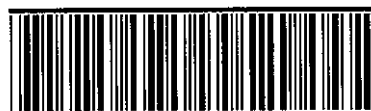


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# UNITED ENERGY

—plc—

Report & Accounts  
1998



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COMPANIES HOUSE 04/06/99

**United Energy** has demonstrated sustained growth but the collapse in world oil prices has severely impacted profitability.

**United Energy** has announced its intention, subject to shareholder approval, to divest its oil and gas interests in the USA for US\$ 22 million in cash. An explanatory circular is being sent to shareholders.

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### **The Annual General Meeting of Shareholders**

The Annual General Meeting of United Energy plc will be held at the offices of Nabarro Nathanson, 50 Stratton Street, London W1X 6NX on 10 June 1999 at 11.00 am.

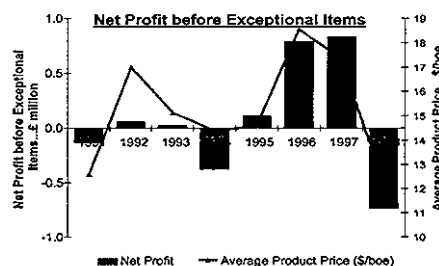
### **Oil and Gas Terms used in this Report**

bbl	barrel
bopd	barrels of oil per day
mmbbl	thousand barrels of oil
bcpd	barrels of condensate per day
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
mboe	thousand barrels of oil equivalent
mmboe	million barrels of oil equivalent
mscf	thousand standard cubic feet
mmscf	million standard cubic feet
mmbtu	million British thermal units

## Summary

### Summary

- Production increased by 42% to 2,176 boepd.
- Proved reserve base up 8% to 4.6 million boe.
- Received oil and gas prices down 34 & 21%.
- Loss of £2.40 million including exceptional items amounting to £1.62 million.
- US properties conditionally sold for US\$22 million.
- Agrigen's planning appeal rejected resulting in exceptional provision of £0.87 million.



### Profit and Loss Account

	1998	1997
	£'000	£'000
Turnover	5,471	5,507
(Loss)/profit before exceptional items	(782)	803
Exceptional provisions	(1,620)	-
(Loss)/earnings per share	(6.2)p	2.1p

### Cash Flow Statement

Net operating cash flow	2,160	2,851
Cash flow per share	5.6p	7.3p

### Balance Sheet

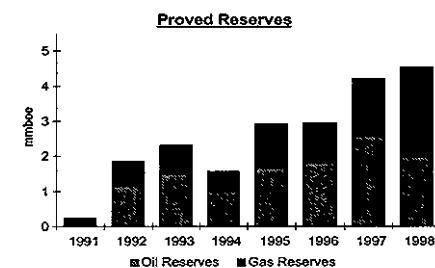
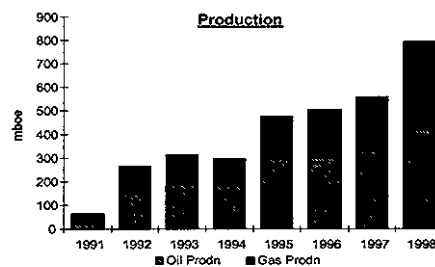
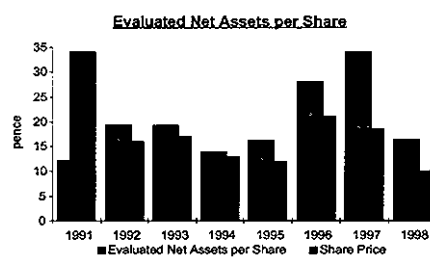
Shareholders' funds	3,955	6,440
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### Production

Crude oil (mbbl)	416	328
Natural gas (mmscf)	2,270	1,397
Average daily production (boepd)	2,176	1,536

### Reserves, proved

Crude oil (mbbl)	1,968	2,551
Natural gas (mmscf)	15,520	9,946
Barrels of oil equivalent (mboe)	4,555	4,208



## Chairman's Statement

*Dear Shareholder,*

1998 has been a very difficult year. Despite continuing to build solid growth in production and reserves, the severe erosion in world oil prices, from an already weak position at the beginning of the year, has negated the achievements of the past three years. I am, therefore, disappointed to have to report a loss of £2.40 million after exceptional items amounting to £1.62 million. Had 1997 average oil and gas prices prevailed in 1998, excluding the loss in Agrigen, the Company would have been able to report a profit of £1.7 million.

### US Oil and Gas Operations

Despite strong production growth throughout the year and a significant reduction in operating cost per boe the US\$4.67 per boe fall in average oil and gas prices reduced cash flows by US\$3.7 million.

As a result of the nature of the business, the fall in product prices hits upstream oil and gas companies in a variety of ways which compounds the problems currently faced by AmBrit Energy. Not only are cash flows reduced, but the proved reserve base is decreased as the economic limit is reached earlier in the life of the field at lower prices. With a smaller reserve base and reduced pricing, gearing is increased disproportionately as the base against which funds are borrowed is worth less. Furthermore, depletion is increased as costs are spread over a smaller reserve base.

Consequently, your Board determined at the end of last year to seek the sale of either AmBrit or its oil and gas assets in order to safeguard future value to shareholders as I refer to below.

### Agrigen

As I mentioned in last year's Report and Accounts, in December 1997, Northampton Borough Council rejected our revised planning application, despite having passed a resolution to grant permission for a similar scheme in 1992 and having supported the scheme during the period that both the NFFO licence and the Thermie grant were awarded. Two independent legal opinions from well respected planning counsel confirmed that we had good grounds for appeal with a better than average chance of success. On the basis of that advice we prepared for an appeal hearing set for October 1998.

The Planning Inspector's decision to dismiss Agrigen's planning appeal for the Nunn Mills Biomass Power Station was announced by your Company in early February 1999. We are surprised that, in view of HM Government's objectives for renewable energy, his decision failed to address the National and European issues and was based on a parochial concern that the visual intrusion of the building and emissions stack combined with the emission of an albeit harmless visible water vapour plume, would be detrimental to Nene Valley and the regeneration of the development area.

Planning approval was the last significant hurdle to be overcome to bring the scheme to fruition. Early in 1999, marketing of the Nunn Mills Biomass Power Station project was initiated resulting in a number of strong indications of interest which confirmed your Board's view that the project had significant value.

We have made a full provision against Agrigen Ltd amounting to £0.87 million which is carried as an exceptional item. The provision takes into account the proceeds received from the disposal of the Group's interest in the Nunn Mills site for £250,000.

### Outlook

At first quarter 1999 pricing levels, AmBrit is not profitable. Its asset base is declining through production at around 20% per year and it is unlikely to be able to generate sufficient free cash flow to maintain its asset base over the medium term, either through acquisitions or drilling. AmBrit is under pressure from its lending bank to reduce debt in line with a re-determined loan facility by 1 July 1999, as are many other small US oil and gas companies, which is likely to result in a proliferation of properties for sale at the mid

year. In view of the position predicated by the collapse in oil prices and weakening gas prices your Board decided, at the time of the 1998 interim results announcement, to investigate the sale of AmBrit or its assets in order to crystallise a value for shareholders rather than have the company wither away by attrition. As more fully described in a circular which is being sent to shareholders, AmBrit has received an offer of US\$22 million from Castle Energy Corporation, which after payment of bank borrowings amounting to US\$14.7 million and office closure costs net of working capital realisations estimated at US\$300,000 leaves around US\$7 million to be repatriated to United Energy. Failure to approve the proposed sale of the assets to Castle Energy Corporation will put the Group at risk due to the high level of debt in relation to the reduced value of the underlying security. In such an event, your Board would seek alternative disposals although it would be necessary to reach a new agreement with the bank. There is no guarantee that a successful refinancing could be achieved in a timely manner or at all. If the bank does not support the Group during negotiations of such a refinancing or such a refinancing is not achieved in a timely manner, the Group would have insufficient working capital.

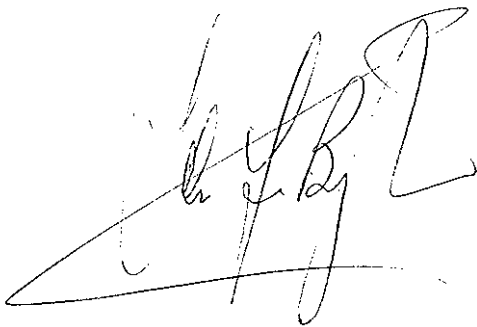
Assuming the sale of AmBrit's oil and gas assets to Castle Energy Corporation is completed without any material adjustment, United Energy should have net liquid assets of approximately 10p per share and an ongoing London Stock Exchange listing.

Your Board is actively pursuing alternative business opportunities, and will report again to shareholders once a new business venture has been identified.

*Sincerely,*



**John F Billington**  
Chairman  
30 April 1999



## Board of Directors



### **John F Billington**

Non-Executive Chairman; joined the Board in December 1991 and was appointed Chairman in July 1992. John built up a company with almost 150 pharmacy and drugstore outlets as well as manufacturing and wholesaling activities; this business was sold to Lloyds Chemists plc in 1987. Age 54.



### **Nick Tamblyn**

Chief Executive and Finance Director; was appointed to the Board in May 1992. Nick is a chartered accountant and joined the Company from KPMG where he was a Partner. Age 41.



### **Derek Howard-Orchard**

Group Technical Director; joined the Board in February 1990. Derek is a petroleum engineer with 16 years experience as a consultant to international oil and energy companies. He is a Director of the Group's US operations, spending a significant proportion of his time in the USA. Age 47.



### **Tony Hoskinson**

Non-Executive Director; joined the Board in September 1989. Tony became a non-executive director in April 1997 having previously been Group Company Secretary. Age 57.

## Operational Review

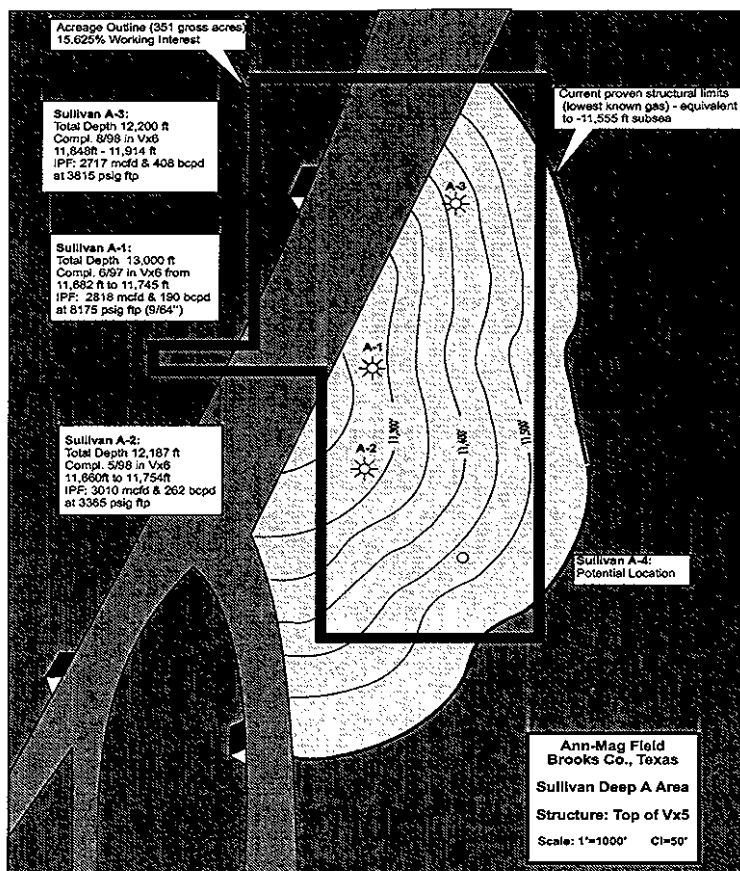
Production for the year showed a strong improvement over 1997, posting an increase of 42% to 2,176 boepd. This increase progressed throughout the year with second half production levels at 2,393 boepd up 21% on first half levels of 1,975 boepd and up 62% on the second half of 1997.

Reserves are up 8% on 1997 values at 4.55 million boe despite the loss of oil reserves due to low prices reducing the economic life of some properties. Had we experienced similar product prices to those received in 1997, proved reserves would have stood at 4.99 million boe, an increase of 18 %.

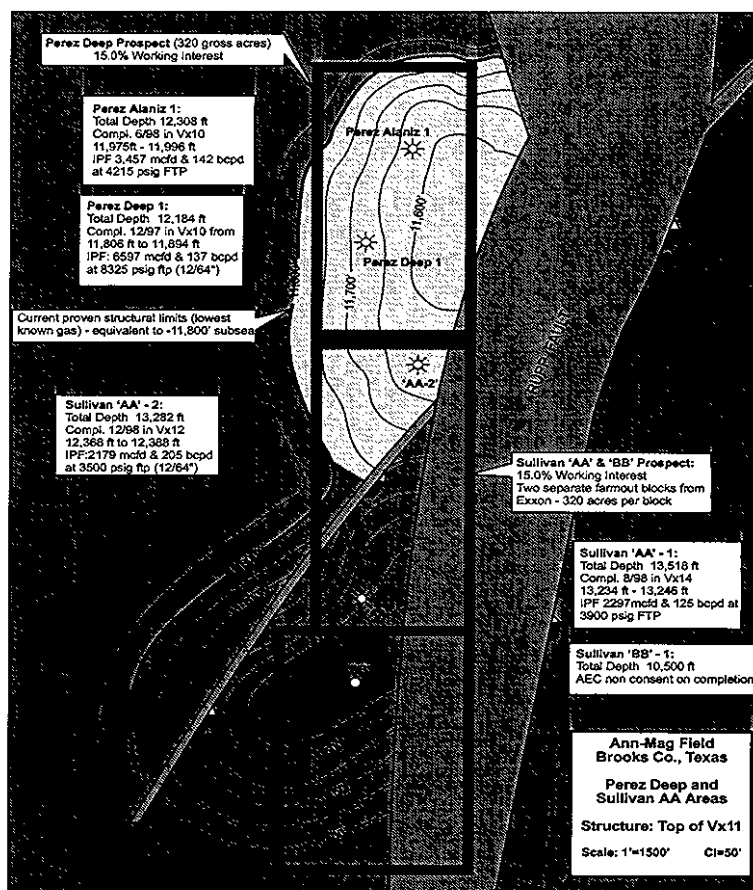
### Drilling Program

Low oil prices in 1998 reduced free cash flows and restricted our drilling and acquisition programs. We drilled a total of 8 wells, 5 in the first half and 3 in the second, of which 6 were completed as producing wells.

In the Sullivan Deep "A" Area, the Sullivan Deep "A" #3 proved up lower structural limits from 11,400 ft subsea to 11,555 ft subsea resulting in a net reserve increase of some 320 mboe at the mid-year. The success of the Sullivan Deep "A" #3 added around 55 boepd net production and set up a further well location in the south east corner of our acreage block. On the Perez Deep structure the Perez Alaniz #1 well confirmed the presence of the Vx10 sand albeit in a diminished sand package and resulted in additional reserves and production. The Sullivan "AA" #1 did not encounter the expected southern extension of the sand packages producing in the Perez Deep structure but was completed in a separate gas sand. The Sullivan "AA" #2 was drilled on the northern side of the fault separating the Perez Deep and Sullivan "AA"/"BB" prospects and confirmed the southern limits of the Perez Deep structure. Following the Sullivan "BB" #1 well reaching total depth we elected to go non-consent on the completion as we did not see sufficient encouragement from well logs, cuttings and cores. The operator continued with the completion which was unsuccessful.



At SW Speaks, where AmBrit holds a 10.65% over-riding royalty interest on the Migl-Mitchell lease, Costilla Energy completed the Migl-Mitchell #1 in the Magnolia Sand during January 1998. The Migl-Mitchell #2 was a dry hole and the Migl-Mitchell #3 was completed in the Simpson sand in late June. The Migl-Mitchell #4 well was completed in the Rainbow sand in August, and the Migl-Mitchell #5 well was placed on production from the Magnolia Sand at the beginning of 1999. On the adjacent Pilgreen Lease, where AmBrit's 10.65% over-riding royalty is under some dispute, Costilla drilled two successful wells, the Pilgreen #1 and the Zalman #1 which were respectively completed as Magnolia and Rainbow sand producers. Costilla's success at SW Speaks has pushed the gross production from this field to over 40 mmscf of gas per day.



Since the start of 1999, we have not drilled any wells but recompleted the Perez Alaniz #1 well in the Vx10 sand which is the main producing sand in the field. The recompletion came onstream at in excess of 10 mmscfpd of gas and 300 bpd of condensate. AmBrit has a 15% working interest in this well.

### Acquisitions and Disposals

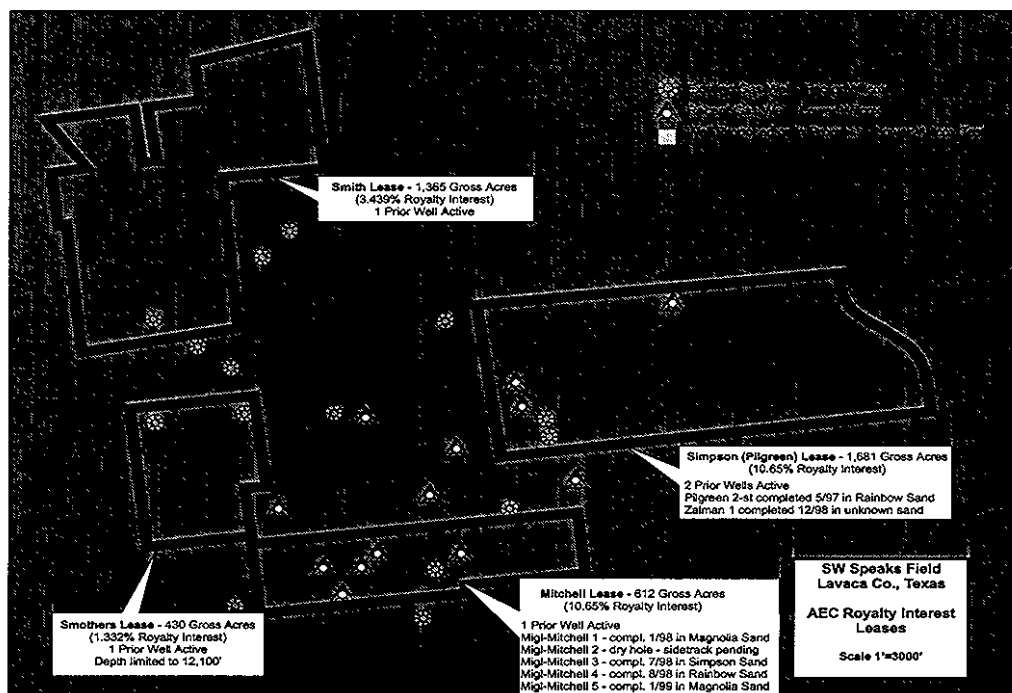
Acquisition activity was confined to the first half due to the free cash flow restrictions noted above. We purchased a 100% working interest in the Hankamer and South Liberty Fields in Chambers County, Texas for US\$2.35 million adding some 620 mboe of proved reserves and around 150 boepd of production. In addition, we acquired a 10% working interest in four producing leases in Southwest Mississippi for US\$ 410,000 which added some 70 mboe of reserves and around 45 boepd of production.

During the year we divested a number of low value properties as part of our ongoing portfolio rationalisation.

### Key Property Review

The continuing success of Costilla's drilling program on our royalty interest leases at the SW Speaks Field, Lavaca County, Texas has elevated this property to the top producing area with some 620 boepd projected for 1999 net to our interest. Costilla have drilled six wells during the year and have brought 5 wells onto production; one well was a dry hole. The success at SW Speaks has added significant gas reserves and value to our portfolio.





As a result of the success at SW Speaks, the Ann Mag Field has been relegated to second place with some 520 boepd of production net to our interest projected for 1999. This level of production is higher than that projected for 1998 reflecting the 50% increase in proved reserves achieved during the year.

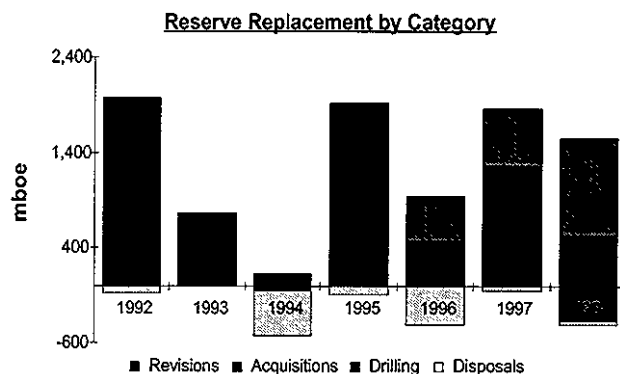
The AmBrit operated Frisco Field, Pointe Coupe Parish, Louisiana continues to be a strong performer with around 200 boepd net to our interest projected for 1999. This property is the third largest producer for AmBrit, although implementation of the proposed Frisco Wilcox "C" waterflood has been postponed as it is uneconomic at current prices and has been dropped from the proved reserve category.

The better than expected response of the Johnson Ranch Waterflood, Foard County, Texas, has pushed this property into fourth place, with 1999 production projected at 100 boepd net to our interest.

### Reserves

The Group's 1998 year end proved reserves were estimated by Scotia Group, Inc. to be 1,968.0 mbbls of oil and 15,520.3 mmscf of gas for a total of 4,554.8 mboe. Total proved reserves net of disposals, were up 8% on 1997 reserves of 4,208.4 mboe after replacing production of 794 mboe.

Of the reserve additions of 1,550.6 mboe, 533.9 mboe (34%) were generated from acquisitions, while of the remaining 1,016.7 mboe (66%) from the drilling program, 343.3 mboe was generated from the development drilling program in the Ann Mag Field with 673.4 mboe from AmBrit's over-riding royalty interest in SW Speaks. Negative net reserve revisions resulting from weaker pricing amounted to 430 mboe. Significant reserve losses were experienced at the Frisco Field (-139 mboe) where the projected waterflood was deemed uneconomic at year end prices. These losses were offset by reserve gains at Broussard (+100 mboe) where a recent third party offset well confirmed an extension of the reservoir, at Bassfield (+53 mboe) where lower decline rates were evident, and at Ann Mag and SW Speaks where better reservoir description resulting from the respective drilling programs gave additions of 112 mboe and 125 mboe respectively.



At the year end, the split in proved reserves between oil and gas showed a major shift at 43% oil and 57% gas against 61% oil and 39% gas at the end of 1997. This shift in reserve distribution is due in part to lower oil prices bringing the economic limit earlier in the producing life of the field thereby reducing the recoverable reserves. However, the strong gains in gas reserves, up 56% on year end 1997 values, resulting from successes at Ann Mag and SW Speaks has significantly affected the reserve distribution. Whilst a shift to increased gas reserves would normally have

boosted reserves and revenues, the weak oil price pulled down gas prices in the US and the absence of cold winter weather on the Eastern Seaboard also contributed to depressed gas prices.

The appraised value of the Group's oil and gas reserves at 31 December 1998, on an unescalated basis using 12 month average prices, is down 15% on previous year end values at £14.7 million. This decline in value is due to substantially reduced product prices with the average oil price down 34% at US\$12.47/bbl and the average gas price down 21% at US\$1.99/mcf. Had 1997 prices prevailed in 1998, the appraised value would have been up 26% at £21.99 million.

#### US Litigation

AmBrit is involved in a legal dispute with the operator's of the Pilgreen 2-St well on the Simpson (Pilgreen) Lease. The dispute arises from the fact that the operator has not paid AmBrit its royalty revenues from this well which was drilled in 1997. At 31 December 1998 the outstanding royalties due to AmBrit amounted to £300,000. The funds although not paid to AmBrit have been paid into court pending resolution of the dispute.

The operator's justification for paying the royalties into court, but not to AmBrit, is that it is in title dispute with a company whom it entered into a farmout agreement with and that until that dispute is resolved it is uncertain what royalty interest is due to AmBrit if any. This ancillary dispute was subject to an agreed judgement during 1998 which effectively confirmed the royalty due to AmBrit, but the operator has appealed this judgement. AmBrit consider that the operator is obliged to comply with the terms of the agreed judgement and to pay all outstanding royalties hence the action that has been brought against the operator. Based on legal advice, AmBrit feels that it has a high chance of success in the action and that the original agreed judgement will be upheld.

The disposal of the oil and gas interests takes into account this legal dispute and does not require AmBrit to provide guaranteed title to the disputed interest. However, as the transaction with Castle Energy has an effective date of 1 January 1999, AmBrit still has a direct interest in the revenues of £300,000 paid into court.

#### Agrigen

Most of 1998 was spent preparing for the public inquiry which ran over a three week period in October and November. Agrigen's Nunn Mills Biomass Power Station presented a model renewable energy project fulfilling the Government's ideals, in that it:

- had been awarded a NFFO 3 contract,
- was supported by a 2.38 million ECU THERMIE grant,
- used poultry litter as a fuel which is normally disposed of by spreading to land with attendant pollution of streams and water courses,
- employed the latest fluidised bed combustion technology, proven and widely used in Scandinavia for converting agricultural, municipal & industrial wastes into heat & power,
- met all the Environment Agency's emission standards and received Integrated Pollution Control Authorisation,

- had Kvaerner, the international construction company, as the turnkey contractor who warranted the plant performance and emissions,
- redeveloped an existing brownfield site, part of a derelict CEBB coal fired power station,
- enjoyed a location close to a conurbation, minimising transmission losses and providing the opportunity to utilise waste heat for district heating.

The project had been the subject of a resolution to grant planning permission by Northampton Borough Council in 1992, and had enjoyed the support of the Council until mid-1997, when it changed its mind. A planning application submitted later that year was refused and, following positive soundings taken through two advisors, formed the basis of the Appeal which was heard in October 1998. In February 1999, we were informed by the Planning Inspectorate that our appeal had been dismissed on grounds of visual intrusion of the building and the emission of water vapour from the stack.

We were cautiously optimistic over Agrigen's Nunn Mills Biomass Power Station and strongly supportive of the technology which is widely used in urban environments throughout Scandinavia. However, the Planning Inspector's parochial decision leaves little opportunity to progress the project. We could have appealed the decision to the High Court on legal grounds, but this would incur additional costs, take about a year and a decision in our favour would merely initiate a further planning inquiry. Bearing in mind that the 15 year subsidised pricing term of the NFFO licence ends in August 2013, and that the construction period is some 20 months, further delays will erode the economic viability of the project and adversely affect its bankability.

Your Board has contracted for the sale of the Nunn Mills site which is held by United Energy Properties Ltd for a consideration of £250,000 and is pursuing the sale of the NFFO licence and possibly the THERMIE grant. Agrigen Limited was placed into administrative receivership in March 1999 with United Energy as the only secured creditor.

## Financial Review

### Group Results

As mentioned in the Chairman's Statement, the results for 1998 were hit hard by the substantial weakening of product prices. Despite a 42% increase in production, turnover fell by 1% from 1997 levels to £5.47 million.

The average oil and gas prices received for sales were sharply down at the time of the half year results, a further significant fall was experienced in the second half of the year. This resulted in 1998 oil prices being US\$6.38/bbl lower at US\$12.47, a fall of 34%. Average gas prices were down US\$0.54/mcf at US\$1.99/mcf, a 21% fall. The average price per barrel of oil equivalent was down year on year by 30%. This dramatic fall in product prices has had a very damaging effect on the business due to lower than predicted revenues adversely impacting the Group's borrowing facilities.

Production costs rose in absolute terms by 24% to £2.19 million from £1.76 million but on a cost per boe basis fell 12%. Unfortunately this reduction in the production cost per boe from US\$5.15 per boe in 1997 to US\$4.57 per boe has little impact compared to the US\$4.67 per boe fall in average product prices.

Depletion costs rose to £2.41 million from £1.67 million, an increase of 45%. This increase was almost entirely volume driven with the cost per barrel only marginally higher than in 1997. As reported in the Review of Operations, reserves were reduced by 430 mboe as a result of lower pricing, without this reduction in reserve volumes the depletion cost per boe would have been approximately 7% lower.

Administration costs rose by 6% reflecting the increasing level of activity through both 1997 and the first half of 1998. The increased costs arose entirely in the USA. On a barrel of oil equivalent basis administration costs per boe fell by 25% to US\$1.90 per boe continuing the trend of recent years.

Net interest costs almost doubled to £0.73 million, as a result of the increased capital expenditure during 1997 and the first half of 1998. The significantly reduced cash flows resulted from lower product prices and also had an adverse impact on interest charges.

The loss for the financial year was adversely affected by two exceptional items. A £0.75 million charge was taken to cover the impairment of the Group's oil and gas interests. This was incurred in order to write down the book value of these interests to the value which is expected to be realised from the conditional sales agreement to Castle Energy Corporation net of the associated costs and expenses of realisation. The other charge of £0.87 million reflects the provision against the Group's investment in the proposed power plant to be built at Nunn Mills, Northampton in the light of the failure of Agrigen Ltd's planning appeal. After taking into account the two exceptional items, the Group incurred a loss of £2.4 million representing 6 pence per share.

It should be noted that had the Group received product pricing in 1998 equal to that received in 1997, earnings per share would have been above the level of 2.1 pence per share achieved in 1997 despite the Agrigen write off.

Although operating cash flows remain positive at £2.16 million they reflect a fall of 24% from 1997. After taking into account net interest costs, cash flows fall to £1.46 million as compared to £2.53 million in 1997, a fall of over 40%. The relationship between the net operating cash flows after interest and the level of net debt has deteriorated during the year with net bank debt having increased from £4.99 million to £8.59 million, an increase of approximately 70%. Net debt is now unacceptably high in relation to the cashflows and the proposed sale of the oil and gas interests at what would appear to be an unattractive time in the product pricing cycle is the only realistic option available to management.

Despite some recent improvement, the relatively poor pricing outlook and the very low prices realised during the first quarter of the year all contribute to the concerns that have arisen from this extended period of very weak prices.

## Proved Oil and Gas Reserves

	Oil (mmbbl)	Gas (mmscf)	Mboe
<b>Total proved reserves at 1 January 1998<sup>(1)</sup> as estimated by Scotia Group, Inc, and analysed as follows:</b>			
- proved developed reserves	2,038.2	6,970.2	3,199.9
- proved undeveloped reserves	512.5	2,976.0	1,008.5
<b>Total Proved Reserves at 1 January 1998</b>	<b>2,550.7</b>	<b>9,946.2</b>	<b>4,208.4</b>
<b>Changes during the year:</b>			
- production	(415.7)	(2,270.3)	(794.1)
- disposals	(36.0)	(26.8)	(40.5)
- revisions			
existing properties	(480.2)	2,186.4	(115.8)
acquisitions	(260.4)	39.5	(253.8)
- acquired during the year			
drilling program	156.3	5,162.1	1,016.7
acquisitions	453.3	483.2	533.9
	<b>1,968.0</b>	<b>15,520.3</b>	<b>4,554.8</b>
<b>Total proved reserves at 31 December 1998<sup>(2)</sup> as estimated by Scotia Group, Inc, and analysed as follows:</b>			
- proved developed reserves	1,868.7	13,167.9	4,063.4
- proved undeveloped reserves	99.3	2,352.4	491.4

### Estimation and Valuation of Proved Oil and Gas Reserves

The Reserve Estimation was performed by The Scotia Group, Inc, on all the Group's properties. Oil prices used for the evaluation were based on a 12 month average of West Texas Intermediate posted prices of US\$11.95/bbl adjusted by lease for gravity and transportation fees. Similarly, gas prices were based on a 12 month average price for Texas Gulf Onshore Spot of US\$2.05/mmbtu, adjusted for heating value, composition, gathering costs and regional differentials. Oil and gas prices, operating costs and capital expenditures were held constant for the economic life of the property.

As has been noted in previous Reports and Accounts, the basis for SEC evaluations employed by the majority of other oil and gas companies with predominantly US production is to use year end pricing. United Energy's position is that in most cases this presents a distorted view as year end product prices are usually favourably influenced by seasonal factors and the year's average product prices more accurately reflect the true position. However, 1998 actual year end spot prices were below the year's average prices at US\$9.50/bbl for West Texas Intermediate and US\$1.93/mmbtu for Texas Gulf Onshore Spot gas. If United Energy had adopted this pricing regime the Appraised Value of Proved Oil and Gas Reserves on an unescalated basis would be £12.28 million.

The evaluation of Proved Oil and Gas Reserves (Escalated) was performed by the Group using production profiles determined by The Scotia Group, Inc, for the unescalated case, with oil and gas prices escalated at 6% per annum to a maximum of US\$40/bbl and US\$4/mmbtu respectively. Similarly, operating costs and capital expenditures are escalated at 4% per annum until the termination of the product price escalation.

The appraised value of proved oil and gas reserves is estimated by the Group to be equal to the estimated future net revenue discounted at 10% per annum. The Appraised Value on an unescalated basis as shown below, was calculated by The Scotia Group, Inc, using 12 month average oil and gas prices. Whilst the Appraised Value on an escalated basis was calculated by the Group using production profiles determined by The Scotia Group, Inc, for the unescalated case and 12 month average oil and gas prices escalated as described above.

Written down Book Value of Proved Oil and Gas Reserves	£12.01 million
Appraised Value of Proved Oil and Gas Reserves (Unescalated)	£14.74 million
Appraised Value of Proved Oil and Gas Reserves (Escalated)	£17.66 million

#### Notes:

1. These results are subject to the qualifications contained in a document referenced SHB/WWE/8063 "Evaluation of the oil and gas properties of United Energy plc Effective 31 December 1997".

2. These results are subject to the qualifications contained in a document referenced SHB/WWE/9029 "Evaluation of the oil and gas properties of United Energy plc Effective 31 December 1998".

## Directors' Report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 1998. Pages 2 to 11 are an integral part of this report.

### Activities

The Group's principal activities during 1998 were the development of proved and near proved oil and gas reserves in the USA and electricity generation from waste products in the UK. Subsequent to the year end these activities are in the process of being discontinued.

### Results and Dividend

The results of the Group for the year ended 31 December 1998 are set out in the profit and loss account on Page 19.

The Directors do not propose to recommend the payment of a dividend (1997: £nil).

### Donations

The Group made no political or charitable donations during the year ended 31 December 1998.

### Subsequent Events

Details of post balance sheet events are set out in Note 22 to the financial statements. Further details of these events and the background to them are set out in both the Chairman's Statement and the Review of Operations.

### Creditor Payment Policy

The Company does not follow any code or standard on payment practice, but it is the Company's policy to settle all debts with its creditors on a timely basis, taking account of the credit period given by each supplier. The number of days billings outstanding from trade suppliers at 31 December 1998 for the Company and Group was 37 and 39 days respectively.

### Year 2000

During the year the Group has conducted a comprehensive review of the potential Year 2000 risks across all areas of the business to ensure that the Group will not suffer any disruption due to the millennium bug problem. The costs of the limited remedial work identified are not considered to be material and are being charged to the profit and loss account as incurred.

### Directors

The Directors of the Company during the year are shown on Page 4.

In accordance with the Company's Articles of Association, Mr Howard-Orchard retires by rotation at the Annual General Meeting and, being eligible, will offer himself for re-election. In addition to comply with the provisions of the Combined Code, Mr Tamblyn will offer himself for re-election. The unexpired term of Messrs Howard-Orchard and Tamblyn's service contracts are detailed in the Remuneration Report.

### Directors' Interests in the Company

The Directors at 31 December 1998 had, according to the Register of Directors' interests maintained in accordance with Section 325 of the Companies Act 1985, the following interests in the share capital of the Company:

	At 31 December 1998		At 1 January 1998	
	Ordinary shares of 10p each	Share options	Ordinary shares of 10p each	Share options
Beneficial:				
JF Billington	9,358,724	453,703	9,358,724	453,703
JA Hoskinson	225,100	375,000	295,100	375,000
D Howard-Orchard	262,445	787,500	230,385	787,500
NJ Tamblyn	209,812	1,000,000	209,812	1,000,000
Non Beneficial:				
JA Hoskinson	198,750	-	198,750	-

Details of the share options to subscribe for the Company's ordinary shares are set out in the Remuneration Report and Note 17(b).

There have been no changes in the Directors' registered interests in the share capital of the Company during the period 1 January 1999 to 30 April 1999 other than that 237,500 share options granted to Mr Howard-Orchard lapsed on 20 February 1999. None of the Directors had any interest in the shares of any subsidiary undertaking at 31 December 1998 or since.

### Substantial Shareholdings

At 30 April 1999 the following had notified the Company that they were interested in 3% or more of its issued ordinary share capital:

	Number of Shares	%
Haut Terre Investments Ltd	8,329,158	21.42
The Bank of New York Nominees	4,100,000	10.54
Ansbacher Nominees Ltd	2,025,460	5.21
Teawood Nominees	1,550,000	3.99
Williams & Glyn's (IOM) Nominees Ltd	1,465,572	3.77

Other than the interests set out above the Directors are not aware of any other person with a beneficial holding or interest of 3% or more in the issued ordinary share capital of the Company. The Haut Terre Investments Ltd shares are included within the share interests of Mr JF Billington set out on Page 12.

### Disposal of the US Oil and Gas Assets of AmBrit Energy Corporation

The circular setting out the details of the disposal and convening an Extraordinary General Meeting of the Company for 24 May 1999 to approve the disposal is in the process of being sent to shareholders.

### Annual General Meeting

As at previous Annual General Meetings a resolution (number 5) will be proposed to renew the Directors' authority to allot relevant securities until the next following Annual General Meeting or, if earlier, the date 15 months after the passing of the resolution. The authority sought will be in respect of securities up to an aggregate nominal amount of £1,296,000 representing approximately 33% of the issued share capital of the Company at the date hereof. The Directors have no present intention of exercising this authority other than to satisfy the Company's obligations to issue shares on the exercise of share options.

As at last year's Annual General Meeting, in accordance with the limits prescribed by the organising bodies representing the interests of institutional shareholders, a special resolution (number 6) will be proposed to renew the power to allot for cash equity securities up to an aggregate nominal amount of £194,450 (representing 5% of the present issued share capital) until the next following Annual General Meeting or, if earlier, the date 15 months after the passing of the resolution.

The authority for the Company to purchase its own ordinary shares given last year expires at the Annual General Meeting and your Directors propose that it should be renewed and extended in the terms of Resolution 7, which will be proposed as a special resolution, in respect of up to 3,889,189 ordinary shares. This figure represents approximately 10% of the issued share capital of the Company at the date hereof. The authority will expire at the Annual General Meeting to be held in 2000.

This authority gives the Company greater flexibility in managing its capital resources. The Directors intend to use the authority now sought only if they are satisfied such purchases would be in the long term interests of shareholders and would result in an increase in earnings per share. They consider it prudent that they should be able to act at short notice and make such purchases should market conditions and the price of the ordinary shares so justify. Any shares purchased under this authority will be cancelled and the number of shares in issue reduced accordingly. No such purchases were made by the Company under the terms of the authority granted in 1998. The maximum price which may be paid for an ordinary share shall be an amount equal to 5% above the average of the middle market prices for the 10 dealing days prior to purchase.

### Auditors

A resolution is to be proposed at the Annual General Meeting for the re-appointment of KPMG Audit Plc as auditors of the Company.

By Order of the Board

NJ Tamblyn  
50 Stratton Street  
London W1X 6NX  
30 April 1999



## Remuneration Report

The Company's Remuneration Committee consists of the Chairman, Mr Billington and Mr Hoskinson. Whenever appropriate, independent advice is taken by the Committee. The Committee has specific responsibility for determining the remuneration of each of the Executive Directors and, in calculating the individual salary package, particular attention is paid to ensuring that an appropriate balance is maintained between reward and performance taking into account the special factors which relate to natural resource companies whereby the Company itself is unable to influence the price of oil and gas, or predict the impact of severe weather patterns, mechanical failure, and the uncertainties associated with reservoir, geological and geophysical interpretations. Details of the emoluments paid to individual Directors are set out in the table below. The remuneration of Non-Executive Directors is determined by the Board.

### Directors' Emoluments

	Salary & Fees £	Pension £	1998 Total £	Salary & Fees £	Pension £	1997 Total £
<b>Executive Directors</b>						
NJ Tamblyn	90,169	9,017	99,186	81,320	7,992	89,312
D Howard-Orchard	82,908	-	82,908	76,237	-	76,237
Sub Total	173,077	9,017	182,094	157,557	7,992	165,549
<b>Non-Executive Directors</b>						
JF Billington (Chairman)	-	-	-	-	-	-
JA Hoskinson	15,000	-	15,000	20,348	-	20,348
Sub Total	15,000	-	15,000	20,348	-	20,348
Total	188,077	9,017	197,094	177,905	7,992	185,897

The Group continues not to provide cars or other similar benefits in respect of Directors and the Chairman, Mr JF Billington, provides his services without charge to the Group other than for his involvement in the Group Bonus Scheme.

The services of Mr D Howard-Orchard are provided through North Sea Hydrocarbons Ltd, a company of which he is a director and shareholder. The Company's agreement with North Sea Hydrocarbons Ltd is terminable by not less than 36 months written notice by either party. Notice was given by the Company under the terms of this agreement, with effect from 14 April 1999, in light of the planned disposal of the Group's oil and gas interests.

Mr NJ Tamblyn's service agreement is terminable by not less than 24 months' written notice by either party. The Company made contributions of 10% of Mr Tamblyn's salary to a money purchase personal pension scheme, payments during the year amounted to £9,017 (1997: £7,992).

The services of Mr Hoskinson are provided through Trojan Investments Ltd, a company of which he is a director and shareholder. The Company's agreement with Trojan Investments Ltd is for a 2 year fixed period from 1 April 1997 at £15,000 per year. Mr Hoskinson has agreed to continue to provide his services as a Director through Trojan Investments Ltd on a month to month basis following completion of his two year contractual term pending finalisation of the transaction to sell the Group's oil and gas assets detailed in these financial statements.

The Board is aware of the fact that it does not comply with the provisions of the Combined Code concerning directors' contracts of employment, in that Mr Howard-Orchard, has a three year rolling contract of employment on which notice has now been given and Mr Tamblyn has a two year rolling contract. These contracts were in place before the publication of both the Cadbury and Greenbury Reports. The



Remuneration Committee has reviewed the impact of Mr Tamblyn's rolling contract and has determined that at this time no change is required to the present arrangement due to the potential cost implications. The present policy of the Remuneration Committee provides that all future rolling contracts of employment for Directors shall not exceed one year and that fixed contracts shall not exceed three years. It will continue to review the present arrangement for Mr Tamblyn and should it be deemed appropriate the contract will be amended as part of an overall salary review.

The Company operates a Bonus Pool for certain directors based on a minimum profit on ordinary activities before taxation of £590,000 for 1998. The participants of this scheme during 1998 were Messrs Billington, Tamblyn and Howard-Orchard. The Board of Directors consider that Mr Billington's involvement in the Bonus Scheme is appropriate, given that as detailed above, he receives no other fees or benefits from the Company. The Board is aware that this fact could be viewed as affecting his objectivity due to his personal financial interest but do not believe this to be a problem in our particular circumstances.

Bonus payments continue to be awarded to directors based on the following criteria.

- A bonus of up to 10% of the Group's profit on ordinary activities before taxation and bonuses is payable provided that a minimum profit of £604,000 (1998:£590,000) is earned in the year to 31 December 1999. The minimum profit is revised annually for changes in the Retail Price Index as well as being adjusted to reflect changes in the share capital of the Company.
- The allocation of the Bonus Pool, to the extent one exists based on the above calculation, is at the discretion of the Remuneration Committee, but is based on achieving certain annually set targets. The targets for 1998 covered growth in production, reserves and evaluated net assets per share together with Agrigen Ltd reaching financial close.

As the Company did not earn the minimum profit, no bonuses are payable based on the 1998 results, although the targets for both production and reserve growth were achieved despite the difficult trading environment.

### Directors' Interests in Share Option Scheme

The Company operates an Employee Share Option Scheme. Under the rules of this Scheme, up to 3,889,189 ordinary shares are available to be issued at the date of this report. At 31 December 1998 options had been granted under the rules of this Scheme on 3,266,203 ordinary shares (1997: 3,116,203) of which the following had been issued to directors who were in office at 31 December 1998.

### Directors' Share Options

Period during which options exercisable	21.02.95- 20.02.99	13.08.95- 12.08.99	14.06.96- 13.06.00	06.07.98- 05.07.02	05.06.99- 04.06.03	29.10.00- 28.10.04	Total At 1.1.98 & 31.12.98
Exercise price	42.5p	17p	27p	15p	15p	17p	
JF Billington		225,000	228,703				453,703
JA Hoskinson		225,000				150,000	375,000
D Howard-Orchard	237,500	225,000			100,000	225,000	787,500
NJ Tamblyn		200,000		300,000	200,000	300,000	1,000,000
	237,500	875,000	228,703	300,000	300,000	675,000	2,616,203

There were no movements on directors' share options during the year.

Any proposed grant of new options to directors and senior employees is required to be approved by the Board of Directors based on the recommendations of the Remuneration Committee. The grant of new options, which are made strictly in compliance with the scheme rules, are made to help align the recipients' interest with those of shareholders by motivating them to achieve long term capital growth in the Company's share price.

The Board considers that the current arrangements are appropriate and take account of the necessary factors which affect both the individual and the Company.

## Corporate Governance

In June 1998, the London Stock Exchange published the principles of Good Governance and Code of Best Practice "the Combined Code" which embraces the work of the Cadbury, Greenbury and Hampel Committees and became effective in respect of accounting periods ending on or after 31 December 1998. The Company is supportive of the principles of the Combined Code. This Statement describes how the principles of good governance set out in the Combined Code are applied to the Company.

### Board Structure

The Board of Directors comprises of four members, two Executive and two Non-Executives including the Chairman. Short biographical details of each Director are provided on Page 4. Both Non-Executive Directors sit on the Audit and Remuneration Committees.

The Board meets regularly during the year with a formal schedule of matters specifically reserved to it for decision. In addition, monthly management accounts and production and cash flow forecasts are distributed to the Board for review and consideration together with management reports covering all key aspects of the business. Should decisions be required between Board Meetings papers are circulated to all Board Members containing information on the issue involved. Any decision taken in this regard is then duly ratified at the next formal Board Meeting. There exists an agreed procedure for directors in furtherance of their duties to take independent professional advice if necessary at the Company's expense.

The Audit Committee meets at least twice a year to review and report to the Board on matters related to the published Financial Statements and systems of Internal Financial Control. The external auditors are invited to attend these meetings to discuss audit related issues.

The Remuneration Committee meets at least once a year to determine the remuneration of Executive Directors.

The Company's Articles require one-third of the Board to retire by rotation at each AGM, other than the Chief Executive who is not required to retire by rotation.

### Internal Financial Control

The Directors acknowledge their responsibility for the Group's systems of internal control which are designed to allow the Board to monitor the Group's overall financial position and help to protect its assets. Such systems can provide only reasonable and not absolute assurance against material misstatement or loss. The Directors have reviewed the effectiveness of internal financial control. The principal procedures that have been established and which are considered appropriate for a Group of our size include the following:

- an organisational structure with clearly defined lines of responsibility;
- recruitment of appropriately qualified and experienced staff;
- Board approval of all major investments supplementing management approval and control of income and expenditure;
- close involvement of the executive directors and senior management in the day to day operations;
- production of budgets and forecasts together with other key management information including sensitivity and other risk analysis;
- monthly financial reporting comparing actual performance against both budgets and forecasts;
- regular reconciliations and approval controls over the Group's assets and liabilities;
- review of health and safety controls and environmental issues associated with the Group's oil and gas properties.

### Going concern

The Directors have considered the factors relevant to support a statement on going concern. They have a reasonable expectation that the Company will continue in operational existence for the foreseeable future and have therefore used the going concern basis in preparing the financial statements. Due regard was given to the conditional agreement entered into disposing of the Group's oil and gas interests. Further details of which are provided in Notes 1 and 22 to the financial statements.

### **Relations with Shareholders**

Communications with shareholders are given a high priority with both the Company's Annual Report and Accounts and Interim Report and Accounts sent to all shareholders. In addition, there is a dialogue with individual institutional shareholders including presentations following the Company's Preliminary Announcement of both the half year and year end results.

The Board uses the Annual General Meeting to provide shareholders with an opportunity to raise questions on matters of interest to them. In recent years all four Directors have been present at the AGM and questions have been answered on a broad range of topics.

Details of the Resolutions to be proposed at the AGM on 10 June 1999 can be found in the Notice of AGM on Page 37. Shareholders are encouraged to attend this meeting.

### **Directors' Responsibilities Statement**

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

### **Statement of Compliance**

Formal guidance on the review of non-financial internal control has still to be developed by the Task Force established to update the guidance for Directors on the scope, extent, nature and review of internal controls to which the Combined Code principle D2 and provision D2.1 refer. The London Stock Exchange has announced that, pending the publication of such guidance companies could satisfy their reporting requirements under the Combined Code if their disclosure related to financial controls. The Company has adopted this approach.

Save as noted below, the Directors consider that the Company was in full compliance throughout the financial year with the provisions set out in Section 1 of the Combined Code.

- The Service Contracts of both the Executive Directors exceed one year, as more fully detailed and explained in the Remuneration Report.
- The Company's Articles require one-third of the Board to retire by rotation at each AGM other than the Chief Executive, who is not required to retire by rotation. The Combined Code requires that all Directors submit themselves for re-election at least every 3 years. The Company will adopt procedures with effect from the current year's AGM to ensure that the Combined Code is complied with but will not amend the Articles of Association of the Company.
- The Combined Code requires an Audit Committee of at least three Directors, all Non-Executive, a majority of whom should be independent. On the grounds of cost the Board continues only to have four Directors two of which are Non-Executive. The two Non-Executive Directors comprise the Audit Committee.
- Members of the Board do not consider that the appointment of a Senior Non-Executive Director would enhance the manner in which they currently discharge their duties given the size of the Board.

## Auditors' Report to the members of United Energy plc

We have audited the financial statements on Pages 19 to 36.

### **Respective responsibilities of directors and auditors'**

The Directors are responsible for preparing the Annual Report, including as described on Page 17 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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. 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 or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on pages 16 and 17 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion of the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the Corporate Governance Statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **Basis of audit opinion**

We conducted our audit in accordance with 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 financial statements, and of whether the accounting policies are appropriate to the Group'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 of the accounts concerning the uncertainties as to the continuation and adequacy of the Group's bank loan facility. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1998 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London, 30 April 1999

**Consolidated Profit and Loss Account for the Year Ended 31 December 1998**

	Notes	Before Exceptional Items £'000	Exceptional Items £'000	1998 Total £'000	1997 Total £'000
<b>Turnover</b>	2	<b>5,471</b>	-	<b>5,471</b>	5,507
Cost of sales:					
Production costs		(2,186)	-	(2,186)	(1,760)
Depletion of oil and gas interests		(2,414)	-	(2,414)	(1,665)
Impairment of oil and gas interests	3	-	(750)	(750)	-
		<b>(4,600)</b>	<b>(750)</b>	<b>(5,350)</b>	(3,425)
<b>Gross profit</b>		<b>871</b>	<b>(750)</b>	<b>121</b>	2,082
Administrative expenses		<b>(910)</b>	-	<b>(910)</b>	(857)
<b>Operating (loss)/profit</b>	2	<b>(39)</b>	<b>(750)</b>	<b>(789)</b>	1,225
Loss from interest in associated undertaking	3	(20)	(870)	(890)	(26)
Interest receivable and similar income	4	6	-	6	23
Interest payable and other charges	5	(729)	-	(729)	(394)
<b>(Loss)/profit on ordinary activities before taxation</b>	6	<b>(782)</b>	<b>(1,620)</b>	<b>(2,402)</b>	828
Taxation	9	-	-	-	(25)
<b>(Loss)/profit for financial year</b>	18(d)	<b>(782)</b>	<b>(1,620)</b>	<b>(2,402)</b>	803
<b>(Loss)/earnings per share - basic</b>	10			<b>(6.2)p</b>	2.1p
<b>(Loss)/earnings per share - diluted</b>	10			<b>(6.2)p</b>	2.0p

All items dealt with in arriving at the operating (loss)/profit for 1998 and 1997 relate to operations which while continuing in 1998 and 1997 are to be discontinued.  
The result as shown in the profit and loss account is not different from the result on an unmodified historic cost basis.

The notes on pages 23 to 36 form part of these financial statements.

**Consolidated Balance Sheet at 31 December 1998**

	Notes	1998 £'000	1997 £'000
<b>Fixed assets</b>			
Intangible exploration assets	11(a)	111	188
Oil and gas interests	11(b)	12,009	10,628
Other tangible assets	11(b)	322	98
Investments	13(b)	-	389
		<b>12,442</b>	<b>11,303</b>
<b>Current assets</b>			
Debtors	14	1,453	1,137
Cash at bank		458	691
		<b>1,911</b>	<b>1,828</b>
<b>Creditors: amounts falling due within one year</b>	15	<b>(3,223)</b>	<b>(1,008)</b>
<b>Net current (liabilities)/assets</b>		<b>(1,312)</b>	<b>820</b>
<b>Total assets less current liabilities</b>		<b>11,130</b>	<b>12,123</b>
<b>Creditors: amounts falling due after more than one year</b>	16	<b>(7,175)</b>	<b>(5,683)</b>
<b>Net assets</b>		<b>3,955</b>	<b>6,440</b>
<b>Capital and reserves</b>			
Called up share capital	17(a)	3,889	3,889
Share premium account	18(b)	272	272
Other reserves: capital reserve	18(c)	717	717
Profit and loss account	18(d)	(923)	1,562
<b>Shareholders' funds-equity</b>		<b>3,955</b>	<b>6,440</b>

The financial statements on pages 19 to 36 were approved by the Board of Directors on 30 April 1999 and were signed on its behalf by:

  
**JF Billington**  
Chairman

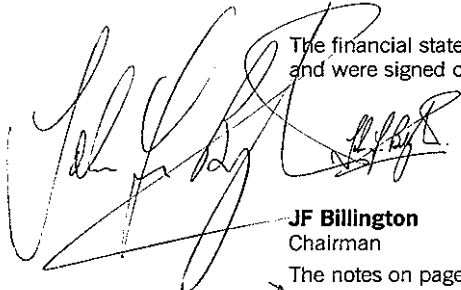
  
**NJ Tamblyn**  
Chief Executive

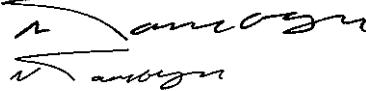
The notes on pages 23 to 36 form part of these financial statements.

**Company Balance Sheet at 31 December 1998**

	Notes	£'000	1998 £'000	£'000	1997 £'000
<b>Fixed assets</b>					
Oil and gas interests	11(c)		22		40
Other tangible assets	11(c)		21		19
Investments in Group undertakings	13(a)		3,970		4,062
Other investments	13(b)		-		631
			<b>4,013</b>		<b>4,752</b>
<b>Current assets</b>					
Debtors	14	1,719		1,392	
Cash at bank		33		356	
			<b>1,752</b>	<b>1,748</b>	
<b>Creditors: amounts falling due within one year</b>	15	<b>(2,110)</b>		<b>(1,656)</b>	
<b>Net (liabilities)/current assets</b>			<b>(358)</b>		<b>92</b>
<b>Total assets less current liabilities</b>			<b>3,655</b>		<b>4,844</b>
<b>Creditors: amounts falling due after more than one year</b>	16		<b>(331)</b>		<b>(311)</b>
<b>Net assets</b>			<b>3,324</b>		<b>4,533</b>
<b>Capital and Reserves</b>					
Called up share capital	17(a)		3,889		3,889
Share premium account	18(b)		272		272
Profit and loss account	18(d)		(837)		372
<b>Shareholders' funds-equity</b>			<b>3,324</b>		<b>4,533</b>

The financial statements on pages 19 to 36 were approved by the Board of Directors on 30 April 1999 and were signed on its behalf by:

  
**JF Billington**  
Chairman

  
**NJ Tamblyn**  
Chief Executive

The notes on pages 23 to 36 form part of these financial statements.

**Consolidated Cash Flow Statement for the Year Ended 31 December 1998**

	Notes	1998 £'000	1997 £'000
<b>Net cash inflow from operating activities</b>	19(a)	<b>2,160</b>	<b>2,851</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		6	23
Interest paid		(710)	(348)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(704)</b>	<b>(325)</b>
<b>Taxation</b>		<b>20</b>	<b>(45)</b>
<b>Capital expenditure and financial investment</b>			
Expenditure on oil and gas interests		(4,705)	(4,680)
Sale of oil and gas interests		85	190
Financing loans to associated undertakings		(257)	(121)
Purchases of other fixed assets		(257)	(21)
Sale of other fixed assets		-	2
<b>Net cash outflow for capital expenditure and financial investment</b>		<b>(5,134)</b>	<b>(4,630)</b>
<b>Acquisitions</b>			
Investment in associated undertakings		(2)	(51)
<b>Net cash outflow before financing</b>		<b>(3,660)</b>	<b>(2,200)</b>
<b>Financing</b>			
Issue of ordinary share capital	19(b)	-	12
Loans repaid	19(b)	-	(1,270)
Additional loans drawn	19(b)	3,247	3,444
<b>Net cash inflow from financing</b>		<b>3,247</b>	<b>2,186</b>
<b>Decrease in cash in the period</b>	19(c)	<b>(413)</b>	<b>(14)</b>

**Consolidated Statement of Total recognised Gains and Losses for the Year Ended 31 December 1998**

	1998 £'000	1997 £'000
(Loss)/profit for the financial year	(2,402)	803
Translation differences on foreign currency net investments	(83)	248
<b>Total recognised gains and losses relating to the year</b>	<b>(2,485)</b>	<b>1,051</b>



## Notes to the Financial Statements for the year ended 31 December 1998

### 1. Accounting policies

The following accounting policies have been applied consistently, except as noted below following the introduction of new accounting standards, in dealing with items which are considered material in relation to the Group's financial statements.

The Group has adopted FRS 11, Impairment of fixed assets and goodwill as at 31 December 1998 and the method used to assess impairment has been changed accordingly (see note 3). The Group has also adopted FRS 14, Earnings per share which contains new requirements on the calculation and disclosure of diluted earnings per share. FRS 9, Associates and Joint Ventures and FRS 10, Intangible Assets and Goodwill have also been adopted for the first time, but have had no material impact on these accounts.

#### Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

#### Basis of preparation note

As detailed in Note 16 the Group's banker has re-determined the amount it is willing to lend the Group and this has resulted in an over advance at 31 December 1998. The bank loan is due to be re-determined at 1 July 1999, by which time the bank expects the Group to have repaid the over advance. If the over advance is not repaid the bank can require immediate repayment of the loan.

The financial statements are prepared on a going concern basis which the Directors believe to be appropriate given that the Company's wholly owned subsidiary, AmBrit Energy Corp., has entered into an agreement, conditional in part on shareholders' approval, to dispose of all of its oil and gas properties and the Directors expect this sale to be completed. The proceeds of sale will be used to settle the Group's bank loans and overdraft facilities which are used to meet its day to day working capital requirements.

The directors have prepared projected cash flow information for the period ending 14 months from the date of their approval of these accounts on the basis that the sale does not proceed. On the basis of this information, the Directors consider that the Group will be able to continue to operate within existing facilities, after taking into account the waivers granted, until 30 June 1999. In the event that the disposal does not proceed and the Group's bankers do not significantly improve the oil and gas pricing assumptions used to determine the Group's banking facilities, it is likely that the Group would not be in compliance with the existing terms of its loan agreement from 1 July 1999.

In this circumstance it would be necessary for the Directors to reach a new agreement with the bank, which might require continued property disposals if the Group is to continue as a going concern. The Directors consider that it is likely that a mutually satisfactory agreement would be reached with the bank. Were it not considered appropriate to prepare the accounts on a going concern basis, however, the Directors believe that the value attributed to the assets and liabilities of Group would not be materially different from those currently stated.

#### Basis of consolidation

The Group financial statements consolidate the financial statements of United Energy plc and all its subsidiary undertakings up to 31 December each year. The results of acquired subsidiary undertakings are included in the consolidated profit and loss account from the date of their acquisition as are the Group's share of the results of acquired associated companies.

A separate profit and loss account for the Company is not presented as permitted by Section 230 of the Companies Act 1985. The loss for the financial year dealt with in the financial statements of the holding company was £1,209,000 (1997: loss £62,000).

#### Associated companies

Investments in associated companies comprise all interests in companies which are not subsidiary companies and which are held for the long term and over which the Group is able to exercise significant influence. The Group's share of the profits or losses of associated companies is included in the financial statements from the date that they became associated companies. Any difference between the cost of the investment in an associated company and the Group's share of the fair value of its assets is written off against reserves.

## 1. Accounting policies (continued)

### Goodwill

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 Goodwill and intangible assets was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

No purchased goodwill or negative goodwill has arisen since 1 January 1998 as no acquisitions have been made since this date.

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off for any permanent diminutions.

### Turnover

Turnover comprises the value of sales of oil and gas produced from the Group's directly owned producing interests, net of sales taxes, together with other related income.

### Oil and gas interests

The full cost method of accounting is used to record interests in oil and gas properties. Under this method the acquisition cost of leaseholds and licences, legal costs in establishing title, geological and geophysical costs, attributable overheads and other direct costs of exploration, appraisal and development of oil and gas reserves are capitalised and accumulated in a single full cost pool.

The costs of properties under appraisal, called intangible exploration assets, are assessed periodically to determine whether impairment has occurred or commerciality has been proven. When impairment has occurred, or when commerciality is determined and a decision to develop the field has been taken, these costs are transferred to tangible fixed assets.

All tangible fixed assets and future development costs are depleted using the unit-of-production method, based on proved commercial reserves. Any changes in commercial reserve estimates are adjusted over the remaining life of the field from the start of the year. Any disposal proceeds are deducted from the cost pool.

The net aggregate carrying value of intangible and tangible oil and gas interests are assessed for recoverability against the anticipated discounted future net cash flows to be derived from their estimated remaining commercial reserves. The assessment is made on the basis of future oil and gas prices and cost levels forecast at the balance sheet date. A provision is made by way of accelerated depreciation, where the aggregate carried value exceeds the discounted future net cash flows to be derived from its estimated remaining commercial reserves.

### Depreciation

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis to write off the cost of assets over their estimated useful lives at the following rates per annum:

Fixtures and fittings and motor vehicles	-	20 per cent
Leasehold Improvements	-	8.5 per cent

Land is not depreciated, although its carrying value is reviewed for impairment.

### Abandonment

The Group provides, where appropriate, for abandonment costs in respect of each field, on a unit-of-production basis, based on proved commercial reserves. Any change in estimates is adjusted for from the start of the year. As potential plugging and abandonment liabilities for the US interests are fully offset by the potential salvage value from the equipment, no provision has been made for abandonment costs during the years ended 31 December 1998 and 1997.

### Leases

All leases entered into by the Group are operating leases, and the rental charges are charged directly to the Profit and Loss account on a straight line basis over the life of the lease.

## 1. Accounting policies (continued)

### Foreign currency translation

Profit and loss accounts of overseas subsidiary undertakings are translated into sterling at average rates of exchange. The balance sheets of overseas undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves together with the differences between profit and loss accounts translated at average rates and at the balance sheet rate. All other translation differences are taken to the profit and loss account, with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against investments denominated in foreign currencies, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments.

Transactions by UK companies with third parties are translated into sterling at the exchange rate prevailing at the date of each transaction. Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates prevailing at the balance sheet date. Any exchange gain or loss is dealt with through the profit and loss account, except to the extent it represents a hedged position or is used to provide finance for a foreign investment, in which case it is taken to reserves.

### Deferred taxation

Deferred taxation is provided on the liability method on all timing differences to the extent that they are expected to crystallise in the foreseeable future. It is calculated at the rate at which it is estimated that tax will be payable. No provision is made for the tax that would arise were accumulated profits of overseas subsidiaries remitted to the UK.

## 2. Geographical information

	Turnover		Operating (loss)/profit		Assets employed	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000	1998 £'000	1997 £'000
United States of America	5,421	5,447	(564)	1,439	4,904	6,227
United Kingdom	50	60	(225)	(214)	(949)	213
	<b>5,471</b>	<b>5,507</b>	<b>(789)</b>	<b>1,225</b>	<b>3,955</b>	<b>6,440</b>

Turnover by destination is not materially different from turnover by origin. All turnover and operating profits are derived from the Group's oil and gas operations.

## 3. Exceptional Items

	1998 £'000	1997 £'000
Impairment of oil and gas interests (a)	750	-
Loss on associated undertaking (b)	870	-
	<b>1,620</b>	<b>-</b>

- (a) An impairment review was performed as at 31 December 1998 in accordance with the Group's policy. The introduction of FRS 11 during the year has required us to change the basis on which the test is performed. The key differences are the use of escalated oil and gas prices and cost levels in determining future net revenues and the requirement to discount the cash flows. Had the revised approach been followed in determining the 1997 results, no adjustment would have been necessary for impairment that year.

The impairment write down of the Group's oil and gas assets reflects the impact of weak oil and gas pricing on their realisable value, net of the costs of realising the assets.

- (b) The exceptional charge comprises full provision against the costs capitalised on Agrigen Ltd, including expenditure incurred in 1999, as well as the impairment write down of £50,000 in respect of the land detailed in Note 11(b).

**4. Interest receivable and similar income**

	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>
Interest receivable	<b>6</b>	14
Exchange gains	-	9
	<b>6</b>	23

**5. Interest payable and other charges**

	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>
Interest payable on bank loans	<b>728</b>	394
Exchange losses	<b>1</b>	-
	<b>729</b>	394

**6. Loss on ordinary activities before taxation**

The loss on ordinary activities before taxation is stated after charging/(crediting):

	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>
Amortisation of oil and gas interests	<b>2,414</b>	1,665
Impairment of oil and gas interests (Note 3)	<b>750</b>	-
Depreciation of tangible fixed assets	<b>40</b>	28
Impairment of land	<b>50</b>	-
Auditors' remuneration - for audit work	<b>30</b>	30
Other fees paid to the auditor and its associates	<b>12</b>	8
Operating leases payments - property	<b>56</b>	61
Exchange losses/(gains)	<b>1</b>	(9)

The auditors' remuneration for audit work includes £7,500 (1997:£7,500) in respect of the Company's audit.

**7. Directors' emoluments**

The total emoluments of the Directors of the Company were:

	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>
Fees	<b>15</b>	11
Remuneration	<b>173</b>	167
Pension contributions	<b>9</b>	8
	<b>197</b>	186

More detailed information concerning directors' emoluments is set out in the Report of the Remuneration Committee on pages 14 and 15.

## 8. Staff numbers and costs

The aggregate payroll costs of the Group including Directors comprised:

	1998 £'000	1997 £'000
Wages and salaries	599	539
Social Security costs	107	99
Employer's pension contributions	9	8
Redundancy payments	8	-
	<b>723</b>	<b>646</b>

The average number of persons, including Directors, employed by the Group during the year was 15 (1997: 14).

## 9. Taxation

No charge for UK corporation tax or US federal income tax arises on the loss for the year with the exceptional items having no effect on this situation. Alternative minimum US federal income tax of £25,000 was due on the 1996 results and was provided for in the year to 31 December 1997.

At 31 December 1998 the Group had net operating losses available for offset against future profits subject to United States federal tax of approximately £8.3 million, of which approximately £6.4 million are readily available for use against future trading profits, subject to certain conditions and time limits. In addition to these losses, the Group has losses in excess of £1.9 million in the UK which are available for use against future trading profits. Due to the availability of losses, the Group has no liability to deferred tax (1997: £nil).

## 10. Loss per share

The calculation of loss per share is based on the loss on ordinary activities after taxation of £2,402,000 (1997: profit £803,000) and on the weighted average number of 38,891,895 ordinary shares in issue during the year (1997: 38,843,402). There is no dilutive effect in the current year. The diluted earnings per share in 1997 is calculated on a profit of £803,000 on 39,130,915 shares, being the basic weighted average of 38,843,402 shares and the dilutive potential ordinary shares of 287,513 shares relating to share options.

## 11. Group intangible exploration assets and tangible fixed assets

### (a) Intangible exploration assets:

	£'000
At 1 January 1998	188
Exchange adjustments	(2)
Additions	1,346
Transferred to tangible fixed assets	(1,421)
	<b>111</b>
At 31 December 1998	

**11. Group intangible exploration assets and tangible fixed assets (continued)**

**(b) Group tangible fixed assets:**

	Oil & gas interests	Leasehold improvements fixtures, fittings & motor vehicles	Land	Total
	£'000	£'000	£'000	£'000
Cost:				
At 1 January 1998	18,568	247	-	18,815
Exchange adjustments	(243)	(2)	-	(245)
Additions (Note 12)	3,302	17	240	3,559
Transfer from intangible exploration assets	1,421	-	-	1,421
Transfer from investments in associated undertakings (Note 13(b))	-	-	58	58
Disposals	(39)	(7)	-	(46)
<b>At 31 December 1998</b>	<b>23,009</b>	<b>255</b>	<b>298</b>	<b>23,562</b>
Depletion and depreciation:				
At 1 January 1998	7,940	149	-	8,089
Exchange adjustments	(104)	(1)	-	(105)
Charge for the year	2,414	40	-	2,454
Exceptional impairment (Note 3)	750	-	50	800
Disposals	-	(7)	-	(7)
<b>At 31 December 1998</b>	<b>11,000</b>	<b>181</b>	<b>50</b>	<b>11,231</b>
Net book value:				
<b>At 31 December 1998</b>	<b>12,009</b>	<b>74</b>	<b>248</b>	<b>12,331</b>
At 1 January 1998	10,628	98	-	10,726

At 1 January and 31 December 1998 the principal tangible oil and gas interests were located in the USA. The expenditure on land during the year was incurred to acquire an interest in the site on which the Agrigen Ltd power station was to be built. An exceptional provision has been made to write the value of the land down to the proceeds net of expenses realised from the sale of the land subsequent to 31 December 1998.

**11. Group intangible exploration assets and tangible fixed assets (continued)**  
**(c) Company tangible fixed assets**

	Oil & gas interests £'000	Leasehold improvements fixtures & fittings £'000	Total £'000
Cost:			
At 1 January 1998	140	76	216
Additions	-	4	4
<b>At 31 December 1998</b>	<b>140</b>	<b>80</b>	<b>220</b>
Depreciation:			
At 1 January 1998	100	57	157
Charge for the year	18	2	20
<b>At 31 December 1998</b>	<b>118</b>	<b>59</b>	<b>177</b>
Net book value:			
<b>At 31 December 1998</b>	<b>22</b>	<b>21</b>	<b>43</b>
At 1 January 1998	40	19	59

**12. Expenditure on oil and gas interests**

Group expenditure on oil and gas interests during the year comprised:

	£'000
Producing interests purchased	<b>2,024</b>
Development expenditure	<b>1,278</b>
Producing and development expenditure	<b>3,302</b>
Exploration and appraisal	<b>1,346</b>
Total expenditure	<b>4,648</b>

**13. Investments**

**(a) Investments in subsidiary undertakings**

	Company	
	1998 £'000	1997 £'000
Cost of shares	<b>2,634</b>	2,634
Provision against subsidiary undertakings	<b>(288)</b>	(288)
	<b>2,346</b>	2,346
Amounts owed by subsidiary undertakings falling due after more than one year	<b>1,624</b>	1,716
	<b>3,970</b>	4,062

There have been no movements on the investments in subsidiary undertakings during the year, other than for movements in amounts falling due from subsidiary companies due after more than one year.

### 13. Investments (continued)

#### (a) Investments in subsidiary undertakings (continued)

At 31 December 1998 the Company had the following principal subsidiary undertakings:

Name of Company	Proportion of ordinary shares held	Nature of business
AmBrit International PLC*	100%	Holding company
AmBrit Energy Corp.	100%	Direct investment in oil and gas properties
United Energy Properties Ltd*	100%	Property holding company

\*Owned directly by the Company

A complete list of Group companies will be included in the Company's Annual Return.

#### (b) Investment in associated undertakings

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
At 1 January 1998	(30)	(4)	212	200
Additions	2	12	2	12
Goodwill written off	-	(12)	-	-
Group's share of deficit	(20)	(26)	-	-
	(48)	(30)	214	212
Loans to associated undertakings	868	361	868	361
Other	-	58	-	58
Exceptional provision against associated undertaking	(820)	-	(1,082)	-
<b>At 31 December 1998</b>	<b>-</b>	<b>389</b>	<b>-</b>	<b>631</b>

Agrigen Ltd's principal business was to design and develop a non-fossil fuel fired power station in Northampton, England. As more fully detailed in the Review of Operations on pages 8 and 9 the company failed in its Planning Appeal and was subsequently placed in Administrative Receivership under the terms of the Debenture held by United Energy plc. In consequence of this, full provision was made against the investment in Agrigen Ltd including further costs payable in 1999 in respect of the planning inquiry amounting to £250,000 which have been included within loans to associated undertakings. The Company is incorporated in England.



**14. Debtors: amounts falling due within one year**

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Trade debtors	1,407	1,100	30	27
Amounts owed by subsidiary undertakings	-	-	1,675	1,357
Other debtors	14	8	14	8
Prepayments and accrued income	32	29	-	-
	<b>1,453</b>	<b>1,137</b>	<b>1,719</b>	<b>1,392</b>

At 31 December 1998, trade debtors included £300,000 relating to revenues which have been deposited with the Registry of the Court of Travis County, Texas, USA, pending resolution of a title dispute. No provision has been made against the risk of not recovering these funds as based on legal advice it is believed the funds will be recovered in full. Further details of this dispute are set out in the Review of Operations.

**15. Creditors: amounts falling due within one year**

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Bank overdraft	185	-	185	-
Bank loan (secured)	1,687	-	-	-
Trade creditors	629	632	35	19
Amounts owed to subsidiary undertakings	-	-	1,510	1,511
Accruals and deferred income	714	369	372	119
Taxation and social security	8	7	8	7
	<b>3,223</b>	<b>1,008</b>	<b>2,110</b>	<b>1,656</b>

The Bank overdraft at 31 December 1998 amounting to £185,000 was secured against funds Mr Billington has deposited.

**16. Creditors: amounts falling due after more than one year**

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Bank loan (secured)	7,175	5,683	-	-
Amounts owed to subsidiary undertakings	-	-	331	311
	<b>7,175</b>	<b>5,683</b>	<b>331</b>	<b>311</b>

Borrowings at 31 December 1998 were repayable as follows:				
Within one year	1,872	-	1,695	1,511
Between one and two years	-	-	-	-
Between two and five years	7,175	5,683	331	311
	<b>9,047</b>	<b>5,683</b>	<b>2,026</b>	<b>1,822</b>

# **16. Creditors: amounts falling due after more than one year (continued)**

At 31 December 1998, the bank loans represented drawings against a £9.2 million facility of which a total of £8.9 million had been drawn at 31 December 1998. Interest was payable at a rate of ½% above US prime rate. The loan is secured on the Group's producing oil and gas assets located in the USA and is repayable by 31 December 2002.

Subsequent to the year end the bank has reviewed the terms of the facility and reduced the facility to £8.9 million. At this time, had the bank determined the facility in accordance with their normal procedures used by the bank, the facility would have been £7.6 million. In light of the over advance the bank is due to perform a further redetermination of the facility at 1 July 1999, by which time it expects the over advance to be rectified. Additionally, until such time as the over advance is rectified, the interest rate will increase from ½% above US prime rate to 1½% above US prime rate and the bank will require a monthly commitment reduction, effective 1 April 1999 of £120,000. The over advance and monthly commitment reductions due by 1 July 1999 are shown along with the bank overdraft as due within one year.

# **17. Called up share capital**

## **(a) Share capital**

	<b>1998</b>	1997
	<b>£'000</b>	£'000
<b>Authorised:</b>		
55,000,000 (1997: 55,000,000) ordinary shares of 10p each	<b>5,500</b>	5,500
<b>Allotted, called up and fully paid:</b>		
38,891,895 (1997: 38,891,895) ordinary shares of 10p each	<b>3,889</b>	3,889

## **(b) Share options**

At 31 December 1998 the following options over the Company's ordinary shares were outstanding:

	<b>Number of shares</b>	<b>Exercise price</b>	<b>Period during which options exercisable</b>
(i) The United Energy plc, No.2 1990 Executive Share Option Scheme	237,500 875,000 228,703 300,000 300,000 350,000 825,000 150,000	42.5p 17p 27p 15p 15p 16p 17p 13p	21.2.1995 - 20.2.1999 13.8.1995 - 12.8.1999 14.6.1996 - 13.6.2000 6.7.1998 - 5.7.2002 5.6.1999 - 4.6.2003 12.11.1999 - 11.11.2003 29.10.2000 - 28.10.2004 30.10.2001 - 29.10.2005
(ii) J M V Butterfield Trust	237,500	42.5p	21.2.1995 - 20.2.1999
(iii) A P O Alderton	225,000	32p	13.8.1995 - 12.8.1999

During the year ended 31 December 1998, 150,000 share options were issued to senior members of US office staff at an exercise price of 13p, under the terms of the No 2 Executive Share Option Scheme.

The mid-market price of the Company's ordinary shares at 31 December 1998 was 10p per share and the shares had traded in the range 10 to 20.5 p per share during 1998.

## 18. Shareholders' funds

### (a) Reconciliation of movement in shareholders' funds

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
(Loss)/profit for the financial year	(2,402)	803	(1,209)	(62)
Exchange adjustments	(83)	248	-	-
Share capital issued including share premium	-	12	-	12
Goodwill written off	-	(12)	-	-
Net (reduction)/addition to shareholders' funds	(2,485)	1,051	(1,209)	(50)
Shareholders' funds at 1 January 1998	6,440	5,389	4,533	4,583
<b>Shareholders' funds at 31 December 1998</b>	<b>3,955</b>	<b>6,440</b>	<b>3,324</b>	<b>4,533</b>

### (b) Share premium account

	Group and Company £'000
At 1 January 1998 and 31 December 1998	272

### (c) Other reserves: capital reserves

	Group £'000
At 1 January 1998 and 31 December 1998	717

The capital reserve arising on consolidation represents the excess of the fair value of the net assets acquired over the fair value of the consideration arising on the acquisition of AmBrit International PLC in February 1992, having applied the merger relief provisions of Section 131 of the Companies Act 1985, less the excess of the consideration paid for the investment in Agrigen Ltd over the fair value of the portion of the net assets acquired. The capital reserve is non-distributable.

The cumulative amount of goodwill written off against capital reserves at 31 December 1998 amounted to £211,000. In addition, goodwill of £3.1 million was not separately recognised on the acquisition of AmBrit International PLC in 1992 due to the application of the merger relief provisions of Section 131 of the Companies Act 1985.

### (d) Profit and loss account

	Group £'000	Company £'000
At 1 January 1998	1,562	372
Loss for the financial year	(2,402)	(1,209)
Exchange difference on translation of overseas operations/investments	(86)	-
Exchange differences on related loans/borrowings	3	-
<b>At 31 December 1998</b>	<b>(923)</b>	<b>(837)</b>

**19. Cash flow**

**(a) Reconciliation of operating (loss)/profit to net cash inflow from operating activities:**

	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>
Operating (loss)/profit	(789)	1,225
Depreciation	40	28
Amortisation of oil and gas interests	2,414	1,665
Impairment of oil and gas interests	750	-
(Increase)/decrease in debtors	(395)	147
Increase/(decrease) in creditors	140	(193)
Litigation provision utilised	-	(21)
<b>Net cash inflow from operating activities</b>	<b>2,160</b>	<b>2,851</b>

**(b) Analysis of changes in finance during the year:**

	<b>Bank loans and Overdrafts</b>		<b>Share capital (including share premium)</b>	
	<b>1998</b>	<b>1997</b>	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 January 1998	5,683	3,365	4,161	4,149
Additional loans drawn	3,247	3,444	-	-
Loan repayments	-	(1,270)	-	-
Short term borrowings	185	-	-	-
Exchange adjustments	(68)	144	-	-
Issue of ordinary share capital for cash	-	-	-	12
<b>At 31 December 1998</b>	<b>9,047</b>	<b>5,683</b>	<b>4,161</b>	<b>4,161</b>

**(c) Analysis of movement on the balances of cash at bank and in hand**

	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>
At 1 January 1998	691	705
Cash flow	(413)	(14)
Exchange	(5)	-
<b>At 31 December 1998</b>	<b>273</b>	<b>691</b>

**19. Cash flow (continued)**

**(d) Analysis of movement in net debt**

	<b>1998 £'000</b>	<b>1997 £'000</b>
Cash flow	<b>(413)</b>	(14)
Additional loans drawn	<b>(3,432)</b>	(2,174)
Exchange adjustments	<b>63</b>	(144)
Change in net debt	<b>(3,782)</b>	(2,332)
Bank loans	<b>(5,683)</b>	(3,365)
Cash at bank	<b>691</b>	705
Net debt at beginning of year	<b>(4,992)</b>	(2,660)
Bank loans	<b>(9,047)</b>	(5,683)
Cash at bank	<b>273</b>	691
Net debt at end of year	<b>(8,774)</b>	(4,992)

**20. Lease commitments**

The Group's annual commitments under non-cancellable operating leases, which are in respect of office space, are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>1998 £'000</b>	<b>1997 £'000</b>	<b>1998 £'000</b>	<b>1997 £'000</b>
Expiring within one year	<b>45</b>	-	-	-
Expiring between two and five years	<b>14</b>	42	<b>14</b>	11

**21. Capital commitments and contingent liabilities**

- (a) There were no Group commitments for capital expenditure on oil and gas assets in respect of contracts placed for future expenditure not provided for in these financial statements at the year end (1997:£160,000).
- (b) The Company has provided guarantees on the bank indebtedness of a US subsidiary; the amount guaranteed at the year end was £8.9 million (1997:£5.7 million).

**22. Post balance sheet events**

- (a) On 10 March 1999, the Company announced that its wholly-owned subsidiary United Energy Properties Ltd had disposed of its interest in the site for Agrigen Ltd's Nunn Mills Biomass Power Station for a consideration of approximately £250,000.
- (b) On 16 March 1999, the Company, which holds a 70% interest in Agrigen Ltd announced that it had placed Agrigen Ltd in Administrative Receivership. Goodwill amounting to £211,000 will be written off in the accounts for the year ending 31 December 1999.
- (c) On 13 April 1999 the Company announced that its wholly-owned US subsidiary AmBrit Energy Corp Inc had entered into a conditional agreement to sell all its oil and gas interests to Castle Energy Corporation for a cash consideration of US\$22 million with an effective date of 1 January 1999. Amongst other matters, the agreement is subject to shareholder approval and to due diligence enquiries by the potential purchaser. A Circular is being sent to shareholders in this respect. In the event that the disposal proceeds, goodwill amounting to £3.1 million will be written off in the accounts for the year ending 31 December 1999.

No material tax charge will result from the above transactions.

## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of United Energy plc will be held at the offices of Nabarro Nathanson, 50 Stratton Street, London W1X 6NX on 10 June 1999 at 11.00 am to deal with the following business.

To consider and, if thought fit, pass the following resolutions of which resolutions 1 to 5 will be proposed as ordinary resolutions and resolutions 6 and 7 will be proposed as special resolutions and to transact any other business of an Annual General Meeting:

### Ordinary Business

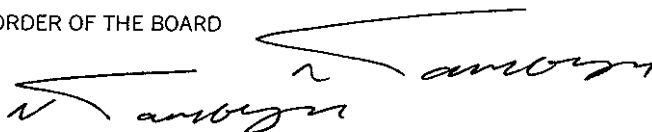
1. To receive the Accounts and the Auditors and Directors Report for the year ended 31 December 1998;
2. To re-appoint KPMG Audit Plc as auditor and to authorise the directors to determine their remuneration;
3. To re-elect as a Director Mr D Howard-Orchard; and
4. To re-elect as a Director Mr NJ Tamblyn.

### Special Business

5. THAT the Directors be and they are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities within the meaning of the said Section 80 up to an aggregate nominal amount of £1,296,000 for a period expiring (unless previously renewed varied or revoked by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company (or any adjournment thereof) or 15 months after the passing of this resolution (if earlier), except that the Company may, before the expiry of the authority contained in this resolution make an offer or agreement that would or might require relevant securities to be allotted after such authority expires and the Directors may allot relevant securities in pursuance of any such offer or agreement up to the maximum amount prescribed in this resolution as if the authority hereby conferred had not expired, this authority to replace any existing like authority which is hereby revoked with immediate effect.
6. THAT the Directors be and are hereby empowered to make allotments for cash of equity securities (as defined in Section 94 (2) of the Act) pursuant to the authority conferred upon them by the passing of resolution 5 above as if Section 89 (1) of the Act did not apply to any such allotment PROVIDED THAT the power conferred by this resolution shall:
  - (a) be limited to the allotment of equity securities in connection with a rights issue, open offer or any other offer of equity securities in favour of shareholders where the equity securities respectively attributable under such issue or offer to each shareholder are proportionate (as nearly as may be) to the respective numbers of equity securities held by them on a fixed record date but subject to such exclusions as the Directors may deem fit to deal with fractional entitlements or legal and practical difficulties arising under the laws of, or the requirements of, any statutory or regulatory body in any overseas territory;
  - (b) be limited to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £194,450; and
  - (c) expire at the conclusion of the next Annual General Meeting of the Company (or any adjournment thereof) or 15 months after the passing of this resolution (if earlier), unless renewed or extended prior to such time, except that the Company may, before the expiry of any power contained in this resolution, make an offer or agreement that would or might require equity securities to be allotted after such power expires and the Directors may allot equity securities in pursuance of any such offer or agreement up to the maximum amount prescribed in this resolution as if the power hereby conferred had not expired.
7. THAT the Company be and is hereby generally and unconditionally authorised pursuant to Section 166 of the Act to make one or more market purchases (within the meaning of Section 163 (3) of the Act) of ordinary shares of 10p each in the capital of the Company ("ordinary shares") provided that:
  - (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased shall be 3,889,189 (representing 10 per cent of the Company's issued share capital as at 30 April 1999);
  - (b) the maximum price which may be paid for an ordinary share shall be an amount equal to 5% above the average of the middle market prices derived from the London Stock Exchange Daily Official List for the ten dealing days immediately preceding the day on which the ordinary share is purchased exclusive of expenses;
  - (c) the minimum price which may be paid for an ordinary share shall be 5p exclusive of expenses;

- (d) unless previously renewed, revoked or varied the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company (or any adjournment thereof) or within fifteen months from the date of the passing of this resolution (if earlier); and
- (e) the Company may make a contract to purchase ordinary shares under this authority before the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract which purchase or contract would or might be executed wholly or partly after the expiration of such authority.

BY ORDER OF THE BOARD



**NJ Tamblyn**

Secretary

Registered office:

50 Stratton Street

London W1X 6NX

Dated: 14 May 1999

**NOTES**

(1) A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and on a poll to vote instead of the member. A proxy need not be a member of the Company. To be valid, proxy cards must be lodged not later than 48 hours before the time appointed for the meeting at the offices of the Company's registrars, Independent Group Registrars Limited, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ. Completion of a form of proxy does not preclude a member from subsequently attending the meeting and voting in person.

(2) The register of Directors' share interests and copies of the Directors' service agreements will be available for inspection at the Registered Office of the Company during normal business hours from the date hereof, and at the place of the Annual General Meeting from 15 minutes before the time appointed for the meeting, until the end of the meeting.

(3) The Company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995 specifies that only those shareholders registered on the Register of Members as at 6 pm on 8 June 1999 shall be entitled to attend and vote at the meeting in respect of the shares registered in their name at such time. Changes to entries on the Register of Members after such time and date shall be disregarded in determining the rights of any person to attend and vote at such meeting.





# UNITED ENERGY

plc

## FORM OF PROXY FOR USE BY HOLDERS OF ORDINARY SHARES at the Annual General Meeting to be held on 10 June 1999

I/We (name in full).....

(BLOCK CAPITALS PLEASE)

of.....

being (a) holder(s) of Ordinary Shares of 10p each of the above-named Company, hereby appoint the CHAIRMAN of the MEETING, or \*(Note 6).....

to act as my/our proxy at the Annual General Meeting of the Company to be held at the offices of Nabarro Nathanson, 50 Stratton Street, London W1X 6NX on Thursday, 10 June, 1999 at 11.00 a.m. and at any adjournment thereof, and to vote on my/our behalf in respect of the Resolutions set out in the notice convening the Meeting as directed below.

Ordinary Resolutions	FOR	AGAINST
To re-appoint KPMG Audit Plc as auditor and to authorise the Directors to determine their remuneration.		
To re-elect as a Director Mr D Howard-Orchard.		
To re-elect as a Director of Mr NJ Tamblyn.		
To authorise the Directors to allot shares.		
Special Resolutions		
To disapply Section 89(2) of the Companies Act 1985.		
To authorise the Company to make market purchases of its own securities.		

Please indicate with an X in the spaces provided how you wish your votes to be cast on a poll. Should this card be signed, but without a specific direction, the proxy will vote or abstain at his discretion.

Dated.....1999 Signature.....

### NOTES:

1. A proxy need not be a member of the Company.
2. In the case of a corporation, this form of proxy must be executed either under its Common Seal or under the hand of an officer or attorney duly Authorised in writing.
3. In the case of joint holders of any shares, any one of such persons may vote at the meeting either in person or by proxy in respect of any such shares as if he were solely entitled thereto, but so that if more than one such joint holder be present at the Meeting personally or by proxy, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority is determined by the order in which the names stand in the Register of Members in respect of the joint holding.
4. To be effective, this form of proxy must be lodged at the address overleaf not later than 48 hours before the time of the meeting, or any adjournment thereof, together, if appropriate, with the power of attorney or other authority under which it is signed, or a notarially certified copy of such power of attorney.
5. Any alteration made in this form of proxy should be initialed by the person who signs it.
6. If it is desired to appoint as proxy any person other than the Chairman his/her name and address should be inserted in the relevant place, reference to the Chairman deleted and the alteration initialed.
7. In the case of joint holdings only one holder need sign this form of proxy but the name of all joint holders should be given.
8. Completion of this form of proxy will not prevent you from attending the Meeting and voting should you wish to do so.

FOURTH FOLD AND TUCK IN OPPOSITE

Business Reply Service  
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Independent Registrars Group plc  
Balfour House  
390/398 High Street  
Ilford  
Essex  
IG1 1BR

THIRD FOLD

SECOND FOLD

FIRST FOLD

## Directors and Advisers

<b>Directors</b>	JF Billington* NJ Tamblyn D Howard-Orchard JA Hoskinson* * non-executive	(Chairman) (Chief Executive and Finance Director) (Group Technical Director) (Director)
<b>Secretary</b>	NJ Tamblyn	
<b>Registered Office</b>	50 Stratton Street London W1X 6NX	
<b>Registered Number</b>	1712354	
<b>Auditor</b>	KPMG Audit Plc Chartered Accountants 8 Salisbury Square London EC4Y 8BB	
<b>Financial Advisers</b>	Ernst & Young One Colmore Row Birmingham B3 2BD	
<b>Stockbrokers</b>	Peel, Hunt & Company Limited 62 Threadneedle Street London EC2R 8HP	
<b>Solicitors</b>	Nabarro Nathanson 50 Stratton Street London W1X 6NX	
<b>Petroleum Engineers</b>	The Scotia Group, Inc Suite 1150, 4849 Greenville Avenue Dallas, Texas 75206 USA	
<b>Registrars</b>	Independent Registrars Group Limited Balfour House 390/398 High Road Ilford, Essex IG1 1NQ	
<b>Principal Bankers</b>	Bank One, Texas NA 1717 Main Street Dallas Texas 75201 USA  Lloyds Bank plc 130 High Street Cheltenham Glos GL50 1EW	

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Cheltenham  
Glos GL50 1PJ  
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