

**KENNEDY UTILITY MANAGEMENT
LIMITED**

REPORT AND ACCOUNTS

29 October 2000



KENNEDY UTILITY MANAGEMENT LIMITED

REPORT OF THE DIRECTORS

The directors submit their report and the accounts for the year ended 29 October 2000.

PRINCIPAL ACTIVITIES

The principal activity of the company is the laying of electricity cables and telephone ducting and gas pipelines and the relining and replacement of water mains.

REVIEW OF THE BUSINESS

Turnover increased by a further 30% in 2000 to £114m. This is largely attributable to the doubling of turnover on the two partnering gas contracts to £43m due to the acceleration in Transco's mains replacement programme. The contract in Scotland has been extended for another year from September 2001. Further partnering contracts were obtained during the year with Northumbrian Water and National Grid. This style of contract now accounts for 50% of the company's turnover and gross profit. Typically they generate lower but more stable margins, and have the additional advantage of a longer secured workload.

Exceptional remedial costs were incurred on two contracts during the year amounting to £1.3m which contributed to a fall in gross margin from 9% to 6%. Excluding these costs, a margin of 7% would have been achieved. The fall is mainly due to the impact of a regulatory pressure on a couple of Electricity contracts which have now finished, together with poor margins achievable on certain Telecoms contracts where Kennedy Utility Management was acting as a subcontractor. The company has now established itself as a main contractor on all its telecoms work. This together with the cessation of the Electricity low margin contracts will result in an increase in margin in 2001. The large increase in turnover necessitate an increase in administrative resources resulting in a rise in overheads of 25%.

A much lower increase in turnover is anticipated for the current year, with a reversal in gross and operating profit margins to previous levels. 86% of turnover forecast for 2001 is already in hand.

RESULTS AND DIVIDENDS

The results of the company for the year are set out in detail on page 6.

Dividends of £4,000,000 were paid during the year (1999 - £Nil). The directors recommend that no final dividend be paid (1999 - £Nil).

FIXED ASSETS

Details of movement in fixed assets are set out in notes 10 and 11 to the accounts.

KENNEDY UTILITY MANAGEMENT LIMITED

REPORT OF THE DIRECTORS continued

DIRECTORS

The directors who served during the year are as follows:

K E Hunt
P V Carolan
D W Kenyon
J W Reid
M J Beirne
N P Armstrong
A P Brown
M G Glover - retired 31 January 2000
M Snee - appointed 9 May 2000

The following directors retire by rotation and, being eligible, offer themselves for re-election:

P V Carolan
J W Reid

None of the directors had an interest in the share capital of the company. The interests of P V Carolan and J W Reid in the ultimate parent company, Proby Limited, are shown in that company's accounts. No other director had an interest in the shares of the ultimate parent company during the year.

DISABLED PERSONS

The company has an established policy of encouraging the employment of disabled persons wherever this is practicable. In compliance with the current legislation the company seeks to employ at least the quota of disabled persons required. The company endeavour that disabled employees benefit from training and career development programmes in common with all employees.

CHARITABLE DONATIONS

Contributions during the year to United Kingdom charitable organisations amounted to £4,610 (1999 - £8,650).


KENNEDY UTILITY MANAGEMENT LIMITED

REPORT OF THE DIRECTORS continued

AUDITORS

A resolution to re-appoint Deloitte & Touche as auditors will be proposed at the annual general meeting.

By order of the Board


S E Atkinson

21 March 2001

Secretary

KENNEDY UTILITY MANAGEMENT LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, 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;
- * prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

AUDITORS' REPORT TO THE MEMBERS OF KENNEDY UTILITY MANAGEMENT LIMITED

We have audited the financial statements on pages 6 to 15 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements which are prepared in accordance with appropriate United Kingdom law and accounting standards. 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 United Kingdom 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 company's circumstances, 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 mis-statement, 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 29 October 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors
201 Deansgate
Manchester
M60 2AT

21 March 2001

PROFIT AND LOSS ACCOUNT

for the year ended 29 October 2000

	Note	2000 £	1999 £
TURNOVER	1	113,716,377	87,464,100
Cost of sales:			
Exceptional	2b	1,347,139	-
Other		<u>105,718,942</u>	<u>79,639,887</u>
		(107,066,081)	(79,639,887)
GROSS PROFIT		6,650,296	7,824,213
Administrative expenses		(6,113,079)	(4,901,661)
Other operating income	3	<u>1,685,399</u>	<u>-</u>
		(4,427,680)	(4,901,661)
OPERATING PROFIT	2	2,222,616	2,922,552
Interest receivable and similar income	4	4,426	-
Interest payable and similar charges	5	<u>(5,675)</u>	<u>(7,920)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,221,367	2,914,632
Tax on profit on ordinary activities	8	<u>(320,775)</u>	<u>(999,001)</u>
PROFIT FOR THE FINANCIAL YEAR		1,900,592	1,915,631
Dividends on equity shares	9	<u>(4,000,000)</u>	<u>-</u>
RETAINED (LOSS)/PROFIT FOR THE YEAR	18	<u>(2,099,408)</u>	<u>1,915,631</u>

There are no recognised gains and losses other than the retained loss for the year and the retained profit for the preceding year.

All the activities relate to continuing operations.

BALANCE SHEET

29 October 2000

	Note	2000 £	1999 £
FIXED ASSETS			
Tangible assets	10	468,845	394,719
Investments	11	<u>172,698</u>	<u>172,698</u>
		641,543	567,417
CURRENT ASSETS			
Stock	12	624,241	895,923
Debtors - due within one year	13	26,472,689	20,709,262
Debtors - due after more than one year	13	929,526	235,828
Cash at bank and in hand		<u>6,958,859</u>	<u>5,705,398</u>
		34,985,315	27,546,411
CREDITORS:AMOUNTS FALLING DUE WITHIN ONE YEAR	14	<u>(27,658,454)</u>	<u>(18,043,157)</u>
NET CURRENT ASSETS		<u>7,326,861</u>	<u>9,503,254</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		7,968,404	10,070,671
CREDITORS:AMOUNTS FALLING AFTER MORE THAN ONE YEAR	15	(25,302)	(27,967)
PROVISIONS FOR LIABILITIES AND CHARGES	16	<u>(605,627)</u>	<u>(605,821)</u>
		<u>7,337,475</u>	<u>9,436,883</u>
CAPITAL AND RESERVES			
CALLED UP SHARE CAPITAL	17	110,000	110,000
RESERVES			
Share premium account	18	75,000	75,000
Profit and loss account	18	<u>7,152,475</u>	<u>9,251,883</u>
		<u>7,227,475</u>	<u>9,326,883</u>
Equity Shareholders' Funds		<u>7,337,475</u>	<u>9,436,883</u>

APPROVED BY THE BOARD OF DIRECTORS

P V Carolan

A P Brown

21 March 2001

NOTES TO THE ACCOUNTS

29 October 2000

1. ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The principal accounting policies adopted are as follows:

TURNOVER

Turnover represents the value of work carried out.

FIXED ASSET INVESTMENTS

Fixed asset investments are stated at cost less a provision for any permanent diminution in value.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Depreciation is provided at rates estimated to write off fixed assets over their anticipated lives and is applied from the month following that in which they are first brought into use.

The rates are as follows:

Plant and machinery - 25% to 33% per annum on cost

STOCK

Stock is valued at the lower of cost and net realisable value. Cost is calculated on the first in first out basis.

DEFERRED TAXATION

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

REINSTATEMENT PROVISION

The reinstatement provision represents the company's estimate for the cost of final road surfacing still to be incurred on individual contracts otherwise complete.

Particular estimates for individual contracts can prove to be incorrect. However, the directors consider that the provision as a whole is the best estimate of the eventual cost to the company which can be made.

PENSIONS

The group operates a contributory defined contribution scheme which covers a large proportion of its permanent salaried staff. Contributions to the scheme are charged to profit and loss when they become payable.

CASH FLOW STATEMENTS

The company is exempt under FRS 1 (revised) from the requirement to produce a cash flow statement.

NOTES TO THE ACCOUNTS

29 October 2000

2. OPERATING PROFIT	2000 £	1999 £
Operating profit is arrived at after charging/(crediting):		
a) Depreciation - owned assets	252,223	293,673
- leased assets	15,365	2,659
Profit on sale of fixed assets	(22,957)	(22,566)
Auditors remuneration - audit fees	50,550	20,400
- non audit fees	(6,900)	4,000
	<u>1,347,139</u>	<u>-</u>
b) Exceptional costs on two contracts		
	<u>1,347,139</u>	<u>-</u>
3. OTHER OPERATING INCOME		
Income from fixed asset investments	<u>1,685,399</u>	<u>-</u>
4. INTEREST RECEIVABLE AND SIMILAR INCOME		
On group loans	2,688	-
Other interest	<u>1,738</u>	<u>-</u>
	<u>4,426</u>	<u>-</u>
5. INTEREST PAYABLE AND SIMILAR CHARGES		
On bank loan	2,688	-
On finance lease	2,987	304
Other interest	<u>-</u>	<u>7,616</u>
	<u>5,675</u>	<u>7,920</u>
6. EMPLOYEES		
The average number employed by the company, which includes directors, within each category of persons was:	No.	No.
Production staff	1,594	1,216
Administrative staff	<u>134</u>	<u>77</u>
	<u>1,728</u>	<u>1,293</u>
The costs incurred in respect of these employees were:	£	£
Wages and salaries	33,157,027	27,597,632
Social security costs	4,098,060	3,410,087
Other pension costs	200,656	165,296
	<u>37,455,743</u>	<u>31,173,015</u>

NOTES TO THE ACCOUNTS

29 October 2000

7. DIRECTORS	2000 £	1999 £
The remuneration of directors who served during the year included in employee costs were:		
Emoluments	583,381	593,479
Pension contributions	<u>49,920</u>	<u>44,633</u>
	<u>633,301</u>	<u>638,112</u>
The highest paid director received emoluments of £115,982 (1999 : £108,444) and pension costs of £12,338 during the year (1999 - £11,857).		
Eight of the directors that served during the year were members of the Group's pension schemes (1999 - seven).		
8. TAX ON PROFIT ON ORDINARY ACTIVITIES	2000 £	1999 £
Taxation is based on the profit for the year and comprises:		
Corporation tax at 30% (1999 - 30%) of taxable profit	299,356	1,002,862
Prior year adjustments:		
Corporation tax	31,787	(3,861)
Group relief	<u>(10,368)</u>	<u>-</u>
	<u>320,775</u>	<u>999,001</u>
The tax charge for the year has been increased/(decreased) by the following amounts as a result of:		
General disallowable expenditure	84,482	86,799
Deferred taxation not provided	54,935	29,683
Non taxable income	<u>(506,472)</u>	<u>(67)</u>
	<u>(367,055)</u>	<u>116,415</u>
9. DIVIDENDS ON EQUITY SHARES		
Paid - £36.36 per ordinary share (1999 - £Nil)	<u>4,000,000</u>	<u>-</u>

NOTES TO THE ACCOUNTS

29 October 2000

10. TANGIBLE FIXED ASSETS

	Plant and machinery
Cost:	£
31 October 1999	1,699,332
Additions	349,824
Disposals	<u>(134,363)</u>
29 October 2000	<u>1,914,793</u>
Depreciation:	
31 October 1999	1,304,613
Charge for the year	267,588
On disposals	<u>(126,253)</u>
29 October 2000	<u>1,445,948</u>
Balance sheet value:	
At 29 October 2000	<u>468,845</u>
At 31 October 1999	<u>394,719</u>

The net book value of plant and machinery includes £28,240 in respect of assets held under finance leases (1999 - £43,605).

Future capital expenditure:	2000	1999
	£	£
Contracted for but not provided in the accounts	<u>-</u>	<u>-</u>

NOTES TO THE ACCOUNTS

29 October 2000

11. FIXED ASSET INVESTMENTS

	Participating Interests £	Shares in group undertakings £	Loans to group undertakings £	Total £
Cost:				
At 31 October 1999 and 29 October 2000	<u>58,766</u>	<u>329,383</u>	<u>50,000</u>	<u>438,149</u>
Provisions:				
At 31 October 1999 and 29 October 2000	<u>58,766</u>	<u>156,685</u>	<u>50,000</u>	<u>265,451</u>
Balance sheet value:				
At 29 October 2000	<u>-</u>	<u>172,698</u>	<u>-</u>	<u>172,698</u>
At 31 October 1999	<u>-</u>	<u>172,698</u>	<u>-</u>	<u>172,698</u>

All shares are in subsidiary companies. The subsidiary companies of which the company holds 100% of the ordinary shares issued are:

Kennedy Utility Services (Scotland) Limited	- dormant
Kendat Cabling Services Limited	- dormant
Kennedy Brooks Limited (incorporated in the Republic of Ireland)	- in voluntary liquidation

The participating interest investment is the company's investment in 50,000 £1 shares in Encore Environmental Aggregates Limited. This company is a 50:50 joint venture with Transco Holdings plc, and its principal activity is the recycling of aggregates. The company is incorporated in Great Britain.

In accordance with Section 228(1) Companies Act 1985 group accounts have not been prepared on the basis that the Company is a wholly owned subsidiary of Kennedy Construction Group Limited, which is incorporated in Great Britain.

In the directors opinion the aggregate value of the shares in and amounts due from each subsidiary is not less than the aggregate value of the amounts at which they are stated in the accounts.

NOTES TO THE ACCOUNTS

29 October 2000

	2000 £	1999 £
12. STOCK		
Raw materials and consumables	<u>624,241</u>	<u>895,923</u>
13. DEBTORS		
Due within one year:		
Trade debtors	25,674,801	20,413,090
Amounts owed by group companies	26,365	-
Other debtors	416,468	24,379
Prepayments and accrued income	<u>355,055</u>	<u>271,793</u>
	<u>26,472,689</u>	<u>20,709,262</u>
Due after more than one year:		
Trade debtors	918,156	235,828
Amounts owed by group companies	<u>11,370</u>	<u>-</u>
	<u>929,526</u>	<u>235,828</u>
14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		
Bank loan (see note 15)	26,365	-
Finance leases	14,035	12,820
Amounts owed to group companies	9,624,813	2,821,321
Trade creditors	13,790,884	11,191,006
Corporation tax	449,521	672,280
Other taxation and social security	1,875,440	2,121,568
Other creditors	1,377,773	711,244
Accruals and deferred income	<u>499,623</u>	<u>512,918</u>
	<u>27,658,454</u>	<u>18,043,157</u>
15. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR		
Bank loan	11,370	-
Finance leases payable between one and five years	<u>13,932</u>	<u>27,967</u>
	<u>25,302</u>	<u>27,967</u>
i) Bank loan		
Interest is charged to the loan at 2¼ above LIBOR.		
All amounts due in more than one year are payable in the second year.		
The obligations are secured on the company's plant and machinery.		
ii) Finance leases		
The amounts payable in the second year are £13,932		
The obligations under finance leases are secured on the assets financed.		

NOTES TO THE ACCOUNTS

29 October 2000

16. PROVISIONS FOR LIABILITIES AND CHARGES	2000 £	1999 £
Reinstatement and other provisions	<u>605,627</u>	<u>605,821</u>
(a) Reinstatement and other provisions:		
Movement in the year		
31 October 1999	605,821	
Provided during the year	268,907	
Utilised during the year	(264,601)	
Released during the year	<u>(4,500)</u>	
At 29 October 2000	<u>605,627</u>	
(b) Deferred taxation		
The balance on the deferred taxation account for which benefit has not been recognised is as follows:		
Depreciation in excess of capital allowances	(82,068)	(74,187)
Other timing differences	(286,635)	(239,765)
Capital losses	<u>(6,073)</u>	<u>(6,073)</u>
	<u>(374,776)</u>	<u>(320,025)</u>
17. CALLED UP SHARE CAPITAL		
Authorised and allotted:		
Ordinary shares of £1 each fully paid	<u>110,000</u>	<u>110,000</u>
18. RESERVES		
	Share premium £	Profit and loss account £
At 31 October 1999	75,000	9,251,883
Retained loss for the year	<u>-</u>	<u>(2,099,408)</u>
At 29 October 2000	<u>75,000</u>	<u>7,152,475</u>
		<u>7,227,475</u>

Of the total reserves at 29 October 2000 and 31 October 1999, the balance on the share premium account of £75,000 is not available for distribution.

NOTES TO THE ACCOUNTS

29 October 2000

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	2000 £	1999 £
Profit for the financial year	1,900,592	1,915,631
Dividends	<u>(4,000,000)</u>	<u>-</u>
Net movements in shareholders' funds	(2,099,408)	1,915,631
Opening shareholders' funds	<u>9,436,883</u>	<u>7,521,252</u>
Closing shareholders' funds	<u>7,337,475</u>	<u>9,436,883</u>

20. CONTINGENT LIABILITIES

The company is liable under the group election scheme for the value added tax liabilities of other group companies. The contingent liability at 29 October 2000 amounted to £2,109,244 (1999 - £558,185).

Under the terms of a cross guarantee set up between Kennedy Construction Group Limited, its parent companies and its subsidiaries, the company has a contingent liability at 29 October 2000 of £12,940,063 bank borrowings of other group companies (1999 - £13,462,486).

21. ULTIMATE PARENT COMPANY

The company's parent company is Kennedy Construction Group Limited which is incorporated in Great Britain. The ultimate parent company is Proby Limited which is registered in England and Wales and incorporated in Great Britain.

The company has taken advantage of the exemption provided by FRS 8 not to disclose transactions with entities that are part of the same group.

Copies of the group financial statements of Kennedy Construction Group Limited and Proby Limited are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.