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KELT INVESTMENTS LIMITED

ACCOUNTS -- 30 MARCH 1989

TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS



KELT INVESTMENTS LIMITED

DIRECTORS' REPORT

The directors submit their annual report and the accounts of the company from its date of incorporation, 28 January, 1988 to 30 March, 1989.

BUSINESS REVIEW

The company is an investment holding company incorporated in England. During the period it acquired interests in companies involved in the exploration for and the production of oil and gas in the U.K.

RESULTS AND DIVIDENDS

The loss for the period was £116,000. The directors do not recommend the payment of a dividend for the period.

DIRECTORS

The directors who held office during the period and their interests in the shares of the parent company, Kelt Energy PLC, at 30 March, 1989 were:-

	<u>Number of Shares Held</u>		<u>Share Options</u>
	<u>10p Ordinary</u>	<u>£1 Preference</u>	
A J D Locke (Appointed 08/03/88)	499,508	100,000	150,000
D M Bizeau (Appointed 15/08/88)	12,316	1,470	150,000
I R H Doust (Appointed 08/03/88)	14,376	-	60,000
J-M Y G Runacher (Appointed 26/05/89)	18,752	-	-
R Fox (Appointed 26/05/89)	15,000	-	-

DIRECTORS' INTERESTS IN CONTRACTS

No director who held office during 1988/9 had an interest in any contract or arrangement of a material nature with the company, its fellow subsidiaries or its parent during the period under review except as indicated in Note 10.

KELT INVESTMENTS LIMITED

DIRECTORS' REPORT (cont'd)

AUDITORS

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

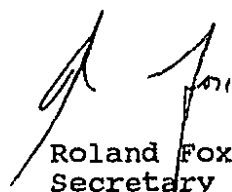
ELECTION OF DIRECTORS

Messrs. A J D Locke, D M Bizeau, I R H Doust, J-M Y G Runacher, and R Fox retire in accordance with the Articles of Association and, being eligible, offer themselves for re-election.

130 Jermyn Street
London
SW1Y 4UJ

13 October 1989

BY ORDER OF THE BOARD



Roland Fox
Secretary

ARTHUR ANDERSEN & Co.

1 SURREY STREET
LONDON WC2R 2PS

AUDITOR'S REPORT TO THE MEMBERS OF
KELT INVESTMENTS LIMITED

We have audited the accounts on pages 4 to 9 in accordance with Auditing Standards.

In our opinion, the accounts give a true and fair view of the state of affairs of the company at 30 March 1989 and of the loss for the period then ended, and have been properly prepared in accordance with the Companies Act 1985.

Without qualifying our opinion above, we draw attention to the company's technical insolvency described in Note 8 and the assurance from the directors of the holding company that sufficient funds will be made available to the company over the next year to enable it to meet any liabilities that it may incur.

Arthur Andersen & Co.

London
13 October 1989

KELT INVESTMENTS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 30 MARCH 1989

	<u>Notes</u>	<u>£'000</u>
Administration Expenses		(48)
Foreign Exchange Gain		135

		87
Interest receivable		260
Interest payable	2	(463)

LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(116)
Taxation	5	-

LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(116)
		=====

The accompanying notes form an integral part of the financial statements.

KELT INVESTMENTS LIMITED

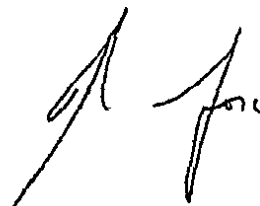
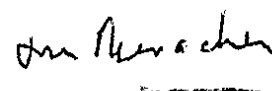
BALANCE SHEET AT 30 MARCH 1989

	<u>Notes</u>	<u>£'000</u>
<u>FIXED ASSETS</u>		
Inv·stments	6	275,920 -----
<u>CURRENT ASSETS</u>		
Debtors	7	773
<u>CREDITORS</u> : Due within one year	8	(7,145) -----
NET CURRENT LIABILITIES		(6,372) -----
TOTAL ASSETS LESS CURRENT LIABILITIES		269,548
<u>CREDITORS</u> : Due after more than one year	9	(224,618) -----
NET ASSETS		44,930 =====
Share Capital	10	45,046
Profit and Loss Account		(116) -----
		44,930 =====

APPROVED BY THE BOARD ON 13 OCTOBER 1989

J-M Y G Runacher

R Fox

The accompanying notes form an integral part of the financial statements.

KELT INVESTMENTS LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE PERIOD ENDED
30 MARCH 1989

	<u>£'000</u>
SOURCE OF FUNDS:	
Proceeds of share issue	45,046
Long-term loan from parent company	224,618
Decrease in working capital	6,372

	276,036
	=====
APPLICATION OF FUNDS:	
Loss on ordinary activities before tax	116
Acquisition of Kelt U.K. Limited	3,646
Long-term loan to Kelt U.K. Limited	4,215
Acquisition of Kelt Holdings	41,400
Acquisition of Carless Limited	226,659

	276,036
	=====
DECREASE IN WORKING CAPITAL:	
Amounts owed by group companies	(773)
Other creditors	6,970

	6,197
Movement in net liquid funds	175

	6,372
	=====

The accompanying notes form an integral part of the financial statements.

KELT INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

- (a) The financial statements have been prepared under the historical cost convention.
- (b) Investments in subsidiaries are carried at acquisition cost, including attributable interest costs arising during the course of acquisition, less provision for any permanent diminution in value.
- (c) Transactions denominated in foreign currency are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into sterling at the rate of exchange ruling at the balance sheet date, exchange differences being reflected in the profit and loss account.

2. INTEREST PAYABLE

	<u>£'000</u>
Interest on inter-company debt	459
Interest on other debt (bank loan repayable within one year)	4

	463
	=====

3. AUDITOR'S REMUNERATION

Auditors' remuneration for the period was borne by the ultimate holding company.

4. DIRECTORS AND EMPLOYEES

The company had no employees during the period and no remuneration was paid to directors.

5. TAXATION

No liability to taxation arises due to the loss incurred by the company.

21-05-9

KELT INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

6. INVESTMENTS

	<u>£'000</u>
Long-term subsidiaries	271,705
Loans to long-term subsidiaries	4,215

	275,920

On 12 May, 1988 the company acquired Kelt U.K. Limited for a consideration of £3.6 million financed by the issue of ordinary shares. On the same date the company also acquired Kelt Holdings for £41.4 million also financed by the issue of shares.

In January 1989, the company acquired the entire issued share capital of Carless PLC for a consideration of £226.7 million financed by a loan from the parent company.

7. DEBTORS

	<u>£'000</u>
Amounts owed by parent company	29
Amounts owed by fellow subsidiaries	744

	773
	=====

8. CREDITORS: AMOUNTS FALLING DUE
WITHIN ONE YEAR

	<u>£'000</u>
Bank overdraft, unsecured	175
Other creditors	6,970

	7,145
	=====

9. CREDITORS: AMOUNTS FALLING DUE
AFTER MORE THAN ONE YEAR

	<u>£'000</u>
Amounts owed to parent company	224,618
	=====

The company was technically insolvent at 30 March, 1989.

The directors of the holding company have confirmed that sufficient funds will be made available to the company over the next year to enable it to meet any liabilities that it may incur.

KELT INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

10. SHARE CAPITAL

£'000

Authorised:

50,000,000 ordinary shares at £1 each 50,000
=====

Allotted, called-up and fully paid:

45,046,000 ordinary shares at £1 each 45,046
=====

The movement on the allotted, called-up and fully paid share capital was:-

No. of Shares

Initial capital on registration	2
Consideration for Kelt U.K. Limited	3,645,541
Consideration for Kelt Holdings	41,400,000
At 30 March, 1989	45,045,643

11. RELATED PARTY TRANSACTIONS

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

12. CONTINGENT LIABILITIES

The company, jointly with other group companies, has guaranteed all liabilities of its ultimate parent company (note 13) in favour of the American Express Bank Ltd (as agent and trustee for a syndicate of banks).

13. ULTIMATE HOLDING COMPANY

The ultimate holding company is Kelt Energy PLC, incorporated in the United Kingdom.