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KELT U.K. LIMITED  
(formerly Taylor Woodrow Energy Limited)

ACCOUNTS — 30 MARCH 1989

TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS

1421481



KELT U.K. LIMITED  
(formerly Taylor Woodrow Energy Limited)

DIRECTORS' REPORT

FOR THE 15 MONTHS ENDED 30 MARCH 1989

The directors submit their annual report and the accounts of the company for the 15 months ended 30 March 1989. The company, previously called Taylor Woodrow Energy Limited, changed its name to Kelt U.K. Limited on 18 February 1988.

**BUSINESS REVIEW:**

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 period are set out in the profit and loss account on page 4. The directors recommend that no dividend be paid in respect of the 15 months ended 30 March 1989 (1987 - £Nil).

**FIXED ASSETS:**

A summary of movements of fixed assets is shown in Note 8 to the accounts.

**DIRECTORS:**

The directors who held office during the period and their interests in the ordinary shares of the parent company, Kelt Energy PLC, were-

	<u>Number of shares held</u>		<u>Share options</u>	
	<u>1989</u>	<u>1987 *</u>	<u>1989</u>	<u>1987 *</u>
R. Broadhead (resigned 3 February 1988)	-	-	-	-
J.P. Gibson (resigned 3 February 1988)	-	-	-	-
R.C. Pemberton (resigned 3 February 1988)	-	-	-	-
M. Prokopiou (resigned 3 February 1988)	-	-	-	-
J.R. Smith (resigned 3 February 1988)	-	-	-	-
A.J.D. Locke (appointed 3 February 1988)	499,508	499,508	150,000	-
D.M. Bizeau (appointed 3 February 1988)	12,316	9,376	150,000	-
R.L. Makin (appointed 3 February 1988, resigned 23 September 1988)	-	-	-	-
E.P. Cameron (appointed 12 May 1988)	-	-	-	-
R.E. Jones (appointed 12 May 1988)	-	-	50,000	-
G.N. Pooley (appointed 12 May 1988, resigned 27 June 1989)	9,376	-	-	-
P.C. Spink (appointed 12 May 1988)	-	-	50,000	-
J.G. Crick (appointed 3 October 1988)	9,376	-	115,000	-
A.J. Shields (appointed 21 January 1989)	-	-	-	-
	=====	=====	=====	=====

\* or date of appointment, if later.

## DIRECTORS' REPORT (Continued)

### DIRECTORS (Continued):

A.J.D. Locke and D.M. Bizeau also held the following interests in 6% cumulative preference shares of the ultimate parent company, Kelt Energy PLC-

	<u>Number of shares held</u>	
	<u>1989</u>	<u>1987</u>
A.J.D. Locke	100,000	-
D.M. Bizeau	1,470	-
	=====	=====

### DIRECTORS' INTERESTS IN CONTRACTS:

No director who held office during 1988/89 had an interest in any contract or arrangement of a material nature with the company, its fellow subsidiaries, its parent or its ultimate holding company, except as indicated in Note 16, during the period under review.

### AUDITORS:

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen & Co. as auditors for the ensuing year.


### ELECTION OF DIRECTORS:

Messrs E.P. Cameron, R.E. Jones, P.C. Spink, J.G. Crick and A.J. Shields, having been appointed since the last annual general meeting, retire in accordance with the Articles of Association and, being eligible, offer themselves for re-election.

130 Jermyn Street  
London  
SW1Y 4UJ

29 September 1989

BY ORDER OF THE BOARD,

  
Roland Fox  
Secretary

ARTHUR ANDERSEN & Co.

1 SURREY STREET  
LONDON WC2R 2PS

To the Members of KELT U.K. LIMITED:

We have audited the financial statements on pages 4 to 13 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 March 1989 and of its loss and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Without qualifying our opinion above, we draw attention to the company's technical insolvency described in Note 17 and the assurance from the directors of the holding company that sufficient funds will be made available to the company over the next year to enable it to meet any liabilities that it may incur.

Arthur Andersen & Co

29 September 1989

KELT U.K. LIMITED  
(formerly Taylor Woodrow Energy Limited)

PROFIT AND LOSS ACCOUNT

FOR THE 15 MONTHS ENDED 30 MARCH 1989

	<u>Notes</u>	15 months to 30 March 1989 £'000	Year to 31 December 1987 £'000
TURNOVER	2	104	9,605
Cost of sales	3	(636)	(8,891)
GROSS (LOSS) PROFIT		(532)	714
Administration expenses	4	(546)	(598)
OPERATING (LOSS) PROFIT		(1,078)	116
Interest receivable and similar income		15	5
Interest payable and similar charges	6	(24)	(39)
(LOSS) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	(1,087)	83
Tax credit (charge) on (loss) profit on ordinary activities	7	338	(49)
(LOSS) PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(749)	34
RETAINED EARNINGS, brought forward		34	-
Transfer from revaluation reserve	14	144	-
(ACCUMULATED DEFICIT) RETAINED EARNINGS, carried forward		(571)	34

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

**KELT U.K. LIMITED**  
(formerly Taylor Woodrow Energy Limited)

**BALANCE SHEET — 30 MARCH 1989**

	<u>Notes</u>	<u>30 March 1989 £'000</u>	<u>31 December 1987 £'000</u>
<b>FIXED ASSETS</b>			
Tangible fixed assets	8	7,446	1,805
<b>CURRENT ASSETS</b>			
Stock		-	58
Debtors	9	534	62
Cash at bank		-	10
		534	130
CREDITORS: Due within one year	10	(1,548)	(1,463)
NET CURRENT LIABILITIES		(1,014)	(1,333)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,432	472
CREDITORS: Due after more than one year	11	(4,215)	-
PROVISIONS FOR LIABILITIES AND CHARGES	12	-	(338)
NET ASSETS		2,217	134
<b>CAPITAL AND RESERVES</b>			
Capital-up share capital	13	100	100
Revaluation reserve	14	2,688	-
Profit and loss account		(571)	34
		2,217	134

APPROVED BY THE BOARD ON 29 SEPTEMBER 1989

E.P. Cameron                     )  
  ) Directors  
A.J. Shields                     )

*GL*  
*Alfrees*

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

KELT U.K. LIMITED  
(formerly Taylor Woodrow Energy Limited)

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE PERIOD ENDED 30 MARCH 1989

	15 months to 30 March 1989 £'000	Year to 31 December 1987 £'000
<b>SOURCE OF FUNDS</b>		
(Loss) profit on ordinary activities before taxation	(1,087)	83
Adjustment for items not involving the movement of funds		
- depreciation, depletion and amortisation	722	900
- (profit) loss on disposal of tangible fixed assets	(4)	-
	<hr/>	<hr/>
Funds (absorbed), generated by operations	(369)	983
<b>FUNDS FROM OTHER SOURCES</b>		
Creditors: Amounts falling due after more than one year	4,215	-
	<hr/>	<hr/>
	3,846	983
	<hr/>	<hr/>
<b>APPLICATION OF FUNDS</b>		
Tax paid	17	-
Expenditure on tangible fixed assets	3,527	783
Increase in working capital, as shown below	302	200
	<hr/>	<hr/>
	3,846	983
	<hr/>	<hr/>
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>		
Stock	(58)	(983)
Debtors	472	(669)
Creditors: Amounts falling due within one year	370	1,846
	<hr/>	<hr/>
	784	194
Movement in net liquid funds		
- cash	(482)	6
	<hr/>	<hr/>
	302	200
	<hr/>	<hr/>

The accompanying notes form an integral part of this statement.

**KELT U.K. LIMITED**  
(formerly Taylor Woodrow Energy Limited)

**NOTES TO ACCOUNTS -- 30 MARCH 1989**

**1. ACCOUNTING POLICIES:**

The following are the principal accounting policies adopted in arriving at the financial information set out in this report--

**a) Basis of accounting**

The accounts have been prepared under the historical cost convention, as modified by the revaluation of fixed assets.

**b) Joint operations**

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

The accounts reflect Kelt U.K.'s share of income and expenditure arising from these ventures.

**c) Exploration and development costs**

**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 applying to these activities are capitalised. Interest costs are expensed insofar as they relate to borrowings associated with proved developed producing reserves.

Exploration and appraisal costs incurred prior to the determination of the existence or otherwise of commercial reserves are initially capitalised outside the related full cost pool, subject to there being no evidence of impairment. Such costs are transferred to the full cost pool upon declaration of commerciality or upon cessation of the related exploration programme.

**Depreciation**

All expenditure carried within the full cost pool is depreciated on a unit of production basis using the ratio of production in the period to the estimated quantity of commercial reserves 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 anticipated future field development costs at current period end unescalated prices.

Changes in cost and reserve estimates are dealt with prospectively.



## NOTES TO ACCOUNTS (Continued)

### 1. ACCOUNTING POLICIES (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 anticipated and undiscounted future net revenues calculated at period end prices. Any deficiency arising under this comparison is provided to the extent that, in view of the directors, it is considered to represent a permanent diminution in the value of the related assets.

#### d) Office equipment and motor vehicles

Depreciation on cost is provided on a straight line basis at a rate of 25% per annum.

#### e) Turnover

Turnover represents the invoiced value of sales of hydrocarbons and related services, exclusive of VAT.

#### f) Foreign currencies

Transactions denominated in foreign currency are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in 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 financial statements to the extent that it is possible that a liability or asset will crystallise in the future.

Provision is made for Petroleum Revenue Tax over the expected life of each field on a unit of production basis taking account of the benefit of uplift, oil allowance, safeguard and abandonment costs and using oil prices and cost levels prevailing at the balance sheet date.

#### h) Abandonment provision

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

### 2. TURNOVER AND (LOSS) PROFIT ON ORDINARY ACTIVITIES:

The company's turnover and results on ordinary activities before taxation for the period were derived principally from gas production in the United Kingdom. In 1987 this also included management and engineering services to the energy industry but no segment analysis is available.

# NOTES TO ACCOUNTS (Continued)

## 3. COST OF SALES:

Cost of sales includes depletion and amortisation of deferred exploration and development costs of £615,000 (1987 - £900,000).

## 4. ADMINISTRATION EXPENSES:

Administration expenses include-

	15 months to 30 March 1989 £'000	Year to 31 December 1987 £'000
Depreciation	107	-
Auditors' remuneration	16	6
Profit on disposal of sundry fixed assets	(4)	-
	=====	=====

## 5. STAFF COSTS:

Particulars of employees, including directors, are as follows-

	15 months to 30 March 1989 £'000	Year to 31 December 1987 £'000
Employee costs during the period amounted to-		
Wages and salaries	400	14
Social security costs	234	1
Other pension costs	43	-
	-----	-----
	677	15
	=====	=====

The average number of persons employed by the company during the period was 22 (1987 - 1).

The employee costs shown above include the following remuneration in respect of directors-

Emoluments, including pension contributions	216	-
	=====	=====

In addition the company paid £143,000 to Coelecanth Services Ltd for the services of R.L. Makin, including £75,000 for termination of the contract.

The directors' remuneration shown above (excluding pension contributions) included-

Chairman	-	-
	=====	=====
Highest paid director	78	-
	=====	=====

NOTES TO ACCOUNTS (Continued)

5. STAFF COSTS (Continued):

Other directors received emoluments (excluding pension contributions) in the following ranges-

	15 months to 30 March 1989 <u>Number</u>	Year to 31 December 1987 <u>Number</u>
£ 0 - £ 5,000	9	-
£ 5,001 - £10,000	1	-
£40,001 - £45,000	1	-
£60,001 - £65,000	1	-
	===	===

Higher paid employees-

Employees of the company, other than directors, received remuneration (excluding pension contributions) in the following range-

	<u>Number</u>	<u>Number</u>
£30,001 - £35,000	2	-
	===	===

6. INTEREST PAYABLE AND SIMILAR CHARGES:

	15 months to 30 March 1989 <u>£'000</u>	Year to 31 December 1987 <u>£'000</u>
Interest payable to a third party	37	-
Interest payable to a group company	200	39
Less amounts capitalised	(213)	-
	-----	-----
	24	39
	=====	=====

7. TAX CREDIT (CHARGE) ON (LOSS) PROFIT ON ORDINARY ACTIVITIES:

The tax credit comprises-

	15 months to 30 March 1989 <u>£'000</u>	Year to 31 December 1987 <u>£'000</u>
Current corporation tax liability	-	(17)
Deferred corporation tax	338	(32)
	-----	-----
	338	(49)
	=====	=====

NOTES TO ACCOUNTS (Continued)

8. TANGIBLE FIXED ASSETS:

	<u>Total</u>	<u>Exploration and development</u>	<u>Office equipment and motor vehicles</u>
	<u>£'000</u>	<u>costs</u>	<u>£'000</u>
		<u>£'000</u>	<u>£'000</u>
COST OR VALUATION--			
At 1 January 1988	6,356	6,356	-
Revaluation	2,832	2,832	-
Additions at cost	3,527	2,875	652
	<u>-----</u>	<u>-----</u>	<u>-----</u>
At 30 March 1989	12,715	12,063	652
	<u>-----</u>	<u>-----</u>	<u>-----</u>
DEPRECIATION--			
At 1 January 1988	4,551	4,551	-
Charge for the period	718	615	103
	<u>-----</u>	<u>-----</u>	<u>-----</u>
At 30 March 1989	5,269	5,166	103
	<u>-----</u>	<u>-----</u>	<u>-----</u>
NET BOOK VALUE			
At 30 March 1989	7,446	6,897	549
	<u>=====</u>	<u>=====</u>	<u>=====</u>
NET BOOK VALUE			
At 31 December 1987	1,805	1,805	-
	<u>=====</u>	<u>=====</u>	<u>=====</u>

The exploration and development assets were revalued to fair market value effective 1 January 1988 to reflect the price paid for the company by Kelt Energy PLC, formerly Concorde Energy PLC.

The original cost, and aggregate depreciation based on cost, of exploration and development assets included at valuation was-

	<u>30 March 1989</u>
	<u>£'000</u>
Original cost	6,356
Depreciation based on cost	4,910
	<u>-----</u>
	1,446
	<u>=====</u>

Expenditure capitalised during the period includes interest of £213,000 (1988 - Nil).

9. DEBTORS:

Amounts falling due within one year-

	<u>30 March 1989</u>	<u>31 December 1987</u>
	<u>£'000</u>	<u>£'000</u>
Trade debtors	270	13
Group companies	93	-
Other debtors	136	-
Prepayments and accrued income	35	49
	<u>-----</u>	<u>-----</u>
	534	62
	<u>=====</u>	<u>=====</u>

# NOTES TO ACCOUNTS (Continued)

## 10. CREDITORS- AMOUNTS FALLING DUE WITHIN ONE YEAR:

	<u>30 March 1989</u>	<u>31 December 1987</u>
	<u>£'000</u>	<u>£'000</u>
Bank overdraft (unsecured)	472	-
Trade creditors	52	106
Amounts owed to group companies	671	1,229
Taxation and social security	35	66
Accruals	318	62
	<u>1,548</u>	<u>1,463</u>
	<u>=====</u>	<u>=====</u>

## 11. CREDITORS- AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:

	<u>30 March 1989</u>	<u>31 December 1987</u>
	<u>£'000</u>	<u>£'000</u>
Amounts owed to a group company	4,215	-
	<u>=====</u>	<u>=====</u>

Interest is charged at a rate equivalent to Lloyds Bank PLC deposit rate +1%.

## 12. PROVISION FOR LIABILITIES AND CHARGES:

No provision for deferred corporation tax was made (1987 - £338,000). The full potential liability for deferred corporation tax, calculated on the liability method at 35%, arises from-

	<u>30 March 1989</u>	<u>31 December 1987</u>
	<u>£'000</u>	<u>£'000</u>
Accelerated capital allowances	2,150	996
	<u>=====</u>	<u>=====</u>
Full potential liability	2,150	996
	<u>=====</u>	<u>=====</u>
Of which provided for in the accounts	-	338
	<u>=====</u>	<u>=====</u>

## 13. CALLED-UP SHARE CAPITAL:

Authorised, allotted, called-up and fully-paid ordinary shares of £1 each-

<u>30 March 1989</u>	<u>31 December 1987</u>
<u>£'000</u>	<u>£'000</u>
100	100
<u>=====</u>	<u>=====</u>

# NOTES TO ACCOUNTS (Continued)

## 14. RESERVES:

	<u>Revaluation reserve</u> <u>£'000</u>	<u>Profit and loss account</u> <u>£'000</u>
Beginning of the year	-	34
Revaluation surplus	2,832	-
Amortisation of revaluation surplus	(144)	144
Loss for the year		(749)
	-----	-----
End of year	2,688 =====	571 =====

## 15. CAPITAL COMMITMENTS AND CONTINGENCIES:

i) The company, jointly with other group companies, has guaranteed all liabilities of its ultimate parent company (Note 17) in favour of American Express Bank Ltd (as agent and trustee for a syndicate of banks).

ii) Under the terms of the various operating agreements governing Kelt U.K.'s oil and gas licence interests, the company may be liable, in certain circumstances, to bear increased costs as a result of the default or withdrawal of any other party to such agreements.

iii) Capital commitments at 30 March 1989 in respect of exploration and development activities comprised-

	<u>£'000</u>
Authorised but not contracted for	-
Contracted for	48
	-----
	48 ===

## 16. RELATED PARTY TRANSACTIONS:

Mr. A.J.D. Locke is a shareholder in Amethyst Investments Ltd, a UK company which provided advisory services to Kelt Energy PLC. Fees totalling £375,000 were paid during the period, and provision has been made by Kelt Energy PLC to pay fees of £425,000 in respect of that company's acquisition of Carless Plc.

## 17. ULTIMATE HOLDING COMPANY:

The company's ultimate holding company is Kelt Energy PLC, incorporated in England.

The company was technically insolvent at 30 March 1989. The directors of the ultimate holding company have confirmed that sufficient funds will be made available to the company over the next year to enable it to meet any liabilities that it may incur.