u>2005</u> £ |
|------------------------------|----------------------------------|----------------------------------|------------------------------------|------------------------------------|
| Trade creditors | 13,128,266 | 885,078 | - | - |
| Other creditors | 2,144,212 | 208,501 | 1,966,962 | - |
| Taxation and Social security | <u>1,854,998</u> | <u>178,758</u> | <u>1,715,648</u> | - |
| | <u>17,127,476</u> | <u>1,272,337</u> | <u>3,682,610</u> | - |

Other creditors mostly relate to interest payable on an Intercompany loan.

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

| | <u>Group</u> <u>2006</u> £ | <u>Group</u> <u>2005</u> £ | <u>Company</u> <u>2006</u> £ | <u>Company</u> <u>2005</u> £ |
|------------------------------|----------------------------------|----------------------------------|------------------------------------|------------------------------------|
| Amount due to parent company | 71,943,262 | 36,556,100 | 71,943,262 | 36,556,361 |
| Amounts due to Subsidiaries | - | - | 100 | 100 |
| Accrued liabilities | <u>2,171,494</u> | <u>1,375,720</u> | <u>-</u> | <u>-</u> |
| | <u>74,114,756</u> | <u>37,931,820</u> | <u>71,943,362</u> | <u>36,556,461</u> |

Amount due to parent company is a loan from Newfield International Holdings, Inc denominated in US\$ and is unsecured and payable on demand. The parent company has confirmed that it will not demand repayment of the amounts due within one year. As of 1 January 2006, the loan due to parent company became interest bearing.

Accrued liabilities comprise the fair value of the Phantom Share Scheme incentive payments (see Note 15) which will be made within one to three years.

15. Phantom Share Scheme

The group introduced a cash bonus incentive scheme in March 2004 based on "phantom" shares. Under the program, phantom shares are granted to all employees wishing to join the scheme on the basis of a monthly salary sacrifice decided by the employee. The shares are revalued at the end of each quarter. All employees who joined the group between March 2004 and December 2006 were eligible to participate in the scheme. The scheme was modified in June 2007 (see Note 23).

Phantom shares granted are settled in cash subject to continued employment and one third of the shares vest after the third, fourth and fifth years of ownership.

Shares granted under the program are valued based upon a determination by the Board of the ultimate parent company, which takes into account, inter alia, the reserves and estimated future cashflows, prospects, other inventory of the group, working capital and tax positions.

The total liability accrued from inception to the end of 2006 is £2,615,348 (2005 £1,375,360). The total liability over one year as at 31 December 2006 is £2,171,949 (2005 £1,375,360) and the total liability that stands at less than one year as at 31 December 2006 is £443,399 (2005 £Nil).

| | Number of Shares |
|---|-------------------------|
| Phantom shares granted at beginning of year | 14,214 |
| Granted during year | 3,781 |
| Exercised during year | <u>-</u> |
| Total phantom shares at end of year | <u>17,995</u> |

The weighed average price per share granted during the year was £328. Of the total granted, 2,200 vested in 2007 and were exercised.

16. Provisions for liabilities and charges

Group and company

| | Abandonment provision £ |
|----------------------|--|
| At beginning of year | 794,155 |
| Accretion | 72,933 |
| Additions | <u>2,970,373</u> |
| At end of year | <u>3,837,461</u> |

The abandonment provision at the beginning of the year related to the cost of the Grove wells. The amount provided at the year end, was revised to include a provision for the Grove platform facility and pipelines that were constructed during the year.

17. Called-up share capital

Group and company

| | <u>2006</u> £ | <u>2005</u> £ |
|--|------------------|------------------|
| Equity share capital | | |
| Authorised | | |
| 1,000,000 ordinary shares of £100 each | 100,000,000 | 100,000,000 |
| Allotted, called-up and fully paid | | |
| 379,983 (2005 40,000) Ordinary shares of £1 each | 379,983 | 40,000 |

On 28 March 2006 the company issued 339,983 ordinary shares of £1 each for a total consideration of £36,555,900 resulting in a premium of £36,215,917.

18. Movements on reserves

Group

The movement on reserves for the period is as follows

| | Share Premium Account £ | Restated Profit and Loss Account £ | Total £ |
|-----------------------------|-------------------------------|---|-------------------|
| At 1 January 2006 | 3,160,100 | (12,939,897) | (9,779,797) |
| FRS 20 Adjustment | - | (750,631) | (750,631) |
| Share issue | 36,215,917 | - | 36,215,917 |
| Profit/ (loss) for the year | - | (926,963) | (926,963) |
| At 31 December 2006 | <u>39,376,017</u> | <u>(14,617,491)</u> | <u>24,758,526</u> |

Company

| | Share Premium Account £ | Profit and Loss Account £ | Total £ |
|---------------------|-------------------------------|---------------------------------|-------------------|
| At 1 January 2006 | 3,160,100 | - | 3,160,100 |
| Share issue | 36,215,917 | - | 36,215,917 |
| Profit for the year | - | 4,003,179 | 4,003,179 |
| At 31 December 2006 | <u>39,376,017</u> | <u>4,003,179</u> | <u>43,379,196</u> |

19. Reconciliation of movement in shareholder's funds

Group

| | <u>2006</u> | <u>Restated</u> |
|---|-------------------|---------------------|
| | <u>£</u> | <u>2005</u> |
| | <u>£</u> | <u>£</u> |
| Opening shareholder's funds | (10,490,428) | (8,365,983) |
| Prior period adjustment | - | (381,308) |
| Loss for the period | (926,963) | (1,743,137) |
| Net proceeds of issue of equity share capital | <u>36,555,900</u> | - |
| Closing shareholder's funds | <u>25,138,509</u> | <u>(10,490,428)</u> |

Company

| | <u>2006</u> | <u>2005</u> |
|---|-------------------|------------------|
| | <u>£</u> | <u>£</u> |
| Opening shareholder's funds | 3,200,100 | 3,200,100 |
| Profit for the period | 4,003,179 | - |
| Net proceeds of issue of equity share capital | <u>36,555,900</u> | - |
| Closing shareholder's funds | <u>43,759,179</u> | <u>3,200,100</u> |

20. Guarantees and other financial commitments

The group rented office space for which the commitment at 31 December for the period to 31 May 2007 was £50,000. The group entered into a lease for new offices in January 2007.

21. Contingent liability

On the acquisition of the Chiswick interest, the group agreed that, depending on the success of the development programme, further payments would be made to the seller of the field. These payments could be up to a maximum of £1.4 million. In addition, as part of the agreement of the sale of Chiswick in 2005, the group agreed to receive further consideration from its buyer for an amount of £0.5 million, dependant on the achievement of production targets. Management believes a provision for the total exposure of £0.9 million is not necessary, given that the achievement of these targets is uncertain.

As part of the Cleaver Bank High acquisition, the sector in which the Grove development has been made, the group also agreed to pay deferred compensation to the sellers of this interest of up to \$10 million. This is dependant on the field achieving certain production targets. Since the achievement of these targets is uncertain, management believes a provision is not necessary in this respect.

22. 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 UK Holdings 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

23. Post Balance Sheet Event

In May 2007 it was announced that the company and its subsidiaries would be sold As part of the preparation for the sale, the Phantom Share Scheme (see Note 15) was modified As a result, part of the provision will be released in 2007, with the amount remaining being equal to the employees' salary sacrifice