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COSTAIN INTERNATIONAL LIMITED

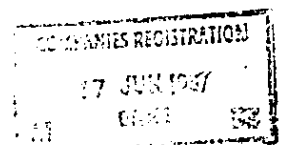
STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 1986

James Worley & Sons
Chartered Accountants,
LONDON

Peat Marwick McLintock
Chartered Accountants,
LONDON



COSTAIN INTERNATIONAL LIMITED
REPORT OF THE DIRECTORS
For the year ended 31 December 1986

BUSINESS REVIEW

The Company continued to carry out its principal activities of building and civil engineering construction.

During the year under review the Company took over some of the activities previously undertaken by Costain Process Construction Limited and Costain Process Technical Services Limited.

The Company is active in Asia, the Middle East, Africa and the Far East.

	£
Profit for the year	14,844,270
Less taxation	4,858,377
	<hr/>
Amount available for ordinary shareholders	9,985,893
Extraordinary item	(159,740)
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	9,826,153
Less interim dividend	7,000,000
	<hr/>
	2,826,153
Distributable reserves brought forward	4,931,593
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Distributable reserves carried forward	7,757,746
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DIRECTORS AND SHARE INTERESTS

		At <u>1.1.86</u>	At <u>31.12.86</u>
J. E. Langford	- Chairman		
L.F.C. Tarrant	- Managing Director	21,547	21,829
		e	NIL
			19,688
J.E. Metzner		a	3,559
K.C. Harrison		a	4,829
R.C. Ingoldby		a	13,060
M.S. Padmore		a	12,866
P.F. Woods		a	8,254
J.R. Young		a	9,196
G.C. Trayling		a	3,146
D.S. Greenwood	- (appointed 3.11.86)	a	4,222
			1,755
			1,680
			883
			1,520
			1,789
			1,481*
			1,481
A.J.D. Franklin) (resigned 31.10.86)		
W. Sperry)		

COSTAIN INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS

For the year ended 31 December 1986

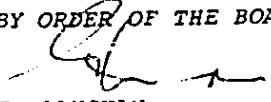
BUSINESS REVIEW

* at subsequent date of appointment

a - Costain Group PLC shares of 25p each

e - Options to acquire Costain Group PLC shares of 25p each.

BY ORDER OF THE BOARD


G. LANGHAM
SECRETARY

REGISTERED OFFICE

111 Westminster Bridge Road
London
SE1 7UE

Date: - 2 APR 1987

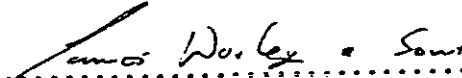
REPORT OF THE JOINT AUDITORS TO THE MEMBERS OF
COSTAIN INTERNATIONAL LIMITED

We have audited the attached accounts on pages 4 to 14 in accordance with approved Auditing Standards.

In our opinion the accounts, which have been prepared on the basis of the accounting policies set out in Note 1, give a true and fair view of the state of the company's affairs at 31 December 1986 and of its profit for the year to that date and comply with the Companies Act 1985.

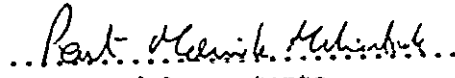
The accounts do not include a statement of the source and application of the funds of the company as required by Statement of Standard Accounting Practice 10.

James Worley & Sons,


.....
Chartered Accountants,
LONDON

Dated this 2nd April 1987..

Peat Marwick McLintock,


.....
Chartered Accountants,
LONDON

Dated this - 2 APR 1987

COSTAIN INTERNATIONAL LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 1986

		1986 £	1985 £
<u>Turnover</u>	2	37,198,660	54,809,862
<u>Profit on ordinary activities before taxation</u>	3	14,844,270	2,235,114
Taxation	7	4,858,377	1,978,791
<u>Profit Before extraordinary item</u>		9,985,893	256,323
Extraordinary item	8	(159,740)	-
Amount available for ordinary shareholders		9,826,153	256,323
Interim Dividend		7,000,000	170,000
<u>Amount retained for the year</u>		2,826,153	86,323

THE NOTES ON PAGES 6 TO 14 FORM PART OF THESE ACCOUNTS

COSTAIN INTERNATIONAL LIMITED

BALANCE SHEET

As at 31 December 1986

		1986 £	1985 £
<u>Fixed assets</u>			
Tangible assets	9	318,895	287,512
Investments	10	135,120	..
		<hr/>	<hr/>
		454,015	287,512
		<hr/>	<hr/>
<u>Current assets</u>			
Stocks and long term contracts	11	5,464,067	1,986,117
Debtors	12	40,775,904	40,518,070
Cash at bankers, monies on deposit and in hand	13	719,224	1,150,634
		<hr/>	<hr/>
		46,959,195	43,654,821
<u>Current liabilities</u>			
<u>Creditors: amounts falling due within one year</u>			
Borrowings	14	3,073,029	1,486,057
Other creditors	15	35,051,335	36,627,583
		<hr/>	<hr/>
<u>Net current assets</u>		8,834,831	5,541,181
<u>Deferred asset</u>	16	269,000	903,000
		<hr/>	<hr/>
<u>Net assets</u>		9,557,846	6,731,693
		<hr/>	<hr/>
<u>Capital and reserves</u>			
Called up share capital	17	1,800,100	1,800,100
Profit and loss account	18	7,757,746	4,931,593
		<hr/>	<hr/>
<u>Shareholders' funds</u>		9,557,846	6,731,693
		<hr/>	<hr/>

.....Director

.....Director

Dated this... - 2 APR 1987

THE NOTES ON PAGES 6 TO 14 FORM PART OF THESE ACCOUNTS

31 December 1986

1. Accounting policies

ACCOUNTING CONVENTION

The accounts are prepared under the historical cost convention.

TURNOVER

Turnover represents increases in valuation of long term contracts, including amounts applicable to contracts completed in prior years, and the amount receivable in the ordinary course of business for goods sold and for services provided and includes the appropriate proportions of turnover of joint ventures.

PROFIT ON ORDINARY ACTIVITIES

Profit on ordinary activities includes the results of current long term contracts based on agreed certificates and on valuations by officials of the company and the appropriate proportions of the results of joint ventures. It also includes residual profits and losses on long term contracts completed in prior years.

INTEREST PAYABLE

Interest is normally written off to profit and loss account as it is incurred.

DEFERRED TAXATION

Deferred taxation is provided at the latest relevant rate of corporation tax of 35%, which is the rate indicated as applicable to 1987, on the excess of the book values of fixed assets over the corresponding written down values for taxation purposes and on other timing differences.

FOREIGN CURRENCIES

Monetary assets and liabilities in overseas currencies have been expressed in sterling at the rates of exchange ruling at 31 December. Differences on all other monetary items and on transactions completed in the ordinary course of business are dealt with in profit on ordinary activities.

DEPRECIATION OF TANGIBLE ASSETS

Depreciation is provided to write off the cost of tangible assets on a straight line basis as follows:

	Percentage per annum
Fixed plant, furniture and fittings	10 - 20

LONG TERM CONTRACTS IN PROGRESS

Long term contracts in progress consist mainly of agreed certificates of work done less progress payments received and receivable at the year end and estimates made by officials of the company of the realisable value of work carried out but not yet certified or charged to clients.

COSTAIN INTERNATIONAL LIMITED

NOTES ON THE ACCOUNTS (continued)

31 December 1986

1. Accounting policies continued

Claims receivable arising on long term contracts are normally taken to credit when agreed. In the case of unprofitable long term contracts full provision is made for foreseeable losses after taking into account a prudent estimate of claims receivable arising on such contracts.

2. Turnover

Geographical analysis:	1986 £	1985 £
Asia	19,613,770	30,825,657
Africa	15,078,099	23,984,205
United Kingdom	2,506,791	-
	<u>37,198,660</u>	<u>54,809,862</u>

3. Profit on ordinary activities before taxation

	1986		1985	
	£	£	£	£
Turnover		37,198,660		54,809,862
Cost of sales		(25,639,296)		(58,223,521)
		<u>11,559,364</u>		<u>(3,413,659)</u>
Gross Profit (1985 loss)		11,559,364		(3,413,659)
Interest receivable:				
- on amounts due from fellow subsidiary companies	3,945,531		6,085,101	
- external	15,241		13,577	
	<u>3,960,772</u>		<u>6,098,678</u>	
		15,520,136		2,685,019
Administrative expenses	(342,586)		(349,997)	
Interest payable (note 4)	(333,280)		(99,908)	
	<u>(675,866)</u>		<u>(449,905)</u>	
		<u>14,844,270</u>		<u>2,235,114</u>

COSTAIN INTERNATIONAL LIMITED

NOTES ON THE ACCOUNTS (continued)

31 December 1986

3. Profit on ordinary activities before taxation continued

	1986 £	1985 £
Profit on ordinary activities is after charging:		
Emoluments of directors (note 6)	336,093	336,816
Depreciation (note 9)	95,658	78,530
Hire of plant and machinery	422,698	128,943
Auditors' remuneration	52,915	50,624

4. Interest payable

On bank loans and overdrafts	333,280	99,908
On amounts due to fellow subsidiary company	-	-
	<u>333,280</u>	<u>99,908</u>

5. Staff costs

	1986 £	1985 £
Wages and salaries	5,819,595	4,150,048
Social security costs	219,213	150,243
Pension costs	129,605	320,627
Costain Employee Share Scheme	110,247	88,000
	<u>6,278,658</u>	<u>4,708,918</u>

The average weekly number of employees during the year in the United Kingdom was 50 and overseas was 594 (1985 NIL and 334 respectively).

In addition, the average weekly number of staff seconded from a fellow subsidiary company who worked during the year for the company in the United Kingdom was 115 and overseas was Nil (1985 116 and NIL respectively).

6. Emoluments of directors

Emoluments, excluding pension scheme contributions of directors whose duties are wholly or mainly discharged in the United Kingdom.

COSTAIN INTERNATIONAL LIMITED
NOTES ON THE ACCOUNTS (continued)
31 December 1986

Directors	1986	1985
Nil to £ 5,000	3	2
£ 5,001 - £10,000	1	1
£25,001 - £30,000	2	7
£30,001 - £35,000	3	-
£35,001 - £40,000	1	1
£40,001 - £45,000	-	1
£50,001 - £55,000	1	-
£55,001 - £60,000	1	-

The emoluments of the chairman during 1986 amounted to £56,070 (1985 £44,025).

7. Taxation

	1986 £	1985 £
On Profits for the year:		
United Kingdom corporation tax at 36.25% (1985 41.25%)	2,864,831	1,560,358
Less relief for overseas taxation	(274,710)	-
	<hr/>	<hr/>
Net United Kingdom corporation tax	2,590,121	1,560,358
Group relief	1,511,506	-
Overseas taxation	389,650	182,036
Deferred taxation	993,631	284,968
	<hr/>	<hr/>
	5,484,908	2,027,362
Adjustments in respect of prior years:		
United Kingdom corporation tax	(182,424)	144,602
Less relief for overseas taxation	-	(10)
	<hr/>	<hr/>
	(182,424)	144,592
Overseas taxation	(84,476)	167
Group relief	-	(1,078,362)
Deferred taxation	(359,631)	885,032
	<hr/>	<hr/>
	(626,531)	(48,571)
	<hr/>	<hr/>
	4,858,377	1,978,791
	<hr/>	<hr/>

A payment for advance corporation tax amounting to £830,596 (1985 £Nil) has been made to Costain Group PLC in partial discharge of the total corporation tax liability for the accounting period to 31 December 1985.

COSTAIN INTERNATIONAL LIMITED
NOTES ON THE ACCOUNTS (continued)
31 December 1986

	1986 £	1985 £
8. <u>Extraordinary items</u>		
Extraordinary charge:		
Write down of investment in related company	159,740	-
	<u>159,740</u>	<u>-</u>
9. <u>Tangible assets</u>		
	Plant and equipment £	
<u>Cost</u>		
At 1 January 1986	706,925	
Additions	111,271	
Disposals	4,495	
Intra group transfers	27,727	
	<u>811,428</u>	
At 31 December 1986	811,428	
<u>Depreciation</u>		
At 1 January 1986	419,415	
Provisions	95,658	
Disposals	4,495	
Intra group transfers	11,957	
	<u>522,533</u>	
At 31 December 1986	522,533	
<u>Net book value</u>		
At 31 December 1986	<u>318,895</u>	
At 31 December 1985	<u>267,512</u>	

COSTAIN INTERNATIONAL LIMITED
NOTES ON THE ACCOUNTS continued
31 December 1986

10. Investments

	<u>Subsidiaries</u>	<u>Related</u>	<u>Total</u>
	<u>£</u>	<u>Companies</u>	<u>£</u>
<u>Unlisted</u>			
<u>Cost</u>			
At 1 January 1986	-	-	-
Transfer from fellow subsidiary	2	658,493	658,495
	<u>2</u>	<u>658,493</u>	<u>658,495</u>
At 31 December 1986	2	658,493	658,495
	<u>2</u>	<u>658,493</u>	<u>658,495</u>
<u>Amounts written off</u>			
At 1 January 1986	-	-	-
Transfer from fellow subsidiary	-	363,635	363,635
Provision	-	159,740	159,740
	<u>-</u>	<u>523,375</u>	<u>523,375</u>
At 31 December 1986	-	523,375	523,375
	<u>-</u>	<u>523,375</u>	<u>523,375</u>
<u>Net book value</u>			
At 31 December 1986	2	135,118	135,120
	<u>2</u>	<u>135,118</u>	<u>135,120</u>
At 31 December 1985	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>

Investments in subsidiaries and related companies

<u>Subsidiary Company</u>	<u>Class of capital held and percentage held of each class</u>	<u>Country of incorporation</u>
CPI Consearch Limited	Ordinary 100%	
<u>Related Company</u>		
Nesma-Costain Process Co. Limited	Ordinary 50%	Saudi Arabia

All companies are incorporated in Great Britain and registered in England, except where otherwise stated.

COSTAIN INTERNATIONAL LIMITED

NOTES ON THE ACCOUNTS continued

31 December 1986

11. Stocks and long term contracts

	1986 £	1985 £
Debit balances on long term contracts in progress	5,464,067	1,986,117

Balances on long term contracts in progress comprise valuations less progress payments received and receivable of £159,235,804 [1985 £150,854,440] and consist of:

Debit balances (included above)	5,464,067	1,986,117
Credit balances (included in note 15)	(15,858,336)	(27,801,011)
	<u>(10,394,269)</u>	<u>(25,814,894)</u>

The inclusion of attributable net profit in long term contracts in progress is in accordance with Statement of Standard Accounting Practice 9. Whilst this is a departure from the valuation requirements of the Companies Act 1985 it is required by Section 228(3) of the Companies Act 1985 to enable the accounts to give a true and fair view. It is not practicable to allocate progress payments between cost and profit nor, therefore, to state the effect of this departure on the balance sheet.

12. Debtors

Amounts falling due within one year:

Trade debtors	1,285,854	516,510
Other debtors	593,008	881,859
Debit balances on completed contracts and joint venture balances	2,095,207	2,456,684
Prepayments and accrued income	327,284	141,426
Amounts owing by holding and fellow subsidiary companies	36,083,097	36,422,195
Amounts owing by related companies	391,454	99,396
	<u>40,775,904</u>	<u>40,518,070</u>

COSTAIN INTERNATIONAL LIMITED

NOTES ON THE ACCOUNTS continued

31 December 1986

13. Cash at bankers, monies on deposit and in hand

One of the company's bankers has the right to set off the company's bank balances with that bank (£298,898 (1985 £927,071)) when in credit against borrowings by Richard Costain Ltd.

14. Borrowings

	1986 Bank loans and Overdrafts	1985 Bank loans and Overdrafts
Short term:		
Due within one year	3,073,029	1,486,057

15. Creditors: amounts falling within one year

Trade creditors	5,776,600	3,360,014
Credit balances on long term contracts in progress (Note 11)	15,858,336	27,801,011
Credit balances on completed contract and joint venture balances	243,422	1,265,058
Accruals and deferred income	2,215,480	1,657,054
Amounts owing to related companies	201,970	361,436
Amounts owing to holding and fellow subsidiary companies	447,408	199,005
Taxation	3,308,119	1,814,005
Dividends	7,000,000	170,000
	<u>35,051,335</u>	<u>36,627,583</u>

COSTAIN INTERNATIONAL LIMITED
NOTES ON THE ACCOUNTS continued
31 December 1986

16. Deferred taxation

	1986 £
At 1 January 1986	903,000
Transfer to profit and loss account	(634,000)
At 31 December 1986	<u>269,000</u>

17. Share capital

	1986 £ <u>Authorised</u>	1986 £ <u>Issued</u>	1985 £ <u>Authorised</u>	1985 £ <u>Issued</u>
Ordinary shares of 25p each, fully paid	<u>1,800,100</u>	<u>1,800,100</u>	<u>1,800,100</u>	<u>1,800,100</u>

18. Reserves

	Profit and Loss Account £
At 1 January 1986	4,931,593
Profit for the year	<u>2,826,153</u>
At 31 December 1986	<u>7,757,746</u>

19. Ultimate holding company

The company's ultimate holding company is Costain Group PLC, a company incorporated in Great Britain and registered in England.

20. Consolidated accounts

Consolidated accounts have not been prepared as the company at 31 December 1986 was a wholly owned subsidiary of Costain Group PLC, its ultimate holding company, which is a company incorporated in Great Britain and registered in England.