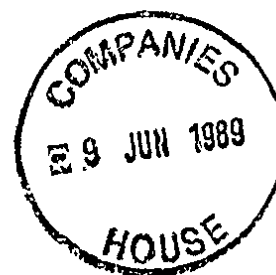


**REGISTRARS**

**DABCOCK INTERNATIONAL PLC**

**REPORT AND ACCOUNTS  
for the year ended  
31 MARCH 1989**



**BABCOCK INTERNATIONAL PLC**

**DIRECTORS**

Rt. Hon The Lord King of Wartnaby (Chairman)

Rt. Hon Sir Frank Cooper

A. Gartland

J. Whalley

G.S. Stone

J.E. Barker

**SECRETARY**

J.E. Barker

**REGISTERED OFFICE**

Stoney Royd, Halifax, West Yorkshire, HX3 9HP

**AUDITORS**

BDO Binder Hamlyn, Chartered Accountants,  
Number Twenty-One, Queen Street, Leeds LS1 2TW

**BANKERS**

Barclays Bank PLC, 10 Market Street, Bradford,  
West Yorkshire, BD1 1NR

Notice is given that the Annual General Meeting of the company will be held at the Registered Office of the company on Tuesday, 6 June 1989 for the following purposes:

- To receive and adopt the directors' report and statement of accounts for the year ended 31 March 1989.
- To approve directors' emoluments.
- To re-elect as a director G.S. Stone.
- To re-appoint BDO Binder Hamlyn as auditors and to authorise the directors to fix their remuneration for the ensuing year.

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the company.

By order of the board

Secretary

6 June 1989

# BABCOCK INTERNATIONAL PLC

## DIRECTORS' REPORT

### ACCOUNTS

The directors present their report and accounts for the year ended 31 March 1989.

### ACTIVITIES

The principal activity of the company continues to be that of a holding company.

### DIVIDENDS

The directors do not recommend payment of a final dividend.

### FIXED ASSETS

Details of changes in tangible fixed assets are given in note 7 to the accounts.

### TAX STATUS

In the opinion of the directors the company is not a close company within the meaning of Section 414 Income and Corporation Taxes Act 1988.

### DIRECTORS

The members of the board during the year were:

Rt. Hon The Lord King of Wartnaby - Chairman  
Rt. Hon Sir Frank Cooper  
G.S. Stone  
A. Gartland  
J. Whalley  
J.E. Barker

G.S. Stone retires by rotation at the annual general meeting and offers himself for re-election.

DIRECTORS' REPORT Continued

PERSONNEL

The company has a wide range of subsidiary companies which have developed voluntary practices and procedures for employee involvement appropriate to their own circumstances and needs. The company encourages this approach to provide information and consultation and believes this promotes a better understanding of the issues facing the individual business in which the employee works.

It is company policy to achieve and maintain a high standard of health and safety by all practical means and the active involvement of employees in matters of health and safety is encouraged.

It is the policy of the company to give full and fair consideration to applications made by disabled persons for job vacancies, where particular job requirements are within their ability and, where possible, arrangements are made for the continuing employment of employees who have become disabled.

AUDITORS

Binder Hamlyn changed their name on 12 September 1988 to BDO Binder Hamlyn and have accordingly signed their report in their new name. A resolution to re-appoint BDO Binder Hamlyn as auditors will be submitted to the annual general meeting.

By order of the board

Secretary

6 June 1989

REPORT OF THE AUDITORS TO THE MEMBERS OF

BABCOCK INTERNATIONAL PLC

We have audited the financial statements on pages 7 to 20 in accordance with approved auditing standards.

In our opinion the financial statements, which have been prepared on the basis of the accounting policies set out on pages 10 and 11, give a true and fair view of the state of the company's affairs at 31 March 1989 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

*BDO Binder Hamlyn*

CHARTERED ACCOUNTANTS

6 June 1989

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1989

		1989	15 Months ended 31 March 1988
	Notes	£'000	£'000
Administrative expenses		(821)	(7,606)
Other operating income		1,352	2,778
Income from fixed asset investments		12,858	6,095
Other interest receivable and similar income		659	3,591
Interest payable and similar charges		(21)	(6,223)
Profit (loss) on ordinary activities before taxation	2	14,027	(1,365)
Tax on profit (loss) on ordinary activities	3	(3,446)	(6,398)
Profit (loss) on ordinary activities after taxation		10,581	(7,763)
Extraordinary items	4	(18,020)	32,817
(Loss) profit for the financial year		(7,439)	25,054
Dividends	5	(2,523)	(32,769)
Loss for the year	15	(9,962)	(7,715)

Movements on reserves are set out in note 15.

BABCOCK INTERNATIONAL PLC

BALANCE SHEET AT 31 MARCH 1989

	Notes	1989 £'000	1988 £'000
<b>FIXED ASSETS</b>			
Intangible assets	6	-	539
Tangible assets	7	-	527
Investments	8	243,966	55,933
		<u>243,966</u>	<u>56,999</u>
<b>CURRENT ASSETS</b>			
Stocks		-	175
Debtors	9	112,967	158,402
Cash at bank and in hand		12,512	123
		<u>125,479</u>	<u>158,700</u>
CREDITORS (amounts due within one year)	10	(36,186)	(78,935)
NET CURRENT ASSETS		<u>89,293</u>	<u>79,765</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		333,259	136,764
CREDITORS (amounts due after one year)	11	(264)	(702)
PROVISIONS FOR LIABILITIES AND CHARGES	13	(857)	-
NET ASSETS		<u>332,138</u>	<u>136,062</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	36,453	36,453
Share premium account	15	12,660	12,660
Other reserve	15	205,000	-
Profit and loss account	15	78,025	86,949
		<u>332,138</u>	<u>136,062</u>

Signed on behalf of the board

..... )  
 ..... ) Directors  
 ..... )



## STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 31 MARCH 1989

	1989	15 months ended 31 March 1988
	£'000	£'000
Funds generated from (absorbed by) operations:		
Profit (loss) from ordinary activities	14,027	(1,365)
Net adjustments to fixed assets	(355)	199
Profit (loss) on disposal of fixed asset investments	16,493	(34,247)
Exchange differences arising on foreign currency loans	1,038	2,437
Goodwill written off	-	(886)
Distribution "in specie" unrealised reserve	205,000	-
Total generated from (absorbed by) operations	236,203	(33,862)
Extraordinary items	(17,557)	32,817
Tax paid	(873)	(5,521)
Net funds generated from (absorbed by) operations	217,773	(6,566)
Fixed assets:		
Patents and know-how acquired	-	688
Tangible assets acquired	-	301
Investments acquired	245,796	764
Disposal proceeds from sale of tangible fixed assets	(1,421)	(334)
Disposal proceeds from sale of fixed asset investments	(41,270)	(38,595)
	203,105	(37,176)
Reduced working capital:		
Stocks	(175)	175
Debtors	(43,053)	2,706
Creditors (excluding loans, overdrafts and corporation tax)	9,719	(17,623)
	(33,509)	(14,742)
Dividends paid	32,523	9,052
Total funds applied (released)	202,119	(42,866)
Surplus funds available	(15,654)	(36,300)
Application of surplus funds:		
Issue of share capital	-	3,979
Loans repaid	(709)	(1,969)
Decrease in overdraft	(2,556)	(42,947)
(Increase) decrease in liquid funds	(12,389)	4,637
	(15,654)	(36,300)

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

The following accounting policies are used consistently in dealing with items which are considered material in relation to the company's accounts.

(a) Basis of accounting

These accounts are prepared under the historical cost convention.

In view of the fact that the company is wholly-owned, it has taken advantage of Section 229 of the Companies Act 1985, and has not prepared consolidated group accounts.

(b) Investment in subsidiaries

Investments in subsidiary companies are stated at cost less provision for diminution in value.

(c) Depreciation

Depreciation is provided on a straight line basis to write off the cost, less estimated residual value, of tangible and intangible fixed assets over their estimated useful lives at the following annual rates:

Freehold property	1/2% - 2%
Plant, machinery and equipment	10%
Patents and know-how	various

(d) Deferred tax

Provision is made for deferred taxation, using the liability method, on all timing differences where it is considered that a liability may arise in the foreseeable future. No account is taken of potential group relief on general provisions, as it is considered imprudent to account for this relief before these provisions become both specific and available.

(e) 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 rate and the resulting exchange differences are dealt with in the determination of profit for the financial year.

Exchange gains and losses arising on foreign currency borrowings used to finance the company's foreign currency equity investments are taken to reserves to the extent that they can be offset against the exchange differences arising on the equity investment.

(f) Pension benefits

Pension benefits are funded over the employees period of service. The company's contributions are based on the most recent triennial actuarial valuation of the fund and are charged to the profit and loss account as incurred.

## NOTES TO THE ACCOUNTS

2	PROFIT (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	15 months ended 31 March	
		1989 £'000	1988 £'000
	After charging:		
	Directors' emoluments (see note 18)	956	1,831
	Auditors' remuneration	6	115
	Depreciation	7	280
	Interest payable - bank loans and overdrafts and other loans repayable within five years	21	6,223
		<u>21</u>	<u>6,223</u>
	After crediting:		
	Income from shares in associated companies	3,358	1,200
	Income from shares in group companies	9,500	4,126
	Profit on sale of fixed assets	997	81
	Profit on sale of investments	-	709
		<u>-</u>	<u>709</u>
3	TAX ON PROFIT (LOSS) ON ORDINARY ACTIVITIES	£'000	
		1989 £'000	1988 £'000
	U.K. Corporation tax at 35%	2,029	(15)
	Tax on U.K. dividends received	-	2,496
	Advance Corporation Tax written (back) off	(92)	5,200
	U.K. deferred tax	3,000	-
		<u>4,937</u>	<u>7,681</u>
	Prior year adjustments	(1,491)	(1,283)
		<u>3,446</u>	<u>6,398</u>

# BABCOCK INTERNATIONAL PLC

## NOTES TO THE ACCOUNTS

4	EXTRAORDINARY ITEMS	25 months ended	
		1989 £'000	31 March 1988 £'000
	Net Profit on sale less losses and provisions relating to subsidiary and associate companies	(17,557)	33,931
	Costs of the merger between FKI Electricals PLC and Babcock International PLC	-	(1,114)
		<u>(17,557)</u>	<u>32,817</u>
	Taxation effects of the above	(463)	-
		<u>(18,020)</u>	<u>32,817</u>
5	DIVIDENDS	£'000	
		£'000	£'000
	Ordinary shares		
	Interim dividend of 1.84p per share (1988 2.00p) paid:	2,519	2,689
	Final dividend (1988 21.95p) proposed:	-	30,000
		<u>2,519</u>	<u>32,689</u>
	Preference shares		
	Dividends paid	4	80
		<u>2,523</u>	<u>32,769</u>

FKI Babcock PLC has waived its entitlement to any preference share dividends from the company.

## NOTES TO THE ACCOUNTS

## 6 INTANGIBLE FIXED ASSETS

	Patents and know-how £'000
Cost	
At 1 April 1988	688
Disposals	(688)
At 31 March 1989	-
Depreciation	
At 1 April 1988	149
Disposals	(149)
At 31 March 1989	-
Net book value at 31 March 1989	-
Net book value at 31 March 1988	539

## 7 TANGIBLE FIXED ASSETS

	Freehold properties £'000	Plant, machinery and equipment £'000	Total £'000
Cost			
At 1 April 1988	392	618	1,010
Disposals	(392)	(618)	(1,010)
At 31 March 1989	-	-	-
Depreciation			
At 1 January 1988	103	380	483
Charge for the year	-	7	7
Disposals	(103)	(387)	(490)
At 31 March 1989	-	-	-
Net book value at 31 March 1989	-	-	-
Net book value at 31 March 1988	289	238	527

## Capital commitments:

The company had no capital commitments at 31 March 1989 or 31 March 1988.

## NOTES TO THE ACCOUNTS

## 8 FIXED ASSET INVESTMENTS

Cost	Shares in group companies £'000	Shares in associated companies £'000	Other investments other than loans £'000	Total £'000
At 1 January 1988	60,760	306	15	61,081
Additions	245,796	-	-	245,796
Disposals	(62,342)	-	-	(62,342)
At 31 March 1989	244,214	306	15	244,535
Provisions for diminution in value				
At 1 January 1988	5,148	-	-	5,148
Disposals	(4,579)	-	-	(4,579)
At 31 March 1989	569	-	-	569
Net book value at 31 March 1989	243,645	306	15	243,966
Net book value at 31 March 1988	55,612	306	15	55,933

On 12 May 1988 the company purchased 70.46% of Fata European Group S.p.A. for £40,796,070 from a fellow group subsidiary. On 16 May 1988 Fata European Group S.p.A. was sold, and the net loss of £620,000 has been included as an extraordinary charge.

On 13 March 1989, the company received, as a dividend "in specie" from a wholly-owned subsidiary 205 million ordinary shares in Amberbray Limited, a company incorporated in Great Britain. These have been recorded at a valuation of £205,000,000 representing the amount of the distribution declared by the subsidiary. This represents 78.8% of the issued share capital of the company. The remainder of the shares in Amberbray Limited are owned by FKI Babcock PLC.

On 13 March 1989 the company sold its investments in Babcock Mining Limited and Babcock Industries Limited to a fellow group subsidiary.

The total cost and market value of investments listed on a recognised stock exchange and included above are:

	31 March 1989 £'000	31 March 1988 £'000
Cost	10	10
Market value	14	12

Details of principal subsidiaries and related companies are included in note 20.

## NOTES TO THE ACCOUNTS

## FIXED ASSET INVESTMENTS Continued

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

9	DEBTORS	1989	15 months ended 31 March 1988
		£'000	£'000
	Amounts owed by associated companies	-	1,200
	Amounts owed by fellow group companies	111,662	153,989
	Other debtors	1,305	3,204
	Prepayments and accrued income	-	9
		<u>112,967</u>	<u>158,402</u>

None of these debtors are due after one year.

10	CREDITORS (amounts due within one year)	£'000	£'000
	Bank loans and overdrafts (note 12)	438	3,265
	Amounts owed to associated companies	-	1,681
	Amounts owed to fellow group companies	35,606	41,240
	Other creditors	10	2,280
	Accruals and deferred income	-	469
	Corporation tax payable	132	-
	Proposed dividend	-	30,000
		<u>36,186</u>	<u>78,935</u>

11	CREDITORS (amounts due after one year)	£'000	£'000
	Bank loans and overdrafts (note 12)	<u>264</u>	<u>702</u>

## NOTES TO THE ACCOUNTS

12	BANK LOANS AND OVERDRAFTS	15 months ended 31 March 1989 £'000	1988 £'000
	Bank loans	702	1,411
	Overdrafts	—	2,556
		<hr/> 702	<hr/> 3,967
	Due within one year (included in current liabilities)	(438)	(3,265)
		<hr/> 264	<hr/> 702

The bank loans and overdrafts are secured by fixed and floating charges on subsidiaries' assets, and bear interest at rates between 6% and 15%.

Repayment details of bank loans	1989 £'000	1988 £'000
Within one year	438	709
Between one and two years	215	702
In the second to fifth years inclusive	49	-
	<u>702</u>	<u>1,411</u>

13 PROVISIONS FOR LIABILITIES AND CHARGES	£'000
Deferred taxation:	
At 1 April 1988	-
Transfer from profit and loss account	3,000
Advance corporation tax recoverable	(2,143)
At 31 March 1989	<u>857</u>

The deferred tax balance at 31 March 1989 is made up as follows:

	Provided		Potential	
	1989 £'000	1988 £'000	1989 £'000	1988 £'000
Timing differences:				
Accelerated capital allowances	-	-	-	15
Other short term timing differences	3,000	-	3,000	-
Advance corporation tax recoverable	(2,143)	-	(2,143)	-
	<u>857</u>	<u>-</u>	<u>857</u>	<u>15</u>



## NOTES TO THE ACCOUNTS

14 CALLED UP SHARE CAPITAL	1989		1988	
	Autho- rised £'000	Issued £'000	Autho- rised £'000	Issued £'000
6% cumulative preference stock	100	100	100	100
5% cumulative second preference stock and shares	200	183	200	183
4% cumulative redeemable preference stock and shares	3,000	2,000	3,000	2,000
	<u>3,300</u>	<u>2,283</u>	<u>3,300</u>	<u>2,283</u>
Ordinary shares of 25p (136,682,200 allotted, called up and fully paid)	46,700	34,170	46,700	34,170
	<u>50,000</u>	<u>36,453</u>	<u>50,000</u>	<u>36,453</u>

The company can at any time exercise its option to redeem at par, all or any, of the 4% cumulative redeemable preference shares, on giving not less than three months notice in writing.

15 RESERVES	Share premium account £'000	Other reserve £'000	Profit and loss account £'000
	£'000	£'000	£'000
At 1 April 1988	12,660	-	86,949
Profit for the year	-	-	(9,962)
Exchange differences arising on foreign currency loans	-	-	1,038
Distribution "in specie"	-	205,000	-
	<u>12,660</u>	<u>205,000</u>	<u>78,025</u>
At 31 March 1989	12,660	205,000	78,025

The other reserve represents an unrealised reserve on a distribution "in specie" received from a wholly-owned subsidiary.

## 16 CONTINGENT LIABILITIES

## Contingent liabilities:

- (i) As part of a group banking arrangement, the company has entered into a multilateral cross guarantee with certain group companies in respect of group overdraft borrowings.
- (ii) There are contingent liabilities amounting to £27,231,300 for the company representing, in the main, guarantees given in the ordinary course of business on behalf of trading subsidiaries on which no losses are anticipated.

NOTES TO THE ACCOUNTS

CONTINGENT LIABILITIES Continued

- (iii) The City of Bluefield, West Virginia, USA, has instituted proceedings in the United States District Court for the Southern District of West Virginia against the company and Holley, Kenny Schott, a Division of Green International Inc., Babcock International Inc., English Construction Inc. and Autotrol Corporation, claiming damages of \$15,000,000 plus interest in respect of alleged breaches of contract in connection with the design of a storm and flow equalisation facility and waste water treatment plant designed and constructed between December 1971 and June 1981.

The Directors consider that there is no merit in the proceedings and that the United States District Court of the Southern District of West Virginia has no jurisdiction over either the company or Babcock International Inc. and are contesting the matter vigorously.

17 ULTIMATE HOLDING COMPANY

F.K.I. Babcock PLC, incorporated in Great Britain, is regarded by the directors as being the company's ultimate holding company.

18 INFORMATION REGARDING DIRECTORS

Share interests:

The table below sets out the names of the persons who were directors of the company at 31 March 1989, together with details of their interests in the shares of the company at that date and corresponding details at 1 April 1988, or on appointment. The interests are beneficial.

	Ordinary shares of 25p	
	31 March 1989	1 April 1988
	or on appointment	
Lord King	-	-
Sir Frank Cooper	-	-
G.S. Stone	-	-
A. Gartland	-	-
J. Whalley	-	-
J.E. Barker	-	-

All of the above persons are also directors of the ultimate holding company. Their interests in the shares of the ultimate holding company, are shown in the directors' report of that company.

## NOTES TO THE ACCOUNTS

## INFORMATION REGARDING DIRECTORS Continued

Remuneration:	1989 £'000	1988 £'000
Directors' emoluments amounted to		
Remuneration as executives	956	1,048
Pensions, including past directors' pensions	-	19
Compensation for loss of office	-	764
	<u>956</u>	<u>1,831</u>

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

	1989 £'000	1988 £'000
Chairman	256	85
Highest paid director	335	294

Other directors' remuneration is within the following bands:

	1989 Number	1988 Number
£0 - £5,000	-	4
£5,001 - £10,000	-	2
£10,001 - £15,000	1	-
£20,001 - £25,000	-	1
£30,001 - £35,000	1	-
£65,001 - £70,000	1	-
£105,001 - £110,000	-	1
£160,001 - £165,000	-	2
£190,001 - £195,000	-	1
£250,001 - £255,001	1	-

## 19 PARTICULARS OF EMPLOYEES

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

	1989	1988
Category: Production	-	12
Distribution	-	10
Administration	18	65
	<u>18</u>	<u>87</u>

## NOTES TO THE ACCOUNTS

## PARTICULARS OF EMPLOYEES Continued

	1989	1988
	£'000	£'000
Their total remuneration was:		
Wages and salaries	1,158	2,139
Social security costs	110	172
Other pension costs	-	150
	<u>1,268</u>	<u>2,461</u>

## 20 PRINCIPAL SUBSIDIARIES AND RELATED COMPANIES

Particulars of subsidiary companies which, in the opinion of the directors, have principally affected the amount of the profits or assets of the company are set below.

All companies are wholly owned unless otherwise stated.

All companies are incorporated and operate in Great Britain and are registered in England unless otherwise stated. Companies located overseas operate principally in the country of incorporation.

Babcock International Holdings Limited  
 Babcock Energy Limited  
 Babcock Contractors Limited  
 Babcock Thorn Limited (65%) (Registered in Scotland)

## 21 PENSION FUNDING

The company and its subsidiaries operate various pension schemes established in accordance with the local conditions and practices in the countries concerned.

Contributions are based on periodic actuarial calculations and are generally charged against profits as payments are made. The schemes are funded by payment to trustee administered funds completely independent of the group's finances, or to insurance companies. With certain minor exceptions, the schemes are fully funded.

## 22 APPROVAL OF ACCOUNTS

These accounts were approved at a directors' meeting held on 6 June 1989.