

Babcock Energy (Management) Limited

**Annual Report and Financial Statements
for the year ended 31 March 1995**



Registered number : 107414

Directors' report

for the year ended 31 March 1995

The directors present their annual report on the affairs of the Company and the Group together with the financial statements and auditors' report, for the year ended 31 March 1995.

Principal activities and business review

The principal activities of the Group are in engineering, contracting and manufacturing for the supply and erection of capital goods.

As part of a reorganisation of the Babcock Group, the Company acquired the entire share capital of Babcock Energy Limited and Babcock Energy Services Limited on 21st October 1994 for a consideration of £44.7 million. Further information in respect of these acquisitions is given in note 10.

The Company also received a long term loan of £50 million from Babcock International Group PLC who has committed to provide ongoing financial support.

Details of subsidiary and associated undertakings is given in note 10.

Results and dividends

The financial statements represent the audited consolidated financial statements for Babcock Energy (Management) Limited incorporating the results of Babcock Energy Limited and Babcock Energy Services Limited since acquisition. In addition pro forma financial statements are presented which reflect the purchase of Babcock Energy Limited and Babcock Energy Services Limited as if the acquisition took place at the start of the 1993/94 financial year. Further information in respect of the pro forma financial statements is given in note 24.

The pro forma consolidated net loss on ordinary activities after taxation was £18,085,000 (1994: £43,693,000). No dividend is recommended for the year (1994: £Nil). The loss has been deducted from reserves.

The consolidated net loss on ordinary activities after taxation was £14,487,000 (1994: £Nil).

Directors and their interests

The directors who, unless otherwise noted, served during the year were as follows :-

Chairman	Dr T J Parker	(appointed 5/4/94)
	N R Salmon	(appointed 5/4/94)
	E A S Porter	(appointed 5/4/94)
	D G Cox	(appointed 1/5/94)
	M R Frost	
	B McKechnie	(appointed 5/4/94)
	J R Prosser	(appointed 5/4/94)
	G S Cairns	(appointed 5/4/94)

D G Law was appointed to the board on 5/4/94 but resigned on 30/11/94. J Limond and R J Wetherall resigned on 19/5/94 and 30/6/94 respectively.

No director had any beneficial interest in the share capital of the Company, nor in any contract or arrangement subsisting at the date of this report.

At 31 March 1995, B McKechnie held 11,381 ordinary shares of Babcock International Group PLC (7,243 shares on appointment).

Directors' report (continued)

As permitted by Statutory Instrument the Register of Directors' Interests in Shares and Debentures does not include any shareholdings of Dr T J Parker, N R Salmon and E A S Porter who were also directors of the ultimate parent company, in whose accounts such interests are disclosed. No other directors held any shares in the ultimate holding company.

Options, all of which were beneficial, were held by the directors given below, over ordinary shares of the ultimate parent company as follows:-

	31 March 1995	1 April 1994 or on appointment
D G Cox	565,000	565,000
M R Frost	373,711	183,711
B McKechnie	266,907	116,907
J R Prosser	274,742	144,742
G S Cairns	145,103	50,103

Fixed assets

Details of the tangible fixed assets of the Group as at 31 March 1995 and changes during the same year are summarised in Note 9.

Research and development

The Group is engaged in high technology markets and recognises the need for the continued improvement and development of its products relative to market requirements. Accordingly, it maintains an appropriate level of research and development.

Disabled employees

The policy and practice of the Group and its subsidiaries is to seek to encourage and assist the employment of disabled persons, subject to their ability to perform the duties of the job without exposing themselves or other employees to abnormal risk. The training, career development and promotion of disabled persons is similarly encouraged and assisted. Arrangements are made wherever possible for retraining employees who become disabled to enable them to perform work identified as appropriate to their aptitudes and abilities.

Employee involvement

The Group's employment policies are designed to meet local conditions and requirements. The board acknowledges the need to encourage employee involvement in the improvement of the Group's performance by supplying information on matters of concern through regular consultation with employees and by participation of employees in joint problem solving activities.

Information is provided by various means including briefing groups, audio/visual presentations, information bulletins and other publications.

In many parts of the Group joint consultative committees are in operation which provide an effective means of consultation with employees on a wide range of issues.

Directors' report (continued)

Directors' responsibilities

Company law requires the directors to prepare accounts 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 accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

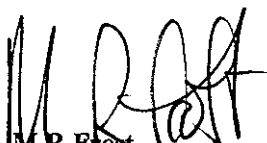
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Following the resignation of BDO Binder Hamlyn, Arthur Andersen were appointed auditors at an extraordinary meeting.

The directors will place a resolution before the Annual General Meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the board on 6 June 1995


M R Frost-
Director

11 The Boulevard
Crawley
West Sussex
RH10 1UX

Auditors' report

To the Shareholders of Babcock Energy (Management) Limited:

We have audited the financial statements on pages 5 to 23 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 9 to 11.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 financial statements. 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 circumstances of the company and the group, 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.

Without qualifying our opinion below, the scope of our audit work did not extend to an examination of the information contained in the financial statements described as pro forma, which the directors have prepared on the basis of audited financial statements, restated to reflect the basis of preparation set out in note 24. Accordingly we express no opinion on that pro forma information.

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 March 1995 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen

Chartered Accountants and Registered Auditors

199 St Vincent Street
Glasgow
G2 5QD

6 June 1995

**Babcock Energy (Management) Limited
and subsidiary companies**

**Consolidated profit and loss account
for the year ended 31 March 1995**

1995 £000		Notes	Pro forma	
			1995 £000	1994 £000
-	Turnover : continuing operations		212,792	318,969
86,270	acquisitions		-	-
-	discontinued operations		-	2,047
-----			-----	-----
86,270		2	212,792	321,016
=====			=====	=====
(5,748)	Trading loss	3	(14,288)	(28,538)
(304)	Net interest (payable)/receivable	5	(591)	601
168	Share of profits of associated undertakings	6	429	495
-----			-----	-----
(5,884)	Operating loss		(14,450)	(27,442)
(5,884)	Continuing operations		(14,450)	(28,097)
-	Discontinued operations		-	655
-----			-----	-----
(5,884)	Loss before exceptional items		(14,450)	(27,442)
2,433	Restructuring	7	2,433	(22,083)
-	Discontinued operations	7	-	(2,917)
-----			-----	-----
(3,451)	Loss on ordinary activities before tax		(12,017)	(52,442)
(11,036)	Tax on loss on ordinary activities	8	(6,068)	8,749
-----			-----	-----
(14,487)	Loss for the year		(18,085)	(43,693)
=====			=====	=====

The Company had no subsidiary undertakings in the year ended 31 March 1994 hence no consolidated profit and loss account is presented for the prior year.

There are no recognised gains and losses other than the loss on ordinary activities after tax shown above.

Movements in reserves are set out in Note 18.

The pro forma consolidated profit and loss account is prepared on the basis that the company had acquired its subsidiary undertakings as at 1 April 1993.

**Babcock Energy (Management) Limited
and subsidiary companies**

**Consolidated balance sheet
as at 31 March 1995**

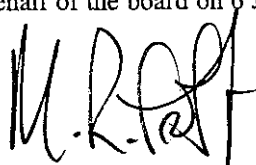
			<u>Pro forma</u>
	Notes	1995 £000	1994 £000
Fixed assets			
Tangible assets	9	10,761	12,574
Investments	10	3,188	3,128
		-----	-----
		13,949	15,702
		-----	-----
Current assets			
Stocks	11	8,994	8,928
Debtors: amounts falling due within one year	12	54,812	87,782
amounts falling due after more than one year	12	5,679	9,499
Cash at bank and in hand	13	24,913	29,875
		-----	-----
		94,398	136,084
		-----	-----
Creditors: amounts falling due within one year	14	(72,513)	(142,051)
		-----	-----
Net current assets/(liabilities)		21,885	(5,967)
		-----	-----
Total assets less current liabilities		35,834	9,735
		-----	-----
Creditors: amounts falling due after more than one year	15	(50,543)	(6,359)
		-----	-----
Net (liabilities)/assets		(14,709)	3,376
		===	===
Capital and reserves			
Called up share capital	17	44,700	44,700
Profit and loss account	18	(14,487)	3,598
Goodwill write-off reserve		(44,922)	(44,922)
		-----	-----
		(14,709)	3,376
		===	===

The Company had no subsidiary undertakings in the year ended 31 March 1994 hence no audited consolidated balance sheet is presented for the prior year.

The prior year pro forma consolidated balance sheet is prepared on the basis that the goodwill arising on consolidation of the subsidiary undertakings applied throughout the periods

Signed on behalf of the board on 6 June 1995

M R Frost
Director



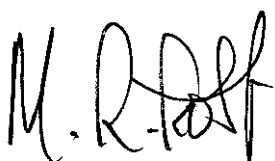
**Babcock Energy (Management) Limited
and subsidiary companies**

**Company balance sheet
as at 31 March 1995**

	Notes	1995 £000	1994 £000
Fixed assets investments	10	89,700	-
Current assets			
Debtors: amounts falling due within one year	12	3,345	-
Cash at bank and in hand		2,289	-
		-----	-----
		5,634	-
Creditors: amounts falling due within one year	14	(653)	-
		-----	-----
Net current assets		4,981	-
		-----	-----
Total assets less current liabilities		94,681	-
Creditors: amounts falling due after more than one year		(50,000)	-
		-----	-----
Net assets		44,681	-
		===	===
Capital and reserves			
Called up share capital	17	44,700	-
Profit and loss account	18	(19)	-
		-----	-----
		44,681	-
		===	===

Signed on behalf of the board on 6 June 1995

M R Frost
Director



**Babcoç Energy (Management) Limited
and subsidiary companies**

**Consolidated cash flow statement
for the year ended 31 March 1995**

		<u>Pro forma</u>	
	Notes	1995 £000	1994 £000
Net cash outflow from operating activities	3 (c)	(45,569)	(35,352)
Returns on investment and servicing of finance			
Interest received		107	1,423
Interest paid		(651)	(768)
Dividends received from associated undertakings		125	141
Dividends paid		-	(4,119)
Other interest		(9)	-
Interest on finance leases		(38)	(6)
		-----	-----
Net cash outflow from returns on investments and servicing of finance		(466)	(3,329)
		-----	-----
Taxation			
Corporation tax received/(paid)		1,917	(1,795)
Overseas tax paid		(441)	(268)
		-----	-----
Total tax received/(paid)		1,476	(2,063)
		-----	-----
Investing activities			
Payments to acquire tangible fixed assets		(170)	(2,032)
Receipts from sales of tangible fixed assets		108	647
Other		-	(94)
		-----	-----
Net cash outflow from investing activities		(62)	(1,479)
		-----	-----
Net cash outflow before financing		(44,621)	(42,223)
		-----	-----
Financing			
Increase in loans		51,000	22,300
Repayment of loans		(11,000)	(14,957)
Repayment of finance lease creditors	21(c)	(341)	(101)
		-----	-----
Net cash inflow from financing		39,659	7,242
		-----	-----
Decrease in cash and cash equivalents	13	(4,962)	(34,981)
		=====	=====

The pro forma consolidated cash flow statement is prepared on the basis that the Company had acquired its subsidiary undertakings as at 1 April 1993.

Notes to the financial statements

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

Basis of Accounting

The financial statements have been prepared under the historical cost convention. The financial statements are prepared in accordance with applicable accounting standards. Reliance is placed on the continuing financial support, described in Note 25, in preparing the accounts on a going concern basis.

Cash Flow Statement

No cash flow statement has been prepared as the Company is exempt from the requirement of Financial Reporting Standard Number 1 to include a cash flow statement as part of its financial statements as it is a wholly owned subsidiary undertaking of a United Kingdom company which produced a consolidated cash flow statement.

A pro forma consolidated cashflow statement has been prepared on the basis that the Company had acquired undertakings as at 1 April 1993.

Basis for Consolidation

The group accounts comprise a consolidation of the accounts of the Company and its subsidiary undertakings at 31 March 1995. The acquisition method of accounting has been adopted. Under this method the profits and losses of subsidiaries are consolidated from their respective dates of acquisition. The difference between the fair value of net assets at date of acquisition and the cost of subsidiaries, being either goodwill or acquisition reserve, is taken to reserves in the year of acquisition. In accordance with SSAP 1, the group accounts include the appropriate proportion of the results of the principal associated undertakings.

Foreign Currencies

Transactions in foreign currencies are recorded at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the year end exchange rates. All differences are taken to the profit and loss account.

Turnover

Turnover, which excludes sales within the Babcock Energy (Management) Limited group and value added and similar taxes, comprises:-

- (a) Contract work - amounts transferred to cost of sales plus attributed profit.

A major part of the activity of the Group comprises long term contracts, many of which by their nature involve advanced engineering techniques. Such contracts are subject to regular detailed financial and technical review to determine the estimated costs to completion. A proportion of profits earned on contracts is credited in the accounts on a prudent basis as work progresses, according to the stage of completion. Full provisions are made in respect of foreseeable losses on uncompleted contracts.

- (b) Sales (other than contract sales) of goods and services - at invoiced value.
- (c) Fees for technical aid and other services rendered - at invoiced value.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Research and Development

Development expenditure on clearly defined projects whose outcome can be assessed with reasonable certainty is capitalised and amortised over the shorter of the project life or three years. All other expenditure is written off as incurred.

Taxation

The credit or charge for United Kingdom taxation represents the amount which it is estimated will materialise as a receipt or payment of corporation tax on the results of the year or as advance corporation tax on dividends declared for the year. Overseas taxation is based on profits of overseas subsidiaries and on other overseas income.

Provision is made for deferred taxation on all timing differences where it is considered that a liability will crystallise in the foreseeable future.

Fixed Assets

Freehold properties, plant, machinery and equipment are stated at cost less depreciation.

Depreciation is charged on cost on a straight line basis at rates appropriate to the expected useful lives of the assets concerned. The principal rates of depreciation used are:-

Freehold land	Not depreciated
Freehold buildings	2% to 10%
Plant and machinery	
heavy production	6 2/3%
other	10%
Motor vehicles	25%
Office equipment and furniture	10%

Investments

Fixed asset investments are shown at cost less amounts written off. Provisions are made for permanent reductions in value. Income is included (together with their related tax credit) in the consolidated accounts of the year in which it is receivable.

Leasing and Hire Purchase Commitments

Assets held under finance leases and hire purchase contracts are capitalised and are depreciated over the shorter of the term of the lease or their useful lives. The interest element of the rental obligations is charged to the profit and loss account on a straight line basis. Hire charges paid under operating leases are charged against income on a straight line basis over the term of the lease.

Stocks and Work in Progress

Stocks are valued at the lower of cost and net realisable value.

Long-term work in progress is valued at cost, plus a proportion of profits earned on contracts, less any provisions necessary to reduce to net realisable value. Cost comprises direct materials, and in the case of work in progress, direct labour and overheads, including depreciation, but excludes selling and administration costs.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Pension Costs

The Company is a member of the Babcock International Group PLC group pension scheme, which is of the defined benefit type. Contributions 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.

2. Geographical analysis of turnover

		Pro forma	
1995		1995	1994
£000		£000	£000
51,327	United Kingdom	139,402	237,615
586	North America	941	937
3,871	Africa	9,770	9,603
19,419	Asia	38,563	32,692
11	Australasia	312	593
743	Middle East	2,550	8,621
9,292	Europe	20,187	30,392
1,021	Other areas	1,067	563
-----		-----	-----
86,270		212,792	321,016
=====		=====	=====

3. Trading loss

(a) Movement between turnover and trading loss

		Pro forma			
1995		1995	1994		
Acquisitions		Continuing	Continuing	Discontinuing	Total
£000		operations	operations	operations	£000
		£000	£000	£000	£000
86,270	Turnover	212,792	318,969	2,047	321,016
(80,364)	Cost of sales	(207,681)	(323,826)	(1,100)	(324,926)
-----		-----	-----	-----	-----
5,906	Gross profit/(loss)	5,111	(4,857)	947	(3,910)
	Net operating expenses:				
(11,210)	Administration & distribution	(18,673)	(23,545)	(308)	(23,853)
(504)	Research & development	(786)	(935)	-	(935)
60	Profit on disposal of fixed assets	60	160	-	160
-----		-----	-----	-----	-----
(5,748)	Trading (loss)/profit	(14,288)	(29,177)	639	(28,538)
=====		=====	=====	=====	=====

**Babcock Energy (Management) Limited
and subsidiary companies**

Notes to the financial statements (continued)

3. Trading loss (continued)

(b) Trading loss is shown after charging:

		Pro forma	
1995		1995	1994
£000		£000	£000
1,014	Depreciation of tangible fixed assets	2,398	19,271
	Auditors' remuneration:		
49	audit service	59	71
119	non-audit services	236	110
	Hire of plant and machinery under		
1,125	operating leases	2,700	4,905
	Other operating lease rental:		
599	land and buildings	1,437	1,618
==		==	==

(c) Reconciliation of trading loss after exceptional items to net cash outflow from operating activities

		Pro forma	
		1995	1994
		£000	£000
Trading loss after exceptional items		(11,855)	(53,538)
Depreciation		2,398	19,271
Profit on disposal of fixed assets		(60)	(160)
Increase in stocks		(66)	(1,029)
Decrease/(increase) in debtors		29,175	(7,835)
(Decrease)/increase in creditors		(65,250)	7,332
Other		89	607
		-----	-----
Net cash outflow from operating activities		(45,569)	(35,352)
		=====	=====

4. Employees and directors

		Pro forma	
		1995	1994
		No.	No.
Average weekly number of persons employed during the year:			
Production		2,095	2,809
Administration		828	1,007
		-----	-----
		2,923	3,816
		=====	=====

The average weekly number of persons employed reflects staff levels of the Company and subsidiary undertakings during the year. Prior to the acquisitions of subsidiary undertakings on 21st October 1994 the Company had an average weekly number of ten employees and directors.

		Pro forma	
		1995	1994
		£000	£000
Staff Costs during the year:			
Wages and salaries		65,582	83,519
Social security costs		5,825	7,580
Other pension costs		23	16
		-----	-----
		71,430	91,115
		=====	=====

**Babcock Energy (Management) Limited
and subsidiary companies**

Notes to the financial statements (continued)

4. Employees and directors (continued)

Staff costs reflect the total costs incurred by the Company and subsidiary undertakings through the year. Staff costs charged to the audited consolidated profit and loss account comprised £24,334,000 of wages and salaries, £1,997,000 of social security costs and £22,000 of other pension costs.

The Company is a member of the Babcock International Group PLC group pension scheme, which is of the defined benefit type. The 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 scheme was at 1 April 1994 using the projected unit method. The principal assumption used in the assessment was that investment returns would be 2% per annum higher than earnings 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 company contributions.

	1995 £000	1994 £000
Directors' remuneration:		
Emoluments (including pension contributions)	842	nil
	===	===
(i) Chairman (excluding pension contribution)	nil	nil
	===	===
(ii) Highest paid director (excluding pension contribution)	307	nil
	===	===

The emoluments (excluding pension contributions and compensation for loss of office) of the other directors fell within the following ranges:-

	No.	No.
Up to £5,000	3	4
£ 60,001 to £ 65,000	1	-
£ 65,001 to £ 70,000	1	-
£ 80,001 to £ 85,000	1	-
£ 95,001 to £ 100,000	2	-
£ 125,001 to £ 130,000	1	-

Of the amounts shown above, £147,069 was in respect of compensation for loss of office.

5. Interest (payable)/receivable

		Pro forma	
1995 £000		1995 £000	1994 £000
107	Interest receivable and similar income	107	1,423
(388)	Bank and other interest payable	(651)	(798)
(23)	Finance charges payable under finance leases and hire purchase contracts	(47)	(24)
-----		-----	-----
(304)		(591)	601
===		===	===

Notes to the financial statements (continued)

6. Associated undertakings

The principal associated undertakings (all unlisted) in which the Group has an interest of 20 per cent or more of the equity are included in the list of principal subsidiary and associated undertakings in Note 10. The Group's share of the results of associated undertakings is based upon accounts made up to 31 March 1995.

7. Exceptional items reported after operating loss

(a) Costs of a fundamental restructuring of continuing operations

1995 £000		Pro forma	
		1995 £000	1994 £000
-	Cost of a fundamental restructuring of continuing operations	-	(23,593)
2,433	Release of provisions relating to fundamental restructuring of continuing operations	2,433	1,510
-----		-----	-----
2,433		2,433	(22,083)
===		===	===

The costs of the fundamental restructuring of continuing operations related to alterations in the nature of the Group's operations.

(b) Loss on discontinued operations

1995 £000		Pro forma	
		1995 £000	1994 £000
-	Loss on termination of discontinued operations	-	2,917
===		===	===

The above loss represents the termination costs associated with the termination of the operations relating to Wilson Pipe Fittings Limited.

8. Taxation

1995 £000		Pro forma	
		1995 £000	1994 £000
	(Charge)/credit based on the loss for the year:		
(5,434)	Corporation tax at 33%	-	9,313
(5,399)	Prior year adjustment	(5,399)	(39)
-	Double taxation relief	-	75
(146)	Overseas taxation	(514)	(474)
-----		-----	-----
(10,979)		(5,913)	8,875
(57)	Associated undertakings: Corporation tax	(155)	(126)
-----		-----	-----
(11,036)		(6,068)	8,749
===		===	===

Notes to the financial statements (continued)

8. Taxation (continued)

During the year, the Babcock Group has adopted a policy of UK tax losses and advanced corporation tax being surrendered for nil consideration. As a result prior year tax balances relating to the surrender of UK tax losses and advanced corporation tax have been written off.

In addition, the tax credit originally recognised in respect of the tax losses up to the date of acquisition of the subsidiaries has been written off.

9. Tangible fixed assets

	Freehold Land & Building £000	Plant & Equipment £000	Total £000
Group			
Cost			
At 1 April 1994	-	-	-
On acquisition of subsidiary undertakings	4,280	7,123	11,403
Additions	-	386	386
Disposals	-	(762)	(762)
	-----	-----	-----
At 31 March 1995	4,280	6,747	11,027
	-----	-----	-----
Depreciation			
At 1 April 1994	-	-	-
Charge for year	(66)	(948)	(1,014)
Disposals	-	748	748
	-----	-----	-----
At 31 March 1995	(66)	(200)	(266)
	-----	-----	-----
Net book value			
31 March 1995	4,214	6,547	10,761
	===	===	===
Pro forma 31 March 1994	4,334	8,240	12,574
	===	===	===

Included in the net book value at 31 March 1995 for Plant and Equipment is £632,000 relating to leased assets, with related depreciation charged in the year of £198,000. Included in Freehold Land and Buildings is land having a book value of £2,727,000 which is not depreciated.

**Babcock Energy (Management) Limited
and subsidiary companies**

Notes to the financial statements (continued)

10. Fixed asset investments

The following are included in the net book value of fixed asset investments:

	<u>Company</u>		<u>Group</u>	
	1995	1994	1995	Pro forma 1994
	£000	£000	£000	£000
Subsidiary undertakings	89,700	-	-	-
Associated undertakings	-	-	3,188	3,128
	-----	-----	-----	-----
	89,700	-	3,188	3,128
	===	===	===	===

Principal group investments

Unless otherwise stated Babcock Energy (Management) Limited holds 100% of the equity share capital of the undertakings and each of the undertakings located in Great Britain is registered in England. The principal activities of the Group are in engineering, contracting and manufacturing for the supply and erection of capital goods.

Principal Subsidiary Undertakings:

Location:

Babcock Energy Limited	Renfrew
Babcock Energy Services Limited (formerly Babcock Construction Limited)	Renfrew
Babcock Calorizing Limited	Dumbarton
Babcock Welding Products Limited	Renfrew (Registered in Scotland)
Babcock Power (Overseas Projects) Limited	Renfrew
Babcock PED Limited	Tipton
BPA Joint Venture (66.7%)	Knutsford

Associated Undertakings:

Diamond Power Specialty Limited (38%)	Dumbarton
Volund Babcock Energy A/S (50%)	Esbjerg (Reg. in Denmark)

Company

	Shares £000	Loans £000	Total £000
Cost			
At 1 April 1994	-	-	-
Additions	44,700	45,000	89,700
	-----	-----	-----
At 31 March 1995	44,700	45,000	89,700
	===	===	===

Notes to the financial statements (continued)

10. Fixed asset investments (continued)

Acquisitions

On 21st October 1994 the Company acquired all of the ordinary shares in Babcock Energy Limited and Babcock Energy Services Limited. The consideration given was £44,699,999 and £1 respectively with the fair value of the net assets acquired being net liabilities of £984,000 and net assets of £762,000. The resulting goodwill and capital reserve was written off to a reserve relating to goodwill arising on consolidation.

Book value

	Babcock Energy Limited	Babcock Energy Services Limited
	£000	£000
Fixed assets		
Tangible	8,299	3,104
Investments	3,076	-
Current assets		
Stock	3,914	6,058
Debtors	57,992	18,013
Total assets	73,281	27,175
Liabilities	(74,265)	(26,413)
Net (liabilities)/assets	(984)	762
	=====	=====

Associated undertakings - Group

	Pro forma 1995 £000
At 1 April 1994	3,128
Share of profits for year	274
Dividends received	(125)
Written off	(89)
	3,188
	=====

Investments in associated undertakings are shown at cost plus the Group's share of post-acquisition profits less dividends received and amounts written off.

**Babcock Energy (Management) Limited
and subsidiary companies**

Notes to the financial statements (continued)

11. Stock

	1995 £000	Pro forma 1994 £000
Raw materials and consumables	1,757	2,209
Work in progress	7,237	6,719
	-----	-----
	8,994	8,928
	===	===

Work on major contracts which is covered by progress claims is deemed to have passed into customers' ownership and is therefore excluded from long term contract work in progress.

12. Debtors

	<u>Company</u>		<u>Group</u>	
	1995 £000	1994 £000	1995 £000	Pro forma 1994 £000
Amounts falling due within one year:				
Trade debtors	-	-	47,305	44,760
Amounts recoverable on contracts	-	-	6,064	24,413
Amounts owed by group undertakings	3,339	-	369	4,433
Amounts owed by associated undertakings	-	-	12	13
Corporation tax	-	-	-	7,575
Other debtors	6	-	918	6,405
Prepayments and accrued income	-	-	144	183
	-----	-----	-----	-----
	3,345	-	54,812	87,782
	-----	-----	-----	-----
Amounts falling due after one year:				
Contract retentions	-	-	5,670	9,483
Other debtors	-	-	9	16
	-----	-----	-----	-----
	-	-	5,679	9,499
	-----	-----	-----	-----
Total debtors	3,345	-	60,491	97,281
	=====	=====	=====	=====

**Babcock Energy (Management) Limited
and subsidiary companies**

Notes to the financial statements (continued)

13. Cash and cash equivalents

The movements during the current and previous year between balances shown in the Group balance sheet are:-

	Pro forma	
	1995 £000	1994 £000
Cash at 1 April 1994	29,875	64,856
Net cash outflow	(4,962)	(34,981)
	-----	-----
Cash at 31 March 1995	24,913	29,875
	===	===

14. Creditors: Amounts falling due within one year

	Company		Group	
	1995 £000	1994 £000	1995 £000	1994 £000
			Pro forma	
			1995	1994
			£000	£000
Short term bank loans	-	-	-	10,000
Payments on account	-	-	20,368	17,871
Trade creditors	-	-	15,662	30,992
Other creditors, including payroll taxes	102	-	9,258	8,839
Amounts owed to other group undertakings	418	-	511	11,704
Amounts owed to associated undertakings	-	-	-	9
Company taxation	-	-	-	186
Finance lease creditors (Note 21)	-	-	300	195
Accruals and deferred income	133	-	26,414	62,255
	-----	-----	-----	-----
	653	-	72,513	142,051
	===	===	===	===

15. Creditors: Amounts falling due after more than one year

	Company		Group	
	1995 £000	1994 £000	1995 £000	1994 £000
			Pro forma	
			1995	1994
			£000	£000
Long term loan from parent undertaking	50,000	-	50,000	-
Amounts owed to other group undertakings	-	-	-	1,691
Other creditors	-	-	286	4,428
Finance lease creditors (Note 21)	-	-	257	240
	-----	-----	-----	-----
	50,000	-	50,543	6,359
	===	===	===	===

**Babcock Energy (Management) Limited
and subsidiary companies**

Notes to the financial statements (continued)

16. Deferred taxation

No provision has been made for deferred taxation as the directors are of the opinion that no liability will crystallise in the foreseeable future.

17. Share capital

	1995		1994	
	Authorised £	Called up & Fully Paid £	Authorised £	Called up & Fully Paid £
Ordinary Shares of £1	44,750,000 =====	44,700,015 =====	15 ==	15 ==

During the year, the Company increased the authorised share capital to £44,750,000. On 31 March 1995 Babcock International Limited acquired 44,700,000 ordinary shares which were issued for cash.

18. Reserves

Of total reserves shown in the balance sheet, the profit and loss account is regarded as distributable and the goodwill reserve is regarded as non distributable. The movement on reserves is shown below:

	<u>Company</u> Profit & loss account £000	<u>Group</u> Profit & loss account £000	Goodwill £000
Beginning of the year	-	-	-
Loss for the year	(19)	(14,487)	-
Goodwill arising on acquisition	-	-	(44,922)
	----- (19) ==	----- (14,487) =====	----- (44,922) =====

- a) Group reserves include £2,283,000 (1994: £2,246,000) of retained profits and reserves of associated undertakings.
- b) In accordance with the concession granted under Section 230 of the Companies Act 1985 the profit and loss account of Babcock Energy (Management) Limited has not been separately presented in these accounts. Included in the loss for the year is the loss of £19,000 (1994 loss: £ Nil) dealt with in the accounts of the Company.

Notes to the financial statements (continued)

19. Capital commitments

Group	1995	Pro forma
	1994	
	£000	£000
At 31 March 1995 outstanding capital commitments were as follows:-		
Authorised but not contracted	465	49
Contracted but not provided	197	165
	-----	-----
	662	214
	==	==

As at 31 March 1995 the company had no capital commitments.

20. Contingent liabilities

There are no contingent liabilities for which provision have not been made for the Company or for the Group. Subsidiary undertakings have however, in the normal course of business, given guarantees and entered into counter indemnities in respect of bonds relating to performance under contracts.

**21. Leasing
Group**

(a) Finance leases	1995	Pro forma
	1994	
	£000	£000
The net obligations under finance leases were as follows:-		
Amounts payable:		
within one year	300	195
within two to five years	257	240
	-----	-----
	557	435
	==	==

The Company had no finance lease obligations at the year end.

(b) Operating leases

Annual commitments under non-cancellable operating leases were as follows:-

Leases on land and buildings expiring:		
within one year	38	-
within two to five years	44	71
after five years	1550	1,274
Leases on other assets expiring:		
within one year	247	269
within one to two years	184	403
within two to five years	26	-
	-----	-----
Total	2,089	2,017
	==	==

The majority of leases on land and buildings are subject to rent reviews.

The Company had no operating lease obligations at the year end.

Notes to the financial statements (continued)

21. Leasing (continued)

The land and buildings at Renfrew occupied by Babcock Energy Limited were the subject of a sale and leaseback agreement in May 1988. The owner Natwest Properties Investment Limited, is entitled to sell the property in the event of a default by Babcock Energy Limited or in any event after giving six months' notice expiring on 27 May 1998 and at five year intervals until 2013. If the proceeds of such a sale are less than the original sale price Babcock Energy Limited can be required to compensate the owner. Having regard to the present value of the property, the directors are satisfied that at present no provision is required.

(c) Cashflow from finance lease and hire purchase contracts

Analysis of changes in finance leases and hire purchase contracts during the current and previous years:

	Pro forma	
	1995	1994
	£000	£000
At 1 April 1994	435	504
Inception of finance lease contracts	463	32
Capital element of finance lease rental payments	(341)	(101)
	----	----
At 31 March 1995	557	435
	==	==

22. Reconciliation of movements in group shareholders' funds

	Company	Group
	1995	1995
	£000	£000
Loss for the financial year	(19)	(14,487)
New share capital subscribed	44,700	44,700
Goodwill written off	-	(44,922)
Opening shareholders' funds	-	-
	----	----
Closing shareholders' funds	44,681	(14,709)
	==	==

23. Ultimate parent company

The directors consider Babcock International Group PLC (registered in England and Wales) to be the Company's ultimate parent company. This is the only group of companies for which group accounts are drawn up and of which the Company is a member.

Copies of Babcock International Group PLC accounts are available to the public from the following address:-

The Lodge
Badminton Court
Church Street
Amersham
Bucks HP7 0DD

Notes to the financial statements (continued)

24. Pro forma financial statements

The pro forma financial statements have been prepared based on the audited financial statements of the Company and its subsidiary undertakings. The pro forma financial statements show:

- the profit and loss account as if the Company had acquired its subsidiary undertakings as at 1 April 1993
- the prior year consolidated balance sheet on the basis that the goodwill arising on consolidation of the subsidiary undertakings applied throughout the periods
- the consolidated cash flow on the basis that the Company had acquired undertakings as at 1 April 1993.

25. Continuing financial support

The Company has received a letter of continuing financial support from its parent company, Babcock International Limited. This undertaking has been given until such time as the Group, comprising the Company and its subsidiary undertakings, is no longer in a net liability position or the Company is disposed of by Babcock International Group PLC Limited.