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TAYLOR WOODROW ENERGY LIMITED
Directors' Report and Accounts
31st December 1985



TAYLOR WOODROW ENERGY LIMITED

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TAYLOR WOODROW ENERGY LIMITED
REPORT OF THE DIRECTORS TO THE MEMBERS FOR THE YEAR ENDED 31ST DECEMBER 1985

DIRECTORS

The following were directors for the whole of the financial year:

Messrs. A.W. Cheyne (Chairman and Managing Director), G.N. Davies, J.P. Gibson, M. Prokopiou and R.S. Taylor.

Mr. F.R. Gibb resigned as director on 24th April 1985. Mr. R. Broadhead was appointed on 1st June 1985.

Mr. F.R. Gibb resigned as Chairman on 24th April 1985. Mr. A.W. Cheyne was appointed Chairman on 24th April 1985.

REVIEW OF BUSINESS

The principal activities of the company comprise oil and gas exploration and the provision of management and engineering services to the energy industry. There have been no significant changes in such activities during the year.

The company continues to act as operator for a group exploring for oil and gas onshore in the UK which carried out further seismic work and drilled three wells in South Yorkshire and has made two new gas discoveries (one near the village of Kirby Misperton and the other near Malton). Such discoveries will require further appraisal wells before they can be fully evaluated and be taken to development stage.

At Hatfield Moors, where a gas reservoir was found earlier, a development programme was completed during the year and this field is now producing gas and supplying a local brickworks which is the first occasion in the UK when gas has been supplied direct to a private consumer in such circumstances.

Another group, in which the company has a 20% interest, was awarded two offshore licence blocks in Morecambe Bay. The company was appointed operator to this group during the year.

At the end of the year the company possessed the necessary financial and technical resources with which to continue the development of its business and to take the benefit of future improvements in the economic situation.

RESULTS AND DIVIDENDS

The results of the company for the year are set out in the profit and loss account on page 4. The directors recommend that no dividend be paid in respect of the year ended 31st December 1985 (1984 - NIL).

DIRECTORS' INTERESTS IN SHARE AND LOAN CAPITAL OF THE COMPANY, ITS FELLOW SUBSIDIARIES, ITS PARENT AND ITS ULTIMATE HOLDING COMPANY

Mr. J.P. Gibson had no disclosable interest.

Mr. G.N. Davies is also a director of the ultimate holding company, Taylor Woodrow plc and his interests are disclosed in the Directors' Report of that company.

Messrs. R. Broadhead, A.W. Cheyne, M. Prokopiou, and R.S. Taylor are also directors of the parent company, Taylor Woodrow Construction Limited, and their interests are disclosed in the Directors' Report of that company.

TAYLOR WOODROW ENERGY LIMITED
REPORT OF THE DIRECTORS TO THE MEMBERS - Continued

DIRECTORS' INTERESTS IN CONTRACTS

No director had an interest in any contract or arrangement of a material nature with the company, its fellow subsidiaries, its parent or its ultimate holding company during the year under review.

ELECTION OF DIRECTOR

Mr. R. Broadhead, having been appointed since the last annual general meeting, retires in accordance with the Articles of Association and, being eligible, offers himself for election.

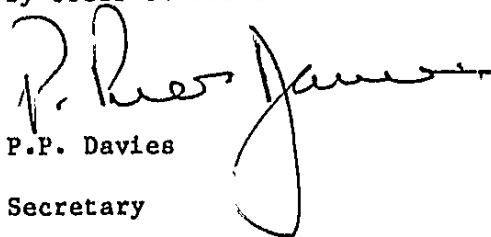
AUDITORS

Touche Ross & Co. have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming annual general meeting.

GENERAL

The company is not a close company as defined in the Income and Corporation Taxes Act 1970.

By order of the board


P.P. Davies
Secretary

9th April 1986

AUDITORS' REPORT TO THE MEMBERS

OF

TAYLOR WOODROW ENERGY LIMITED

We have audited the accounts and notes on pages 4 to 11 in accordance with approved Auditing Standards.

In our opinion the accounts and notes give a true and fair view of the state of affairs of the company at 31st December 1985 and of the result for the year then ended and comply with the Companies Act 1985.

The accounts do not include a statement of source and application of funds as required by Statement of Standard Accounting Practice No. 10.

9th April, 1986



Chartered Accountants
London

TAYLOR WOODROW ENERGY LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 1985

	<u>Notes</u>	<u>1985</u> <u>£</u>	<u>1984</u> <u>£</u>
<u>TURNOVER</u>		8,953,196 =====	9,389,069 =====
<u>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</u>	2 - 3	(1,407,524)	(641,707)
Taxation	4	- _____	461 _____
<u>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</u>		(1,407,524)	(642,168)
<u>EXTRAORDINARY ITEM</u>			
Contribution from parent company		1,407,524 _____	642,168 _____
<u>PROFIT FOR THE FINANCIAL YEAR</u>		- =====	- =====

TAYLOR WOODROW ENERGY LIMITED
BALANCE SHEET AT 31ST DECEMBER 1985

	<u>Notes</u>	<u>1985</u> <u>£</u>	<u>1984</u> <u>£</u>
<u>ASSETS EMPLOYED</u>			
<u>Fixed Assets</u>			
Intangible assets	5	892,498	792,498
Tangible assets	6	356,709	375,554
Other			
Investment	7	-	-
Group company			
		<u>1,249,207</u>	<u>1,168,052</u>
<u>Current Assets</u>			
Work in progress	8	745,847	830,041
Debtors	9	1,568,455	923,361
Bank balances and cash		23,192	25,945
		<u>2,337,494</u>	<u>1,779,347</u>
<u>Creditors falling due within one year</u>	10	<u>3,486,701</u>	<u>2,847,399</u>
Net current liabilities		<u>(1,149,207)</u>	<u>(1,068,052)</u>
Total assets less current liabilities		<u>100,000</u> =====	<u>100,000</u> =====

FINANCED BY

Capital and Reserves

Called up ordinary share capital	11	100,000 =====	100,000 =====
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Mr. Chayne

M. Popov } Directors

9th April 1986

TAYLOR WOODROW ENERGY LIMITED
NOTES ON THE ACCOUNTS

1. ACCOUNTING DEFINITIONS AND POLICIES

The following accounting definitions and policies have been used consistently unless otherwise stated in dealing with items which are considered material.

Basis of the accounts

The accounts are prepared under the historical cost convention.

Turnover

Turnover comprises the value of work executed during the year including the company's share of joint venture turnover.

Loss for the year

The loss for the year includes the result of the year's operations together with residual profits in respect of work done in prior years. No credit is taken for claims until the cash is received.

Work in progress

Contract work in progress and joint ventures are valued generally at cost plus attributable profit less provision for known losses and contingencies, no distinction being drawn between long term and short term contracts. Contracts remain in work in progress until final payment is received.

Fixed Assets

Research costs are written off as incurred.

Exploration and production

The company capitalises all costs relating to the exploration for oil and gas reserves. Full provision is made against costs capitalised until a decision has been made to develop reserves discovered, from which time cumulative expenditure for the project is carried at cost. Expenditure is generally depleted on a unit of production method using estimates of total reserves. Premiums paid are valued by the company based on the prospect of future development.

Depreciation

Depreciation on productive wells is provided on a unit of production method using estimates of total reserves.

Deferred taxation

Deferred taxation is provided at the latest known tax rates for future liabilities resulting from the difference between the treatment of items in the accounts and their treatment for taxation purposes.

TAYLOR WOODROW ENERGY LIMITED
NOTES ON THE ACCOUNTS - Continued

Subsidiary company

The investment is included in the company's balance sheet at the net asset value at the time of acquisition less post acquisition losses.

Consolidated accounts have not been prepared as the accounts of the company and its wholly owned subsidiary have been consolidated with those of the parent company.

Rates of exchange

Profit and loss accounts in foreign currencies are translated into sterling at average rates. Previously they were translated at closing rates. Assets and liabilities are translated at exchange rates ruling at the balance sheet date.

Unrealised exchange differences in share capital, revaluation reserves, pre-acquisition retained profits and inter-company long term loans are taken to revaluation reserves without provision for taxation.

Extraordinary items

Extraordinary items are those material items which derive from events or transactions outside the ordinary activities of the company.

Source and application of funds

No source and application of funds statement has been included in the accounts, since it would not provide any useful information in view of the close financial arrangements with the ultimate holding company.

	<u>1985</u> £	<u>1984</u> £
2. <u>LOSS ON ORDINARY ACTIVITIES</u> <u>BEFORE TAXATION</u>		
Turnover	8,953,196	9,389,069
Cost of sales	(9,740,805)	(9,408,171)
	<hr/>	<hr/>
Gross loss	(787,609)	(19,102)
Administrative expenses	(570,517)	(474,291)
Interest receivable	14,848	2,523
Amount provided against investment	(64,246)	(150,837)
	<hr/>	<hr/>
	(1,407,524)	(641,707)
	=====	=====
The loss on ordinary activities is after charging		
Directors' emoluments	Nil	Nil
Plant hire	237,959	199,539
Provision against intangible assets (note 5)	1,181,292	1,127,290
Auditors' remuneration	4,630	4,300
	<hr/>	<hr/>
	=====	=====

TAYLOR WOODROW ENERGY LIMITED
NOTES ON THE ACCOUNTS - Continued

3. PARTICULARS OF TEAM MEMBERS

	<u>1985</u>	<u>1984</u>
Average number employed	<u>1</u> ===	<u>1</u> ===

Remuneration	<u>1985</u> £	<u>1984</u> £
Wages and salaries	1,843	780
Social security costs	109	8
Other pension costs	-	-
	<u>1,952</u> =====	<u>788</u> =====

4. TAXATION

Based on the results for the year

United Kingdom corporation tax at
41.25% (1984 46.25%)

Before stock and group relief	(512,600)	(171,900)
Stock relief	-	(5,600)
Group relief	<u>512,600</u>	<u>177,500</u>
	-	-
Overseas tax	-	461
	<u>-</u>	<u>461</u>
	=====	=====

TAYLOR WOODROW ENERGY LIMITED
NOTES ON THE ACCOUNTS - Continued

5. <u>INTANGIBLE ASSETS</u>	Oil and Gas Exploration & Production		
	<u>Premium</u> £	<u>£</u>	<u>Total</u> £
<u>Cost</u>			
31st December 1984	600,000	2,849,061	3,449,061
Additions	-	1,281,292	1,281,292
31st December 1985	600,000	4,130,353	4,730,353
	=====	=====	=====
<u>Provisions</u>			
31st December 1984	300,000	2,356,563	2,656,563
Charge for year	-	1,181,292	1,181,292
31st December 1985	300,000	3,537,855	3,837,855
	=====	=====	=====
<u>Net values</u>			
31st December 1985	300,000	592,498	892,498
	=====	=====	=====
31st December 1984	300,000	492,498	792,498
	=====	=====	=====
6. <u>TANGIBLE ASSETS</u>	Productive Wells		
		<u>£</u>	
<u>Cost</u>			
31st December 1984		419,442	
Additions		149,067	
Disposals		(16,012)	
31st December 1985		552,497	
		=====	
<u>Depreciation</u>			
31st December 1984		43,888	
Charge for year		167,912	
Disposals		(16,012)	
31st December 1985		195,788	
		=====	
<u>Net values</u>			
31st December 1985		356,709	
		=====	
31st December 1984		375,554	
		=====	

TAYLOR WOODROW ENERGY LIMITED
NOTES ON THE ACCOUNTS - Continued

7. INVESTMENT IN SUBSIDIARY

Shares
Unlisted
£

Cost

31st December 1984 and 1985

10,077
=====

Amount provided

31st December 1984 and 1985

10,077
=====

Net Value

31st December 1984 and 1985

-
=====

The company holds 100% of the called up
ordinary share capital of:

	<u>Country of incorporation and principal operations</u>	<u>Called up ordinary share capital</u> <u>£</u>	<u>Nature of business</u>
Taywood Energy Services Limited	Canada	9,901	Energy related

8. WORK IN PROGRESS

	<u>1985</u> <u>£</u>	<u>1984</u> <u>£</u>
Contract work in progress	12,972,601	19,489,839
Deduct payments received on account	<u>12,916,721</u>	<u>19,167,261</u>
Net work in progress	55,880	322,578
Joint venture	<u>689,967</u>	<u>507,463</u>
	<u>745,847</u> =====	<u>830,041</u> =====
Amount of net work in progress certified and unpaid	Nil =====	Nil =====

The inclusion of profit in contract work in progress is in accordance with SSAP 9 and is required by S.228 (5) of the Companies Act 1985 to enable the accounts to give a true and fair view. This constitutes a departure from the valuation rules contained in the same Act. As payments received on account cannot be allocated meaningfully between cost and profit, it is not practicable to state the effect of this departure on the balance sheet.

TAYLOR WOODROW ENERGY LIMITED
NOTES ON THE ACCOUNTS - Continued

9. <u>DEBTORS</u>	<u>1985</u> <u>£</u>	<u>1984</u> <u>£</u>
Receivable within one year		
Trade	78,653	85,970
Group companies	1,407,524	778,920
Prepayments and accrued income	82,278	58,471
	<u>1,568,455</u>	<u>923,361</u>
	=====	=====
10. <u>CREDITORS FALLING DUE WITHIN ONE YEAR</u>		
Payments received on account	19,537	60,759
Trade creditors	100,063	185,683
Group companies	3,198,874	2,524,498
Other taxation and social security	126,842	33,549
Accruals and deferred income	41,385	42,910
	<u>3,486,701</u>	<u>2,847,399</u>
	=====	=====
11. <u>ORDINARY CAPITAL</u>		
<u>Authorised</u>		
100,000 shares of £1 each (1984 - 100,000)	100,000	100,000
	=====	=====
<u>Called up and fully paid</u>		
100,000 shares of £1 each (1984 - 100,000)	100,000	100,000
	=====	=====
12. <u>ULTIMATE HOLDING COMPANY</u>		

The company's ultimate holding company is Taylor Woodrow plc which is incorporated in Great Britain.