

BABCOCK INTERNATIONAL LIMITED

DIRECTORS' REPORT AND
FINANCIAL STATEMENTS

for the year ended
31 March 1991

COMPANIES HOUSE
13 SEP 1991

13/9/91

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Company Number 65805

DIRECTORS

The Rt Hon Lord King of Wartnaby
G O Whithead
E A S Porter
G S Stone

SECRETARY

J Allen

REGISTERED OFFICE

The Lodge,
Badminton Court,
Church Street,
Amersham,
Buckinghamshire,
HP7 0DD.

AUDITORS

BDO Binder Hamlyn,
Chartered Accountants,
20 Old Bailey,
London,
EC4M 7BH.

DIRECTORS' REPORT**for the year ended 31 March 1991**

The directors present their report and accounts for the year ended 31 March 1991.

PRINCIPAL ACTIVITIES

The principal activity of the company continues to be that of a holding company. The directors do not anticipate any change in the nature of the company's activities during the next financial year.

REVIEW OF BUSINESS

The year end financial position was satisfactory. Following a review of the Wibau UK Limited litigation position, as a matter of prudence, a provision of £0.8 million has been made to cover anticipated settlement, accrued interest and other costs.

The company made a number of acquisitions during the year. A brief summary of these transactions is provided below.

BABCOCK ENERGY LTD

On 20 November 1990 the company acquired the entire issued share capital of Babcock Energy Ltd from its fellow subsidiary, Babcock International Holdings Ltd, for £97.3 million. Prior to this purchase, the construction activities of Babcock Energy Ltd had been transferred to a new separate legal entity, Babcock Construction Ltd. This new company was then acquired from Babcock Energy Ltd, at the directors' valuation of £24.0 million. The book value of the company's investment in Babcock Energy Ltd was then written down by £16.3 million to reflect the separation and sale of the new subsidiary.

This write down is shown as an extraordinary charge against this years profits (see note 9).

TICKFORD RAIL LTD

On 15 March 1991 the company acquired, through its 84% interest in Tickford Rail Ltd, the trade assets and liabilities of the Rail division of Tickford Ltd, a subsidiary of C H Industrials Plc, for £2.5 million. Tickford Rail Ltd's main activity is the refurbishment of railway rolling stock.

CONTRACT PRISONS PLC

In February 1991 the company acquired a 40% holding in Contract Prisons PLC for £10,000. This company has been formed to manage and operate prisons, remand prisons and other penal institutions.

RESULTS AND DIVIDENDS

The profit after tax for the year was £29.9 million (1990 - £28.3 million). Against this were charged extraordinary items of £17.2 million, leaving £12.7 million attributable to the shareholders from which a dividend of £8.0 million was paid. The remaining balance of £4.7 million was taken to reserves.

FIXED ASSETS

Details of the changes in fixed assets are given in notes 11 and 12 to the accounts.

DIRECTORS' REPORT
for the year ended 31 March 1991

DIRECTORS

The directors of the company during the year were:

Rt Hon Lord King of Wartnaby
G O Whitehead
E A S Porter
G S Stone

None of the directors had any beneficial interest in the company's shares.

All of the directors are also directors of the ultimate holding company and their interests in the shares of group companies are shown in that company's accounts.

TAX STATUS

As far as the directors are aware, the company is not a close company within the meaning of Section 414 of the Income and Corporation Taxes Act 1988.

AUDITORS

A resolution to reappoint the auditors, BDO Binder Hamlyn, will be proposed at the Annual General Meeting.

This report was approved by the Board on 20 June 1991.


Secretary

AUDITORS' REPORT
to the members of Babcock International Limited

We have audited the financial statements on pages 5 to 15 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 1991 and of its profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Binder Hamlyn

20 June 1991

PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1991

	Notes	1991 £'000	1990 £'000
Turnover	2	198	191
Cost of sales		<u>(190)</u>	<u>(123)</u>
Gross profit		8	68
Administrative expenses		(3,675)	(2,496)
Other operating income		2,550	2,181
Income from fixed asset investments	3	36,049	21,726
Interest payable and similar charges	4	<u>(9,449)</u>	<u>(4,537)</u>
Profit on ordinary activities before taxation	5	25,483	16,942
Tax credit on profit on ordinary activities	8	<u>4,419</u>	<u>11,374</u>
Profit on ordinary activities after taxation		29,902	28,316
Extraordinary items	9	<u>(17,163)</u>	<u>67,026</u>
Profit for the year		12,739	95,342
Dividends	10	<u>(8,000)</u>	<u>(172,100)</u>
Transferred to/(from) reserves	19	<u>4,739</u>	<u>(76,758)</u>

Movements on reserves are set out in note 19.

BALANCE SHEET
as at 31 March 1991

	Notes	1991 £'000	1990 £'000
FIXED ASSETS			
Tangible assets	11	131	170
Investments	12	117,472	12,722
		<u>117,603</u>	<u>12,892</u>
CURRENT ASSETS			
Debtors	13	9,013	107,819
Cash at bank and in hand		47,089	34,002
		<u>56,102</u>	<u>141,821</u>
CREDITORS: amounts due within one year	14	(90,452)	(70,536)
Net Current (Liabilities)/Assets		<u>(34,350)</u>	<u>71,285</u>
Total Assets less Current Liabilities		83,253	84,177
CREDITORS: amounts due after one year	15	(27,269)	(33,658)
PROVISION FOR LIABILITIES AND CHARGES	17	(844)	(118)
Net Assets		<u>55,140</u>	<u>50,401</u>
CAPITAL AND RESERVES			
Called up share capital	18	44,500	44,500
Share premium account	19	4,632	4,632
Profit and loss account	19	6,008	1,269
		<u>55,140</u>	<u>50,401</u>

The financial statements on pages 5 to 15 were approved by the Board on 20 June 1991 and signed on its behalf by

Director

Director

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
for the year ended 31 March 1991

	1991 £'000	1990 £'000
SOURCE OF FUNDS		
Profit on ordinary activities before tax	25,483	16,942
Depreciation, provisions and profit on disposal of fixed assets	41	30
Proceeds from disposal of investments	-	300,332
Proceeds from disposal of tangible fixed assets	34	-
Write down of investments	900	2,340
Total funds from operations	26,458	319,644
APPLICATION OF FUNDS		
Acquisition of fixed asset investments	(121,988)	(4,402)
Capital expenditure	(36)	(200)
Funds generated from operations	(95,566)	315,042
Tax received	2,757	5,256
Dividends	(10,000)	(377,100)
Issue of share capital	-	19
Net outflow of funds	(102,809)	(56,783)
Represented by		
Increase/(decrease) in working capital		
Debtors	(98,972)	(12,047)
Creditors	9,610	(3,988)
Movement in net liquid funds:		
Increase in cash	13,087	21,490
(Increase) in bank borrowings	(26,534)	(62,238)
	(102,809)	(56,783)

**NOTES TO THE ACCOUNTS
for the year ended 31 March 1991**

1. ACCOUNTING POLICIES**(a) Basis of accounting**

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards.

The company has taken advantage of Section 228 of the Companies Act 1985 and has not prepared group accounts as it is a wholly owned subsidiary of another company registered in Great Britain.

(b) Fixed asset investments

Fixed asset investments are stated at cost less provisions for permanent diminution in value.

(c) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on a straight line basis to write off the cost or valuation of fixed assets over their estimated useful lives at the following annual rates:

Plant, machinery and equipment	10% to 25%
Motor vehicles	20.0 to 33.3%

(d) Deferred taxation

Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that it is probable that a liability will crystallise.

(e) Pension

The company is a member of the Babcock International Group pension scheme and has also contributed to certain employees' personal defined contribution pension schemes. Contributions to the group scheme are based on periodic actuarial calculations and are charged so as to spread the cost of pensions over the expected service lives of the employees who are members of the scheme.

(f) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the year end exchange rates.

(g) Turnover

The turnover of the company, derived from the provision of patent registration services, excludes VAT.

NOTES TO THE ACCOUNTS

for the year ended 31 March 1991 (continued)

2. SEGMENTAL INFORMATION	1991	1990
	£'000	£'000
The analysis of turnover by geographical market is as follows:		
United Kingdom	113	89
North America	25	30
Europe	60	60
Other areas	-	12
	<u>198</u>	<u>191</u>
3. INCOME FROM FIXED ASSET INVESTMENTS		
Dividend received from group companies	36,834	21,022
Dividend received from listed companies	78	-
Dividend received from associated undertakings	37	43
Writedown of investments	(900)	
Profit on sale of investments	-	661
	<u>36,049</u>	<u>21,726</u>
4. INTEREST PAYABLE AND SIMILAR CHARGES		
Bank interest payable	5,275	69
Group loan interest	4,174	4,468
	<u>9,449</u>	<u>4,537</u>
5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		
The profit for the year is stated after charging:		
Directors emoluments		
- Remuneration as executives	750	509
- Pensions	87	52
- Payment to former director	25	-
Auditors' remuneration	58	53
Depreciation	37	30
Loss on sale of fixed assets	4	-
Operating lease rentals		
- plant and machinery	20	6
- land and buildings	90	45
- short term plant hire	4	2
Interest payable - loans repayable within five years	<u>2</u>	<u>69</u>

NOTES TO THE ACCOUNTS

for the year ended 31 March 1991 (continued)

6. DIRECTORS' REMUNERATION

The emoluments, excluding compensation for loss of office and pension contributions, of directors of the company were as follows:

	1991 £	1990 £
Chairman	254,533	165,132
Highest paid director	302,551	180,842

Other directors' remuneration is within the following bands:

	Number	Number
£10,001 - £15,000	1	1
£105,001 - £110,000	-	1
£145,001 - £150,000	1	-

The charges shown in note 5 for directors emoluments for the year to 31 March 1990 relate to the period from 18 July 1989 to 31 March 1990. Details given above for directors remuneration for that period also apply to the year to 31 March 1990. No payments were made during the period from 1 April 1989 to 17 July 1989.

7. PARTICULARS OF EMPLOYEES

The average number of persons (including directors) employed by the company during the year was:

Executive and administration	20	19
Their total remuneration was:	£'000	£'000
Wages and salaries	766	762
Social security costs	95	63
Other pension costs	141	70
	<u>1,002</u>	<u>895</u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

U.K. corporation tax at 34% (1990 - 35%)	3,190	(11)
Advance corporation tax written back as a result of ACT surrendered to subsidiary undertakings	3,588	5,219
Group relief	-	5,504
Overseas taxation on disposal of investments	-	(77)
U.K. deferred tax	99	739
	<u>6,877</u>	<u>11,374</u>
Prior year adjustment	(2,458)	-
Taxation credit	<u>4,419</u>	<u>11,374</u>

NOTES TO THE ACCOUNTS

for the year ended 31 March 1991 (continued)

9. EXTRAORDINARY ITEMS	1991 £'000	1990 £'000
Net profit on sale less losses and provisions relating to subsidiary and associate undertakings	-	69,366
Write down of fixed asset investment	(16,338)	(2,340)
Provision for litigation and claims	(825)	-
	<u>(17,163)</u>	<u>67,026</u>

10. DIVIDENDS

The directors have declared the following dividend in respect of the year ended 31 March 1991:

	£'000
Paid on 28 March 1991	<u>8,000</u>

11. TANGIBLE FIXED ASSETS

	Plant, machinery and equipment £'000
Cost	
At 31 March 1990	200
Additions	36
Disposals	<u>(51)</u>
At 31 March 1991	<u>185</u>
Depreciation	
At 31 March 1990	(30)
Charge for the year	(37)
Disposals	<u>13</u>
At 31 March 1991	<u>(54)</u>
Net book value	
At 31 March 1991	<u>131</u>
At 31 March 1990	<u>170</u>

The company had no capital commitments at 31 March 1991 or at 31 March 1990.

NOTES TO THE ACCOUNTS
for the year ended 31 March 1991 (continued)

12. FIXED ASSET INVESTMENTS

	Shares in subsidiary undertakings	Shares in associated undertakings		Other investments		Total
	£'000	Unlisted £'000	Listed £'000	Unlisted £'000	Listed £'000	£'000
Cost						
At 31 March 1990	11,214	714	3,688	5	10	15,631
Reclassifications			(3,688)		3,688	-
Additions	121,380	10	-		598	121,988
At 31 March 1991	132,594	724	-	5	4,296	137,619
Provision for diminution in value						
At 31 March 1990	570	326	2,014	-	-	2,910
Reclassifications			(2,014)		2,014	-
Charge for year	16,345				892	17,237
At 31 March 1991	16,915	326	-	-	2,906	20,147
Net book value						
At 31 March 1991	115,679	398		5	1,390	117,472
At 31 March 1990	10,645	2,062		5	10	12,722

The market value of the company's listed investments as at the 31 March 1991 was £1.6 million.

Details of principal subsidiaries and associated undertakings are included in note 23.

During the year the company's 20% holding in Sunleigh Plc was diluted to 14.4%. As a result, the holding has been reclassified as an investment in the table above.

In the opinion of the directors the value of the company's investments in its subsidiaries is not less than the amount at which they are stated in the company's balance sheet.

13. DEBTORS

	1991 £'000	1990 £'000
Trade debtors	154	76
Amounts owed by group companies	687	99,589
Other debtors	286	380
Prepayments and accrued income	24	78
Recoverable taxation	7,862	7,696
	9,013	107,819

NOTES TO THE ACCOUNTS

for the year ended 31 March 1991 (continued)

14. CREDITORS: amounts falling due within one year	1991 £'000	1990 £'000
Bank loan and overdraft (note 16)	89,475	62,893
Amounts owed to group companies	2	3,460
Other creditors	445	44
Accruals and deferred income	175	487
Corporation tax payable	255	1,652
Proposed dividend	-	2,000
	<u>90,452</u>	<u>70,536</u>

15. CREDITORS: amounts due after one year		
Bank loan and overdraft (note 16)	-	48
Amounts owed to group companies	27,269	33,610
	<u>27,269</u>	<u>33,658</u>

16. BANK LOAN AND OVERDRAFT		
Bank loan	48	264
Overdraft	89,427	62,677
	<u>89,475</u>	<u>62,941</u>
Due within one year (note 14)	89,475	62,893
Due between one and two years (note 15)	-	48
The bank loan is unsecured and the overdraft is secured by cross guarantee arrangements with group companies.		

17. PROVISION FOR LIABILITIES AND CHARGES

	Litigation and claims provision £'000	Deferred taxation £'000	Total £'000
At 31 March 1990	-	118	118
Transfer to profit and loss account	-	(99)	(99)
Increase in year	825	-	825
At 31 March 1991	<u>825</u>	<u>19</u>	<u>844</u>

The deferred tax balance is made up as follows:

	Provided		Potential	
	1991 £'000	1990 £'000	1991 £'000	1990 £'000
Other short term timing differences	19	118	19	118

NOTES TO THE ACCOUNTS
for the year ended 31 March 1991 (continued)

18. CALLED UP SHARE CAPITAL

There have been no movements in the share capital of the company during the year.

	Authorized		Allotted, issued and fully paid	
	Number	£'000	Number	£'000
Ordinary 10p shares	500,000,000	50,000	445,000,000	44,500

19. RESERVES

	Share premium account £'000	Profit and loss account £'000
At 31 March 1990	4,632	1,269
Profit retained for the year	-	4,739
At 31 March 1991	4,632	6,008

20. FINANCIAL COMMITMENTS

	1991		1990	
	Land and Buildings £'000	Plant and Machinery £'000	Land and Buildings £'000	Plant and Machinery £'000
Operating leases expiring:-				
Within one year	90	23	-	-
Within two to five years	45	72	90	18
	135	95	90	18

21. CONTINGENT LIABILITIES

The company has joint and several liability for bank facilities of £15 million extended under a composite accounting arrangement to certain fellow Babcock International Group companies.

Guarantees have been given on behalf of fellow Babcock International Group companies in the ordinary course of business, mainly in connection with the completion of contracts within specification, including responsibilities for maintenance. These liabilities have been counter indemnified by the company's parent company, Babcock International Group PLC, and are disclosed in that company's accounts.

The company is involved in the following litigation. No further cases of material litigation, for which liabilities are contingent, are in progress.

NOTES TO THE ACCOUNTS

for the year ended 31 March 1991 (continued)

21. CONTINGENT LIABILITIES (continued)

Proceedings have been issued by Wibau UK Limited (in liquidation) and associated companies against Babcock International Limited, amongst others. The proceedings relate to a claim that certain secured indemnities given in 1983 by companies in the Wibau UK Group in favour of Babcock International Limited were given in contravention of the provisions of the Companies Act 1981 prohibiting the giving of financial assistance, and that accordingly such secured indemnities are void. The amount of the claim is £4.4m plus interest. In the alternative the plaintiffs claim a sum of £0.8m plus interest on the grounds that, if the secured indemnities are valid, they did not impose a liability on the plaintiffs to make payment in respect of amounts which have already been paid to Babcock International Limited. These proceedings are being defended. A provision which the directors consider to be adequate has been made.

22. ULTIMATE HOLDING COMPANY

The company's ultimate holding company is Babcock International Group PLC, a company registered in Great Britain.

23. PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

Babcock Energy Ltd
Babcock Construction Ltd
Babcock International Holdings Limited
Babcock Contractors Limited
Babcock Thorn Limited (65%)
Tickford Rail Ltd (84%)
Contract Prisons Plc (40%)

All companies are wholly owned unless otherwise stated.

All companies are registered, incorporated and operate in Great Britain.

24. PENSION FUNDING

The company is a member of the Babcock Group pension scheme and has also contributed to certain employees' personal defined contribution pension schemes. The group scheme is funded by company and employee contributions which are determined with the advice of an independent qualified actuary.

The latest actuarial valuation of the group scheme was at 31 March 1989 using the projected unit method. The principal assumption used in the assessment was that investment returns would be 2% per annum higher than salary increases. The actuarial valuation of the scheme's assets at that date was in excess of the benefits that had accrued to members, after allowing for expected future increases in earnings. This surplus is being corrected by a short term suspension of contributions at group level.