

BABCOCK CONTRACTORS LIMITED
DIRECTORS' REPORT AND FINANCIAL
STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1999

Company number 1398475



DIRECTORS

R W J Fletcher
H M Mahy
N G Campbell

SECRETARY

R S Martin

REGISTERED OFFICE

Badminton Court
Church Street
Amersham
Bucks HP7 ODD

AUDITORS

Arthur Andersen
1 Surrey Street
London WC2R 2PS

DIRECTORS' REPORT
for the year ended 31 March 1999

FINANCIAL STATEMENTS

The directors present their report and financial statements for the year ended 31 March 1999.

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 the profit or loss 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 maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRINCIPAL ACTIVITY

The principal activity of the company is that of engineering contracting.

On 14 September 1998 the company disposed of its beneficial interest in the share capital of Babcock Arabia Ltd to AMEC BKW Ltd.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £3,601 (1998: loss £6,656,943). The directors do not recommend the payment of a dividend (1998: £nil).

DIRECTORS' REPORT (continued)
for the year ended 31 march 1999

YEAR 2000

The directors are aware of the significance of year 2000 and are taking steps to ensure that all relevant systems and equipment will be year 2000 compliant. Costs, which are not expected to be significant, are being expensed as they are incurred.

DIRECTORS

The directors of the company during the year and since the year end were:-

R W J Fletcher
H M Mahy
N G Campbell

None of the directors has any beneficial interest in the shares of the company.

The interests of the director's in the shares of the company's ultimate parent company were as follows:

	Ordinary shares	Ordinary shares	Share options	Share options
	31 March 1999	31 March 1998	31 March 1999	31 March 1998
R W J Fletcher	-	-	219,933	159,933
H M Mahy	4,289	4,289	117,738	65,304
N G Campbell	-	-	119,354	67,276

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Arthur Andersen be re-appointed as auditors of the company will be put to the Annual General Meeting.

By order of the Board



R S Martin
Secretary

2 September 1999

AUDITORS' REPORT
for the year ended 31 March 1999

AUDITORS' REPORT
to the shareholders of Babcock Contractors Limited

We have audited the financial statements on pages 4 to 14 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on page 1, 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 financial 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, 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 as at 31 March 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London, WC2R 2PS

2 September 1999

BABCOCK CONTRACTORS LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1999

	Notes	1999	1998
		£	£
Turnover	2	3,955,657	3,727,344
Cost of Sales		(3,460,943)	(9,852,096)
Gross profit / (loss)		494,714	(6,124,752)
Administration expenses		(715,325)	(612,346)
Operating loss	3	(220,611)	(6,737,098)
Net interest and similar charges	4	224,212	66,322
Profit / (loss) on ordinary activities before taxation		3,601	(6,670,776)
Tax on profit / (loss) on ordinary activities	7	-	13,833
Profit / (loss) for the financial year		3,601	(6,656,943)

There were no recognised gains and losses other than the profit for the financial year.

All of the results are derived from continuing operations.

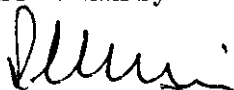
The accompanying notes are an integral part of this profit and loss account.

BABCOCK CONTRACTORS LIMITED

BALANCE SHEET
as at 31 March 1999

	Notes	1999	1998
		£	£
Fixed assets			
Tangible assets	8	48,368	70,207
Investments	9	-	-
		48,368	70,207
Current assets			
Stocks	10	22,145	21,742
Debtors	11	1,149,200	5,298,764
Cash at bank and in hand		2,190,901	527,547
		3,362,246	5,848,053
Creditors: amounts falling due within one year	12	(3,230,680)	(12,290,774)
Net current assets / (liabilities)		131,566	(6,442,721)
Total assets less current liabilities		179,934	(6,372,514)
Provisions for liabilities and charges	13	(133,276)	(284,329)
Net assets/(liabilities)		46,658	(6,656,843)
Capital and reserves			
Called up share capital	14	6,700,000	100
Profit and loss account	15	(6,653,342)	(6,656,943)
Equity shareholders' funds	16	46,658	(6,656,843)

The financial statements on pages 4 to 14 were approved by the Board on 2 September 1999 and signed on its behalf by:



R W J Fletcher
Director

The accompanying notes are an integral part of this balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies**Basis of accounting**

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Consolidated accounts

The company has not prepared consolidated accounts as it is exempt from the requirement to do so by section 228 of the Companies Act 1985 as it is a subsidiary undertaking of Babcock International Group PLC, a company incorporated in the United Kingdom, and is included in the consolidated accounts of that company.

Turnover

Turnover in respect of long-term contracts represents the amount transferred to cost of sales during the period plus attributed profit. Other turnover comprises the invoiced value of goods and services supplied by the company. Turnover excludes Value Added Tax.

Foreign Currency

Transactions denominated in foreign currencies are recorded in sterling at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated in to sterling at the year end exchange rates or at the rate at which they are hedged, if appropriate. Any exchange differences arising are accounted for in the profit and loss account.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and any provision for any permanent diminution in value. Depreciation is provided on a straight line basis to write off the cost of fixed assets over their estimated useful lives to their estimated residual value over the following periods:

Office equipment	5 years
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Leases

Assets acquired under finance leases are capitalised and the outstanding capital element of instalments is included in creditors. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligation. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where these are shorter.

Assets held under operating leases are not capitalised. Operating lease rentals are charged in the profit and loss account in the period to which they relate.

Investments

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

Stocks

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

Long term contracts

Long-term contracts are those which extend over more than one accounting period.

Long-term contract balances are valued at costs incurred, less amounts transferred to cost of sales, and after deducting attributable payments on account and providing for foreseeable losses.

Management reviews are conducted at least quarterly to assess the progress of each contract, the costs being incurred and the expected outcome of any disputes with customers or subcontractors. Where the ultimate profitability of a contract can be assessed with reasonable certainty having made prudent allowance for future risks and uncertainties, profit is recognised in proportion to the contract work completed. Immediate provision is made for all foreseeable losses.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Cash flow statement

A cash flow statement has not been prepared as the company has taken advantage of the exemption under FRS1(revised), available to wholly owned subsidiaries of a company incorporated in the EU whose consolidated financial statements include a consolidated cash flow statement.

2 Segmental information

All of the company's turnover is attributable to its principal activity of engineering contracting and originates in the UK.

The analysis of turnover by geographical market is as follows:

	1999	1998
	£	£
United Kingdom	3,488,592	3,313,023
Rest of Europe	198,075	126,542
Middle East	217,556	-
Asia	51,434	287,779
	3,955,657	3,727,344

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Operating loss is stated after charging:

	1999 £	1998 £
Depreciation – owned assets	34,321	10,382
Operating lease rentals – land and buildings	42,788	18,667
Operating lease rentals – other	19,934	14,845
Auditor's remuneration for audit services	6,400	1,700
Amounts written-off investments	-	150,799

4 Net interest and similar charges

	1999 £	1998 £
Bank interest receivable	224,212	66,322

5 Staff costs

The average monthly number of employees was:-

	1999 Number	1998 Number
Engineering and sales	6	3
Administration and management	4	2
	10	5

Their aggregate remuneration comprised:-

	1999 £	1998 £
Wages and salaries	474,321	233,318
Social security costs	39,993	20,286
Other pension costs	4,188	2,402
	518,502	256,006

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Directors' remuneration

All of the directors are employed by other group companies and none of them have service contracts with the company. Since September 1997 one of the directors has received remuneration for services to the company. The total of this director's remuneration and other benefits were as follows:-

	1999	1998
	£	£
Emoluments	160,332	89,477
Company contributions to money purchase pension schemes	4,188	2,402
	<u>164,520</u>	<u>91,879</u>

The accrued annual pension entitlement under the Babcock International Group Pension Scheme, a defined benefit scheme, of this director at 31 March 1999 was £7,787 (1998: £4,667).

7 Tax on profit / (loss) on ordinary activities

The tax charge comprises:-

	1999	1998
	£	£
UK corporation tax at 31%	-	13,833

During the year the Babcock International Group has continued its policy of surrendering group relief and advance corporation tax for nil consideration except where there is a minority interest.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 Tangible fixed assets**Office equipment** £**Cost**

At 1 April 1998	347,953
Acquired on acquisition of businesses	-
Additions	13,326
Disposals	(137,566)
At 31 March 1999	223,713

Depreciation

At 1 April 1998	277,746
Acquired on acquisition of businesses	-
On disposals	(136,722)
Charge for the year	34,321
At 31 March 1999	175,345

Net book value at 31 March 1999	48,368
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Net book value at 31 March 1998	70,207
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9 Fixed asset investments*Subsidiary undertakings*

£

Cost

At 1 April 1998	150,799
Disposals	(150,799)
At 31 March 1999	-

Amounts written-off

At 1 April 1998	150,799
Disposals	(150,799)
At 31 March 1999	-

Net book value at 31 March 1999 and 1998	-
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On 14 September 1998 the company disposed of its beneficial interest in the share capital of Babcock Arabia Ltd to AMEC BKW Ltd for a cash consideration of £1.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 Stocks

	1999 £	1998 £
Finished goods held for resale	22,145	21,742

There is no material difference between the balance sheet value of stocks and their replacement cost.

11 Debtors

	1999 £	1998 £
Trade debtors	1,040,129	3,978,906
Amounts recoverable on contracts	10,184	936,099
Amounts owed by group undertakings	33,933	348,776
Prepayments and accrued income	35,849	34,983
Other debtors	29,105	-
	1,149,200	5,298,764

12 Creditors: amounts falling due within one year

	1999 £	1998 £
Trade creditors	1,084,989	756,681
Payments in advance of turnover	910,072	661,877
Amounts owed to group undertakings	619,210	10,216,105
Taxation and social security	39,584	39,972
Accruals and deferred income	576,825	616,139
	3,230,680	12,290,774

13 Provisions for liabilities and charges

	Contract Provisions £
At 1 April 1998	284,329
Reclassified to creditors on first application of FRS 12	(68,817)
Utilised in the year	(1,394)
Released unused	(85,234)
Created in the year	4,392
At 31 March 1999	133,276

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 March 1998 contract provisions included contract warranty provisions, retentions and cost accruals. Following the initial application of FRS 12, amounts in respect of retentions and cost accruals have been reclassified to creditors.

The company has no unprovided deferred tax liability.

14 Called-up share capital

<i>Ordinary shares of £1 each</i>	1999 Number	1999 £	1998 Number	1998 £
Authorised	10,000,000	10,000,000	100	100
Allotted, called-up and fully paid	6,700,000	6,700,000	100	100

On 18 March 1999 the company increased its authorised share capital to 10,000,000 Ordinary shares of £1 each. On the same date the company issued 6,699,900 Ordinary shares of £1 each to its parent company for a total consideration of £6,699,900.

15 Reserves

	Profit and loss account £
At 1 April 1998	(6,656,943)
Profit for the financial year	3,601
At 31 March 1999	(6,653,342)

16 Reconciliation of movement in equity shareholders' funds

	£
At 1 April 1998	(6,656,843)
Shares issued to parent company	6,699,900
Profit for the financial year	3,601
At 31 March 1999	46,658

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 Financial commitments

At 31 March 1999 the company had no commitments for capital expenditure (1998: £nil).

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

	Land and Buildings		Other	
	1999	1998	1999	1998
	£	£	£	£
Expiry date				
- within one year	-	-	-	6,904
- between one and two years	-	-	15,924	-
- between two and five years	47,516	18,667	11,346	15,247
	47,516	18,667	27,270	22,151

18 Contingent liabilities

The company has given an unlimited guarantee as security for bank facilities totalling £20million (1998: £20 million) provided to the company and certain fellow subsidiaries of Babcock International Group PLC.

The company has contingent liabilities in respect of guarantees and performance bonds issued on its behalf by third parties in the ordinary course of business. At 31 March 1999 these amounted to £940,410 (1998: £927,342).

19 Related party transactions

The company has taken advantage of the exemption granted to 90% subsidiaries not to disclose transactions with group undertakings.

20 Pension funding

The employees of the company are eligible to join the Babcock International Group Pension Scheme, a defined benefit scheme. The scheme is funded by company and employee contributions which are determined with the advice of an independent qualified actuary. The company is currently enjoying a contribution holiday due to the level of surplus in the scheme.

Details of the latest actuarial valuation of the scheme are contained within the financial statements of Babcock International Group PLC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Ultimate parent company

The directors' regard Babcock International Group PLC, a company registered in England and Wales, as the company's ultimate parent undertaking.

Babcock International Group PLC is the parent undertaking of the largest and smallest group of which Babcock Contractors Ltd is a member and for which group accounts are drawn up. Copies of those group accounts are available from:

Company Secretary
Babcock International Group PLC
Badminton Court
Church Street
Amersham
Buckinghamshire
HP7 0DD