

Kenton Utilities & Developments Limited

**Directors' report and financial
statements**

Registered number 1062438

30 April 2002



Contents

Company information	1
Directors' report	2
Statement of directors' responsibilities	5
Independent auditors' report to the members of Kenton Utilities & Developments Limited	6
Profit and loss account	7
Balance sheet	8
Notes	9

Company information

Directors

DP Kelly
JV McGowan
MJ Durcan
MR Duncan

Secretary

MR Duncan

Registered Office and Business address

Block A Enterprise Court
Platts Common Industrial Park
Hoyland
Barnsley
S74 9TG

Auditors

KPMG LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW

Principal bankers

Bank of Scotland
Lisbon House
116 Wellington Street
Leeds
LS1 4LT

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 April 2002.

Principal activities

The principal activity of the company is that of utility works contracting.

Business Review

The year to April 2002 was a very successful year for the business with substantial growth occurring during the year whilst at the same time actually improving profits and cash balances. Turnover for the year was £67,086,174, which is an increase compared to last year of 56.2%. For the fourth consecutive year the operating profit also increased substantially, improving from £3,258,431 in 2001 to £4,083,492 in 2002. This represents an improvement of 25.3% over the last 12 months. The profit before tax was £4,116,617 (2001: £3,318,881).

This reporting year represented a real step change both in the scale of our operations as well as the diversity of services provided. Two years ago Kenton Utilities & Developments Limited was a small to medium sized contractor providing asset repair & maintenance services principally to the clean water market. By April 2002 the mix in work had changed dramatically to the extent that 35% of this year's turnover was achieved in markets outside of clean water. At the same time the number of customers and contracts has increased markedly thus reducing the reliance on any particular customer or contract. Notable contract gains during the financial year include the First Connect contract in the North West, which was a natural compliment to our existing gas work in the North East, as well as a number of repair & maintenance contracts with United Utilities. The addition of these contracts with little material change in our existing contracts was the main reason for the increased turnover of over £24 million.

A successful financial year was culminated by the purchase of our parent company, Kenton Utility Service Management Limited, by Balfour Beatty Plc on 18 March 2002. The change in ownership should in time provide greater opportunities for our staff and will enable the business to maintain the growth and seek additional opportunities. The new financial year has started well with the recent award of mains rehabilitation contracts for Yorkshire Water, which largely replaces the old Yorkshire Water contract.

Proposed Dividend

The directors have paid an interim dividend amounting to £Nil (2001: £nil) and recommend payment of a final dividend £1,500,000 (2001: £1,800,000).

Policy on payment of creditors

The company makes payment to creditors in accordance with their normal terms of trade for the provision of goods and services unless otherwise agreed. No differentiation is applied to different suppliers.

At the year end there were 50 days (2001: 64 days) purchases in trade creditors.

Directors and directors' interests

The directors who held office during the year were as follows:

DP Kelly
JV McGowan
JM Cull (Resigned 18 March 2002)
MJ Durcan
MR Duncan

Directors' report *(continued)*

Directors and directors' interests *(continued)*

The following director held rights, via share options, to subscribe for shares in the immediate parent company (Kenton Utility Service Management Limited) during the financial year.

	Class of share	Interest at end of period	Number of options exercised during the period	Interest at start of period or date of appointment
MJ Durcan	Options on Ordinary Shares	-	(3,626)	3,626

Each option entitled the holder to a single ordinary share at an exercise price of £1.00 per share. The options were exercised on the sale of Kenton Utility Service Management Ltd to Balfour Beatty Group Ltd on 18 March 2002.

The following director held rights, via share options, to subscribe for shares in Balfour Beatty Plc under the Executive Share Option Scheme.

	Class of share	Interest at end of period	Number of options granted during the period	Interest at start of period or date of appointment
MJ Durcan	Options on Ordinary Shares	20,000	20,000	-

The options were granted on the 17 April 2002 and entitle the holder to a single ordinary share at an exercise price of £2.38 per share. The options may be exercised between April 2005 and April 2012 subject to a number of performance conditions.

The interests of all the other directors in the share capital of the company are shown in the directors' report of the parent company.

Employees

The company actively encourages employees to participate in the continued success of the business by suitable training.

It is company policy to recruit disabled persons for appropriate vacancies. Once employed, whatever assistance is necessary in terms of training and career advancement is given.

Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amounted to £ 8,120.

Directors' report *(continued)*

Auditors

KPMG were reappointed auditors at the previous Annual General Meeting. However since then their business was transferred to a limited liability partnership, KPMG LLP. Accordingly, KPMG resigned as auditor on 12 June 2002 and the directors thereupon appointed KPMG LLP to fill the vacancy arising.

By order of the board


MR Duncan

Secretary

Block A Enterprise Court
Platts Common Industrial Park
Hoyland
Barnsley
S74 9TG

23rd August 2002

Statement of directors' responsibilities

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 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



1 The Embankment
Neville Street
LEEDS
LS1 4DW

Independent auditors' report to the members of Kenton Utilities & Developments Limited

We have audited the financial statements on pages 7 to 17.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5 the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 30 April 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditors

23 August 2002

Profit and loss account
for the year ended 30 April 2002

	Note	2002 £	2001 £
Turnover	1	67,086,174	42,952,663
Cost of sales		(58,491,926)	(36,885,598)
Gross profit		8,594,248	6,067,065
Administrative expenses		(4,510,756)	(2,808,634)
Operating profit		4,083,492	3,258,431
Interest receivable and similar income	5	125,081	144,210
Interest payable and similar charges	6	(91,956)	(83,760)
Profit on ordinary activities before taxation	2-	4,116,617	3,318,881
Tax on profit on ordinary activities	7	(1,139,000)	(1,013,872)
Profit for the financial year		2,977,617	2,305,009
Dividends on equity shares	8	(1,500,000)	(1,800,000)
Retained profit carried forward	17	1,477,617	505,009

None of the company's activities were acquired or discontinued during the above financial periods.

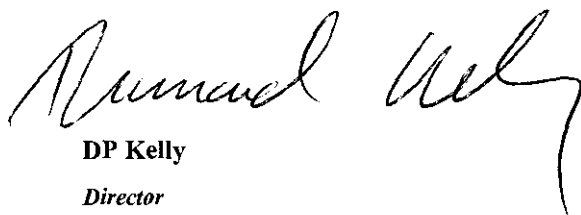
The company has no recognised gains or losses other than those dealt within the profit and loss account.

The notes on pages 9 to 17 form part of these financial statements.

Balance sheet
 at 30 April 2002

	Note	£	2002 £	£	2001 £
Fixed assets					
Tangible fixed assets	9		2,308,831		1,947,706
Investments	10		602		602
			<hr/>		<hr/>
			2,309,433		1,948,308
Current assets					
Stocks	11	699,150		754,376	
Debtors	12	22,114,813		11,636,268	
Cash at bank and in hand		2,943,690		1,597,184	
		<hr/>		<hr/>	
			25,757,653		13,987,828
Creditors: amounts falling due within one year	13	(21,432,899)		(11,001,088)	
		<hr/>		<hr/>	
Net current assets			4,324,754		2,986,740
			<hr/>		<hr/>
Total assets less current liabilities			6,634,187		4,935,048
Creditors: amounts falling due after more than one year	14		(568,331)		(325,469)
Provisions for liabilities and charges	15		(318,660)		(340,000)
			<hr/>		<hr/>
Net assets			5,747,196		4,269,579
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	16		25,017		25,017
Profit and loss account	17		5,722,179		4,244,562
			<hr/>		<hr/>
Shareholders' funds	18		5,747,196		4,269,579
			<hr/>		<hr/>

These financial statements were approved by the board of directors on 23rd August 2002 and were signed on its behalf by:


 DP Kelly
 Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

As the company is a wholly-owned subsidiary of Kenton Utility Service Management Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

Cash flow statement

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that the parent undertaking includes the company in its own published consolidated financial statements.

Fixed assets and depreciation

Depreciation is provided to write off the cost, less the estimated residual value of tangible assets by equal instalments over their estimated useful lives as follows:

Plant and machinery	-	20% - 100% straight line
Fixtures and fittings	-	10% straight line
Motor vehicles	-	17% - 33% straight line
Computers	-	33% straight line

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Notes (continued)

1 Accounting policies (continued)

Post-retirement benefits

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested with insurance companies. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

Research and development

Expenditure on research and development is written off as incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the first in, first out basis is used.

Taxation

Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers. Turnover recognises retentions held by customers.

2 Profit on ordinary activities before taxation

	2002 £	2001 £
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration:		
Audit	20,130	20,300
Other services	30,458	28,695
Depreciation and other amounts written off tangible fixed assets:		
Owned	395,728	307,028
Leased	553,983	326,368
Loss/(profit) on disposal of fixed assets	10,649	(23,490)
Exchange gains	(1,537)	(15,585)
Hire of plant and machinery - rentals payable under operating leases	4,380,165	1,844,233
Hire of other assets - operating leases	3,793,746	2,617,002
	<hr/>	<hr/>

3 Remuneration of directors

	2002 £	2001 £
Directors' emoluments		
Remuneration	553,530	115,364
Company contributions to money purchase pension schemes	30,115	-
	<hr/>	<hr/>
	583,645	115,364

The aggregate of emoluments of the highest paid director was £173,317 and the company pension contributions of £16,669 were made to a money purchase scheme on his behalf.

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2002	2001
Office and administration	68	49
Construction	1,131	733
	<hr/> 1,199	<hr/> 782

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£	£
Wages, salaries and related costs	26,574,931	16,257,530
Social security costs	1,640,518	1,585,551
Other pension costs	41,920	30,287
	<hr/> 28,257,369	<hr/> 17,873,368

5 Interest receivable and similar income

	2002	2001
	£	£
Bank and other interest receivable	125,081	144,210

6 Interest payable and similar charges

	2002	2001
	£	£
On bank loans and overdrafts	1,919	14,854
Finance charges payable in respect of finance leases and hire purchase contracts	90,037	68,906
	<hr/> 91,956	<hr/> 83,760

7 Taxation

	2002	2001
	£	£
<i>UK corporation tax</i>		
Current tax on income for the period	1,092,450	1,066,000
Adjustments in respect of prior years	(79,450)	(52,128)
Group relief – current year	270,000	-
	<hr/> 1,283,000	<hr/> 1,013,872
Deferred tax (see note 12)	(144,000)	-
	<hr/> 1,139,000	<hr/> 1,013,872

Notes (continued)

7 Taxation (continued)

The current tax charge for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £
<i>Current tax reconciliation</i>	
Profit on ordinary activities before tax	4,116,617
	<hr/>
Current tax at 30%	1,234,985
<i>Effects of</i>	
Expenses not deductible for tax purposes	127,465
Adjustments to tax charge in respect of previous periods	(79,450)
	<hr/>
Total current tax charge (see above)	1,283,000
	<hr/>

8 Dividends

	2002 £	2001 £
Equity shares:		
Final dividend proposed	1,500,000	1,800,000
	<hr/>	<hr/>

9 Tangible fixed assets

	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Computers £	Total £
<i>Cost</i>					
At beginning of year	1,945,137	127,140	2,012,215	146,429	4,230,921
Additions	597,448	-	594,600	134,193	1,326,241
Disposals	(117,776)	-	-	(17,619)	(135,395)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	2,424,809	127,140	2,606,815	263,003	5,421,767
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At beginning of year	1,019,380	127,140	1,024,720	111,975	2,283,215
Charge for year	490,503	-	327,621	131,587	949,711
On disposals	(108,079)	-	-	(11,911)	(119,990)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	1,401,804	127,140	1,352,341	231,651	3,112,936
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 30 April 2002	1,023,005	-	1,254,474	31,352	2,308,831
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 April 2001	925,757	-	987,495	34,454	1,947,706
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

9 Tangible fixed assets (continued)

Included in the above are assets held under finance leases as follows:

	2002 £	2001 £
<i>Net book values</i>		
Plant and machinery	654,759	553,398
Motor vehicles	1,105,545	729,281
	<hr/>	<hr/>
	1,760,304	1,282,679
	<hr/>	<hr/>

	2002 £	2001 £
<i>Depreciation charge for the year</i>		
Plant and machinery	327,648	138,791
Motor vehicles	226,335	143,426
	<hr/>	<hr/>
	553,983	282,217
	<hr/>	<hr/>

10 Fixed asset investments

	Shares in group undertakings £
<i>Shares</i>	
<i>Cost</i>	
At beginning of year	602
Disposals	-
	<hr/>
At end of year	602
	<hr/>
<i>Net book value</i>	
At 30 April 2002	602
	<hr/>
At 30 April 2001	602
	<hr/>

The principal companies in which the company's interest at the year end is more than 20% are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held
<i>Subsidiary undertakings</i>			
Kentons Plant Limited	England	Dormant	Ordinary 100%
Kenton Utilities and Developments (Ireland) Limited	Ireland	Utility works contracting	Ordinary 100%
Kenton Pipeline Testing Limited	England	Dormant	Ordinary 100%

11 Stocks

	2002 £	2001 £
Raw materials	699,150	754,376
	<hr/>	<hr/>

Notes (continued)

12 Debtors

	2002 £	2001 £
Trade debtors	8,490,933	10,167,298
Amounts owed by group undertakings	12,921,482	1,127,664
Deferred tax asset	144,000	-
Other debtors	82,879	55,700
Prepayments and accrued income	475,519	285,606
	<u>22,114,813</u>	<u>11,636,268</u>

Amounts owed by group undertakings includes a loan of £1,500,000 to Balfour Beatty Plc, the ultimate parent company. This loan is on a monthly rolling basis with interest rates charged at 4%.

Deferred taxation asset

	£
At beginning of year	-
Transfer to profit and loss	144,000
	<u>144,000</u>
At end of year	<u>144,000</u>

The amount provided, which represents the deferred tax asset, is analysed as follows:

	2002 £
Capital allowances in advance of depreciation	60,000
Other short term timing differences	84,000
	<u>144,000</u>

13 Creditors: amounts falling due within one year

	2002 £	2001 £
Obligations under finance leases and hire purchase contracts	605,336	651,108
Trade creditors	444,745	1,972,796
Amounts owed to group undertakings	7,977,627	669,649
Proposed dividend	1,500,000	-
Corporation tax	1,293,836	886,045
Taxation and social security	2,693,152	1,870,277
Other creditors	670,550	744,358
Accruals and deferred income	6,247,653	4,206,855
	<u>21,432,899</u>	<u>11,001,088</u>

Notes (continued)

14 Creditors: amounts falling due after more than one year

	2002 £	2001 £
Obligations under finance lease and hire purchase contract	568,331	325,469

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2002 £	2001 £
Within one year	605,336	651,108
In the second to fifth years	568,331	325,469
	<hr/>	<hr/>
	1,173,667	976,577
Less future finance charges	(82,879)	(52,416)
	<hr/>	<hr/>
	1,090,788	924,161

15 Provisions for liabilities and charges

	2002 £	2001 £
At beginning of year	340,000	470,000
Released / utilised in the year	(30,000)	(192,000)
Amounts provided in the year	8,660	165,000
Transferred to accruals and deferred income	-	(103,000)
	<hr/>	<hr/>
At end of year	318,660	340,000

The provisions relate to the cost of remedial works and maintenance obligations arising under term contracts and obligations arising as a result of the working time directive.

16 Share capital

	2002 £	2001 £
<i>Authorised</i>		
Equity and non-equity interests:		
25,000 deferred ordinary shares of £1 each	25,000	25,000
2,500 ordinary shares of \$0.01 each	17	17
	<hr/>	<hr/>
	25,017	25,017
<i>Allotted, called up and fully paid</i>		
Equity and non-equity interests:		
25,000 deferred ordinary shares of £1 each	25,000	25,000
2,500 ordinary shares of \$0.01 each	17	17
	<hr/>	<hr/>
	25,017	25,017

The \$0.01 ordinary shares carry full voting rights, full rights to dividends and preferential rights in the event of a winding up. The deferred ordinary shares carry no voting rights, no rights to dividends and limited rights in the event of a winding up.

Notes (continued)

17 Reserves

	Profit and loss account £
At beginning of year	4,244,562
Retained profit for the year	1,477,617
	<hr/>
At end of year	5,722,179
	<hr/>

18 Reconciliation of movements in shareholders' funds

	2002 £	2001 £
Profit for the financial year	2,977,617	2,305,009
Dividends	(1,500,000)	(1,800,000)
	<hr/>	<hr/>
Opening shareholders' funds	1,477,617	505,009
	4,269,579	3,764,570
	<hr/>	<hr/>
Closing shareholders' funds	5,747,196	4,269,579
	<hr/>	<hr/>
Represented by:		
Equity interests	5,722,196	4,244,579
Non-equity interests	25,000	25,000
	<hr/>	<hr/>
	5,747,196	4,269,579
	<hr/>	<hr/>

19 Contingent liabilities

In the normal course of business, the company has guarantees and performance bonds relating to contracts.

20 Commitments

Annual commitment under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	2002	2001	2002	2001
	£	£	£	£
Expiry date:				
Within one year	37,500	47,600	23,280	29,100
In the second to fifth years inclusive	175,400	110,500	111,816	75,660
	<hr/>	<hr/>	<hr/>	<hr/>
	212,900	158,100	135,096	104,760
	<hr/>	<hr/>	<hr/>	<hr/>

21 Pension scheme

The company operates a pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary. The most recent valuation was at August 2001. The assumptions which have the most significant affect on the results of the valuation are those based on investment return of 6.5% per annum, salary increase of 5% per annum and that present and future pensions would increase at 4.5% per annum. Employee contributions are 6% of earnings with the company contributing the balance to fully fund the scheme.

The pension charge for the year was £11,806 (2001: £15,022). All contributions were paid in the year. Pension contributions paid during the year to non-company pension schemes were £30,114 (2001: £15,265).

Notes (continued)

21 Pension scheme (continued)

Whilst the company continues to account for pension costs in accordance with SSAP 24 'Accounting for Pension Costs' under FRS17 'Retirement Benefits' the following transitional disclosures are required:

The valuation at August 2001 has been updated by the actuary on an FRS17 basis at 30 April 2002. The major assumptions used in this valuation were:

Rate of increase in salaries	5%
Rate of increase in pensions payment	5%
Discount rate	5.8
Inflation assumption	3%

The assumptions used by the actuary are the best estimate chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practise.

Scheme assets

The fair value of the schemes assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cashflow projections over long periods and thus inherently uncertain were:

	Value at 30 April 2002 £
Other (insurance policy)	54,000
Fair value of assets	54,000
Present value of scheme liabilities	(49,000)
Surplus in the scheme	5,000
Net pension asset	5,000

22 Ultimate parent company and parent undertaking of larger group of which the company is a member

The immediate parent company is Kenton Utility Service Management Limited. The largest group in which the results of the company are consolidated is that headed by Balfour Beatty Plc, a company listed on the London Stock Exchange.