Railcare Limited

Accounts 31 March 1998
together with directors' and auditors' reports

Registered number: 3001044

Contents

	Page
Directors and Advisors	1
Directors' report	2
Auditors' report	4
Consolidated profit and loss account	5
Consolidated balance sheet	6
Company balance sheet	7
Consolidated cash flow statement	8
Notes to the financial statements	9

Directors and Advisors

For the year ended 31 March 1998

Directors

EM McDonnell
AK Smith (Chairman)
B Turnbull (Managing Director)
K Tutton
N R Young

Secretary

AP Kennedy

Registered office

The Lodge
Badminton Court
Church Street
Amersham
Bucks
HP7 0DD

Auditors

Arthur Andersen
1 Surrey Street
London
WC2R 2PS

Bankers

The Royal Bank of Scotland plc
PO Box 450
5-10 Great Tower Street
London
EC3P 3XH

Solicitors

Hammond Suddards
Trinity Court
16 John Dalton Street
Manchester
M60 8HS

Directors' report

For the year ended 31 March 1998

Financial Statements

The directors present their report and financial statements of the group covering the year ended to 31 March 1998.

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 group and of the profit or loss of the group 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; 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 and the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Principal activities and business review

The principal activity of the group is that of the repair, maintenance and refurbishment of railway rolling stock. The company will continue to operate in this field for the foreseeable future.

Results and Dividends

The group's profit after taxation for the year was £3,965,000. The directors do not propose to pay a dividend for the year which leaves a profit of £3,965,000 to be retained.

Directors and their interests

The directors who served during the year were as follows;

EM McDonnell		
EAS Porter	resigned	30.7.97
AK Smith (Chairman)		
PJ Tizzard	resigned	1.12.97
B Turnbull (Managing Director)		
K Tutton	appointed	13.2.98
N R Young	appointed	31.7.97

Directors' report (continued)

The directors who held office on 31 March 1998 had no interests other than those shown below in the shares of Babcock International Group PLC.

Name of Director	Name of Company	At 1 April 1997 Number of Ordinary 50p shares	31 March 1998 Number Ordinary 50p shares
AK Smith	Babcock International Group PLC	47,164	47,164

The directors and their immediate families have the following options to subscribe for shares in group companies.

	Number of options over Ordinary 50p shares in Babcock International Group		
Name of Director	At 1 April 1997	Granted during the year	At 31 March 1998
AK Smith	219,562	-	219,562
B Turnbull	130,000	-	130,000

NR Young is a director of Babcock International Group PLC, and his share options are disclosed in the accounts of that company.

Donations

Charitable donations made during the year amounted to £100 (1997:£250) and political donations £Nil (1997:£Nil).

Suppliers payment

Group policy on payment of trade creditors is to pay suppliers in accordance with contractual and other legal obligations. The group's trade creditors days at 31 March 1998 were on 78 (1997-79 days).

Employment policy

The company uses the consultative procedures agreed with its staff and elected representatives with a view to ensuring that employees are aware of the financial and economic factors which affect the company's performance and prospects. In respect of disabled persons, the company's policy is to continue to employ those who become disabled in service, together with recruitment where circumstances permit. Training is adjusted to cater for an individual disability and the disabled share the same conditions of service as other staff in relation to career development and promotion.

Auditors

Binder Hamlyn, having become part of the Arthur Andersen worldwide organisation during 1994, resigned during the year in order that Arthur Andersen be appointed. Special notice of the resolution appointing the auditors has been given to the company in accordance with Section 388(1) of the Companies Act 1985.

This report was approved by the Board on 5 June 1998.

AP Kennedy
Company Secretary

Auditors' report

To the members of Railcare Limited.

We have audited the financial statements on pages 5 to 18 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of 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 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 and group as at 31 March 1998 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Chartered Accountants
Registered Auditors

5 June 1998

Consolidated Profit and Loss Account

For the year ended 31 March 1998

	Notes	1998 £'000	As restated 1997 £'000
Turnover	2	69,558	75,205
Cost of sales		(54,336)	(60,159)
Gross profit		15,222	15,046
Distribution costs		(98)	(164)
Administrative expenses		(11,250)	(10,917)
Amortisation of goodwill	9	1,385	1,385
Operating Profit before interest		5,259	5,350
Interest receivable and similar income	4	508	361
Interest payable and similar charges	4	(729)	(583)
Profit on ordinary activities before tax	3	5,038	5,128
Tax on profit on ordinary activities	6	(1,073)	(832)
Profit on ordinary activities after tax		3,965	4,296
Dividends	7	-	(4,660)
Retained profit/(loss)		3,965	(364)

All of the results above arose from continuing activities.

The group had no recognised gains or losses other than the profit for the year.

The movement on reserves is stated in note 20 to these accounts.

Consolidated Balance Sheet

As at 31 March 1998

	Notes	1998 £'000	As restated 1997 £'000
Fixed assets			
Tangible assets	8	9,256	8,205
Intangible assets	9	(9,926)	(11,311)
		(670)	(3,106)
Current assets			
Stocks	11	8,902	7,279
Debtors	12	25,944	30,659
Cash at bank and in hand		3,234	3,709
		38,080	41,647
Creditors: amounts falling due within one year	13	(22,106)	(28,012)
Net current assets		15,974	13,635
Total assets less current liabilities		15,304	10,529
Provisions for liabilities and charges	15	(3,306)	(2,496)
Net assets		11,998	8,033
Capital and reserves			
Called-up share capital	17	1,577	1,577
Goodwill reserve	19	-	-
Profit and loss account	18	10,421	6,456
Equity shareholders' funds		11,998	8,033

The financial statements on pages 5 to 18 were approved by the Board on 5 June 1998.

Company Balance Sheet
As at 31 March 1998

	Notes	1998	1997
		£'000	£'000
Fixed assets			
Tangible assets	8	9,256	8,205
Investments	10	5,700	5,700
		14,956	13,905
Current assets			
Stocks	11	8,902	7,279
Debtors	12	15,284	20,359
Cash at bank and in hand		3,234	3,709
		27,420	31,347
Creditors: amounts falling due within one year	13	(22,589)	(28,495)
Net current assets		4,831	2,852
Total assets less current liabilities		19,787	16,757
Creditors: amounts falling due after more than one year	14	(12,230)	(12,230)
Provisions for liabilities and charges	15	(1,473)	(1,496)
Net assets		6,084	3,031
Capital and reserves			
Called up share capital	17	1,577	1,577
Profit and loss account	18	4,507	1,454
Equity shareholders' funds		6,084	3,031

The financial statements on pages 5 to 18 were approved by the Board on 5 June 1998.

B Turnbull
Director

Company Balance Sheet
As at 31 March 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	8	9,256	8,205
Investments	10	5,700	5,700
		14,956	13,905
Current assets			
Stocks	11	8,902	7,279
Debtors	12	15,284	20,359
Cash at bank and in hand		3,234	3,709
		27,420	31,347
Creditors: amounts falling due within one year	13	(22,589)	(28,495)
Net current assets		4,831	2,852
Total assets less current liabilities		19,787	16,757
Creditors: amounts falling due after more than one year	14	(12,230)	(12,230)
Provisions for liabilities and charges	15	(1,473)	(1,496)
Net assets		6,084	3,031
Capital and reserves			
Called up share capital	17	1,577	1,577
Profit and loss account	18	4,507	1,454
Equity shareholders' funds		6,084	3,031

The financial statements on pages 5 to 18 were approved by the Board on 5 June 1998.

B Turnbull
Director

Consolidated cash flow statement

For the year ended 31 March 1998

	Notes	1998	1997
		£'000	£'000
Net cash inflow from operating activities	22	5,336	3,957
Returns on investments and servicing of finance			
Interest (paid) from group companies		(198)	(168)
Interest (paid) to third parties		(531)	(415)
Interest received from third parties		508	361
Net cash (outflow) from returns on investments and servicing of finance		(221)	(222)
Taxation			
UK corporation tax paid		(803)	(693)
Capital expenditure			
Payments to acquire tangible fixed assets		(1,887)	(694)
Net cash (outflow) from capital expenditure		(1,887)	(694)
Equity dividends paid			
Dividends (paid) to group companies		(1,740)	(1,056)
Dividends (paid) to minority shareholders		(1,160)	(704)
		(2,900)	(1,760)
Net cash (outflow)/inflow before use of liquid resources and financing		(475)	588
Increase/(decrease) in cash in the year	23	(475)	588

Notes to the Financial Statements

for the year ended 31 March 1998

1 Accounting policies

a) *Accounting convention*

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain freehold land and building and plant and machinery and in accordance with applicable accounting standards.

b) *Basis of consolidation*

The group financial statements consolidate the financial statements of Railcare Limited and all its subsidiary undertakings made up to 31 March 1998. A separate profit and loss account dealing with the results of Railcare Limited only has not been presented as permitted by section 230 of the Companies Act 1985.

c) *Tangible fixed assets*

Land is capitalised at valuation to the company and is not depreciated.

Other tangible fixed assets are stated at cost or valuation less depreciation. Depreciation is provided on these tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life. The directors have reassessed the expected useful lives since the last year end. The annual depreciation rates are as follows:

Freehold buildings	- 10% straight line	Fixtures and fittings	- 10% straight line
Plant and machinery	- 5% to 10% straight line	Motor vehicles	- 25% straight line

d) *Intangible assets*

In June 1995 the company acquired Wolverton Rail Maintenance Limited and Glasgow Rail Maintenance Limited in competitive tender which resulted in negative goodwill of £18,970,000. The negative goodwill over the fair values acquired is disclosed as an intangible asset, and is being amortised over the estimated lives of the non-monetary assets of ten years in accordance with Financial Reporting Standard 10. In prior years the negative goodwill was credited to a Goodwill Reserve. The transfer from the Goodwill Reserve to Intangible assets, and the amortisation backdated to the date of acquisition has been disclosed in the accounts by way of a prior year adjustment. Amortisation during the year to 31 March 1998 amounted to £1,385,000 (1997 - £1,385,000), with cumulative amortisation as at 31 March 1997 amounting to £7,659,000.

e) *Stocks and work in progress*

Stocks are valued at the lower cost and net realisable value. Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Long term contract balances are valued at costs incurred, less amounts transferred to cost of sales, less, provisions for foreseeable losses and applicable payments on account.

f) *Deferred taxation*

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax legislation) has been calculated on the liability method. Deferred taxation is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse. Deferred tax assets are not taken up until realised. However, the amount of all deferred tax, including that which will probably not reverse, is shown in the notes to the accounts.

g) *Leases*

The company enters into operating leases. Rentals are charged to the profit and loss account as incurred.

h) *Pension costs*

The company operates defined benefit schemes for certain employees. The assets of the schemes are held separately from those of the company. The company makes contributions which are charged to the profit and loss account in the year in which they become payable. Details of this scheme are given in note 24 to these accounts.

For certain other employees, the company is a member of other Babcock International Group pensions schemes, which are defined benefit pension schemes. The company makes contributions which are based on periodic actuarial calculations and are charged to the profit and loss account so as to spread the cost of pensions over the expected service lives of the employees who are members of the schemes.

2 Turnover

Turnover represents the amount derived from the provision of goods and services during the year which fall within the group's ordinary activities, and is stated net of value added tax.

3 Operating profit is stated after charging

	1998	1997
	£'000	£'000
Auditors' remuneration for audit services	35	38
Depreciation		
- owned assets	819	653
- assets held under leasing agreements	7	8
Operating lease charges - land and buildings	138	138
- plant and machinery	161	113
Short term plant hire	274	195

The company's profit after tax and dividend for the year was £3,053,000 (1997:£1,395,000)

4 Net interest

	1998	1997
	£'000	£'000
Bank interest receivable	508	361
Bank interest (payable) on overdrafts repayable wholly within five years	(531)	(415)
Group interest (payable)	(198)	(168)
Net interest (payable)	(221)	(222)

5 Particulars of employees and information regarding directors

The average number of persons employed by the group, including directors, during the year was as follows:

	Number	Number
Production	1,002	967
Administrative staff	237	295
	1,239	1,262

Notes to the Financial Statements

for the year ended 31 March 1998

5 Particulars of employees and information regarding directors (continued)

	£'000	£'000
Their total remuneration was:		
Wages and salaries	21,956	21,566
Social security costs	1,688	1,715
Other costs	462	174
	24,106	23,455

Directors' emoluments were as follows:	£'000	£'000
Remuneration as executives	253	235
Pension contributions included in above	5	3

	1998	1997
	£'000	£'000
Directors' remuneration excluding pension contributions, was as follows:		
Chairman	-	-
Highest paid director	138	127
Accrued pension of highest paid director under defined benefit scheme	8	6

6 Taxation

UK Corporation tax at 31% (1997: 33%)	240	832
Deferred Tax	833	-
	1,073	832

7 Dividends

	1998	1997
	£'000	£'000
Ordinary dividend paid	-	1,760
Ordinary dividend proposed	-	2,900
	-	4,660

Notes to the Financial Statements (continued)

for the year ended 31 March 1998

8 Tangible fixed assets

	Freehold land and buildings	Short leasehold property	Plant and equipment	Total
Group and Company	£'000	£'000	£'000	£'000
Cost				
1 April 1997	6,922	187	2,599	9,708
Additions	303	29	1,555	1,887
Disposals	-	-	(14)	(14)
31 March 1998	7,225	216	4,140	11,581
Depreciation				
1 April 1997	(629)	(50)	(824)	(1,503)
Charge for the year	(524)	(7)	(295)	(826)
Disposals	-	-	4	4
31 March 1998	(1,153)	(57)	(1,115)	(2,325)
Net book value				
31 March 1998	6,072	159	3,025	9,256
1 April 1997	6,293	137	1,775	8,205

Freehold land and buildings at 31 March 1998 includes freehold land of £2,640,000 (1997 £2,640,000) which is not depreciated. Fixed assets with a net book value of £159,000 (1997: £137,000) are held under leasing agreements. Depreciation of £7,000 (1997: £8,000) was charged on these assets in the year.

	Group		Company	
At March 1998 the group's and the company's capital	1998	1997	1998	1997
commitments amounted to:	£'000	£'000	£'000	£'000
Provided but not contracted for	1,222	1,627	1,222	1,627

9 Intangible assets - Negative Goodwill

	As restated
	£'000
Group	
Negative Goodwill acquired at acquisition	
At beginning and end of period	(18,970)
Amortisation at beginning of year	7,659
Amortisation for year	1,385
Net book value 31 March 1998	(9,926)
Net book value 31 March 1997	(11,311)

In accordance with its accounting policies, the company is now amortising its negative goodwill over a period of ten years.

10 Investments

Company only investments in subsidiary undertakings	£'000
1 April 1997 and 31 March 1998	5,700

The company's subsidiary undertakings at 31 March 1998 included in the consolidated accounts, we as follows:

Name	Country of incorporation	Holding of ordinary shares %	Nature of business
Glasgow Rail Maintenance Limited	UK	100%	Dormant
Tickford Rail Limited	UK	100%	Dormant

11 Stocks

	1998	1997
Group and Company	**£'000**	**£'000**
Raw materials	5,482	4,892
Work in progress	3,110	1,817
Long term contract balances	192	502
Finished goods and goods for resale	118	68
	8,902	7,279

Long term contract balances are net of payments on account of £211,000 (1997 : £283,000).

12 Debtors

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Trade debtors	14,832	19,577	14,832	19,577
Amounts owed by group companies	2	29	2	29
Other debtors	300	481	300	481
Pension fund surplus	10,660	10,300	-	-
Prepayments and accrued income	150	272	150	272
	25,944	30,659	15,284	20,359

Amounts falling due after more than one year in debtors above are:

	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Pension fund surplus	10,020	9,660	-	-

13 Creditors: amounts falling due within one year

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Loan	1,569	1,569	1,569	1,569
Trade creditors	11,199	12,550	11,199	12,550
Amounts owed to group companies	2,552	2,773	2,552	2,773
Other creditors	2,677	1,766	2,677	1,766
Corporation tax payable	241	804	241	804
Other taxes and social security	1,998	3,384	1,998	3,384
Accruals and deferred income	1,870	2,266	2,353	2,749
Dividend payable	-	2,900	-	2,900
	22,106	28,012	22,589	28,495

14 Creditors: amounts falling due after more than one year

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Amount owed to group companies	-	-	12,230	12,230
	-	-	12,230	12,230

15 Provisions for liabilities and charges

	Group	Company
Warranty Provision:	£'000	£'000
1 April 1997	1,496	1,496
(Released) in year	(23)	(23)
31 March 1998	1,473	1,473

	Group	Company
Deferred Tax:	£'000	£'000
1 April 1997	1,000	-
Provided in year	833	-
31 March 1998	1,833	-
Total 31 March 1998	3,306	1,473

16 Deferred Tax

a) Group

	Provided		Not provided	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
The full potential net deferred tax liability is analysed as follows:				
Accelerated capital allowances	397	844	-	-
Reversal of pension surplus	(3,305)	(3,399)	-	-
Short term timing differences	1,075	1,555	-	-
	(1,833)	(1,000)	-	-

b) Company

	Provided		Not provided	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
The full potential deferred tax asset is analysed as follows:				
Accelerated capital allowances	-	-	397	844
Short term timing differences	-	-	1,075	1,555
	-	-	1,472	2,399

In accordance with the company's accounting policy the deferred tax asset has not been recognised in the financial statements.

17 Called-up equity share capital

Notes to the Financial Statements (continued)

for the year ended 31 March 1998

	Group and Company	
	Authorised 1998 and 1997 Number	Allotted, called-up and fully paid 1998 and 1997 Number
£1 Ordinary shares	10,000,000	1,577,100

18 Profit and loss account

Group	1998 £'000	1997 £'000
Retained profit for the year	3,965	(364)
Retained profit/(loss) at start of year		
As previously reported	(1,203)	546
Prior year adjustment	7,659	6,274
As restated	6,456	6,820
Retained profit at end of year	10,421	6,456

In accordance with its accounting policies, the company is now amortising its negative goodwill over a period of ten years.

Company	£'000	£'000
Retained profit for the year	1,454	59
Retained profit at start of year	3,053	1,395
Retained profit at end of year	4,507	1,454

19 Goodwill Reserve

Group	1998 £'000	1997 £'000
As previously reported	-	18,970
Transfer to Intangible assets as prior year adjustment	-	(18,970)
As restated	-	-

Notes to the Financial Statements (continued)

for the year ended 31 March 1998

20 Reconciliation of movement in group shareholders' funds

	1998	1997
	£'000	£'000
Retained profit/(loss) for the year	3,965	(364)
Opening shareholders' funds as restated	8,033	8,397
Closing shareholders' funds	11,998	8,033

21 Financial commitments and contingent liabilities

The group and company is committed to make the following payments under operating leases:

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Payments in respect of plant and machinery leases expiring:				
Within one year	103	132	103	132
Within two to five years	68	54	68	54
	171	186	171	186
Payments in respect of land and building lease expiring:				
After 5 years	138	138	138	138

22 Reconciliation of operating profit to net cash inflow from operating activities

	1998	1997
	£'000	£'000
Operating profit	3,874	3,965
Depreciation	826	661
(Increase)/ decrease in stocks	(1,623)	498
(Increase)/decrease in connected companies	(194)	310
Decrease/(increase) in debtors	4,688	(6,015)
(Decrease)/increase in creditors	(2,245)	4,538
Loss on disposal of fixed assets	10	-
Net cash inflow from operating activities	5,336	3,957

23 Analysis of changes in net funds

	1998	1997
	£'000	£'000
Net cash at 1 April 1997	3,709	3,121
Net cash inflow/(outflow)	(475)	588
Net cash at 31 March 1998	3,234	3,709

24 Pension Commitments

In May 1994, Parliament approved the Order which established the Railways Pension Scheme. All members of British Rail's main pension scheme (the BR Pension Scheme), including the substantial majority of the company's employees, were transferred to this new scheme on 1 October 1994. The new scheme consists of separate sections covering the employees of British Rail, the pensioners and deferred pensioners of the former BR Pension Scheme (for whom the Secretary of State for Transport is now the designated employer), and the employees of other companies in the industry. Each section in the new scheme has been allocated a portion of the assets to support the payment of benefits in that section.

A formal actuarial review of the BR Pension Scheme was carried out by independent qualified actuaries, R Watson & Sons as at 1 April 1996, using the projected unit method of valuation. The main assumptions used were that the rate of investment return net of price inflation would be 4% per annum (3.75% per annum for preserved benefits), that future pensionable pay awards would exceed price inflation by 2% per annum, and that dividend growth on UK equities would be 0.5% per annum less than the rate of price inflation.

On this basis, and after taking into account the expected allocation of assets to the various sections of the Railways Pension Scheme, the actuarial value of the assets attributable to the section covering BR employees was estimated to exceed the projected accrued liabilities by approximately £12.6m as at 1 April 1996, before allowing for agreed future contribution reductions.

The ongoing regular service cost of the scheme to be met by both the employees and the employer, was estimated by the actuary at 30.1% of scheme pay, defined as pensionable pay less 150% of the basic state pension. The scheme is currently receiving reduced contributions from employees at a rate of 5% of scheme pay and the employer's contribution remains at 7.5%.

During the year to 31 March 1998, the company's Profit and Loss Account has been charged with £100,000 (1997 £140,000) equivalent to net 7.5% of scheme pay less a SSAP24 interest credit adjustment of £360,000 (1997 - £310,000).

Following the actuarial review as at 1 April 1996 a further £4,970,000 was credited to the goodwill reserve in the year ended 31 March 1997, reflecting the discounted additional pension surplus as at 27 May 1995 when the company joined the scheme.

25 Ultimate parent undertaking

The company is owned 60% by Babcock Management Limited and 40% by Siemens Plc.

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