

28.75 415
05-0306

Black & Decker Investment Company

Report and Accounts

31 December 1998



ERNST & YOUNG

Black & Decker Investment Company

DIRECTORS

| | |
|------------------|-------------------------|
| C B Powell-Smith | (Chairman) |
| C E Fenton | (Resigned 9 June 1998) |
| N R Judd | |
| A R Sanderson | (Resigned 31 July 1998) |
| C G Watson | |
| G Chakravarthi | |
| M Rothleitner | (Appointed 9 June 1998) |

SECRETARY

C G Watson

AUDITORS

Ernst & Young
Apex Plaza
Reading
RG1 1YE

REGISTERED OFFICE

210 Bath Road
Slough
Berkshire
SL1 3YD

REGISTERED IN ENGLAND

FC10558

The directors present their report for the year ended 31 December 1998.

RESULTS AND DIVIDENDS

The results for the year are set out in the profit and loss account on page 5.

Dividends amounting to £39,732,000 (1997 - £38,817,000) were declared in the year.

ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENTS

The principal activity of the company during the year was the ownership of preference stock in the immediate holding undertaking.

The company is incorporated in the United States of America and is registered in the United Kingdom as an overseas company under Part XXIII of the Companies Act 1985.

FIXED ASSETS

Fixed assets are dealt with in note 7 to the accounts.

DIRECTORS

The directors who served during the year and to the date of this report are listed on page 1.

DIRECTORS' INTERESTS

The directors have no beneficial interests in the shares of the company. No material contract or arrangement entered into by the company in which any director is interested has subsisted during the year.

YEAR 2000 COMPLIANCE

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

A company-wide programme, designed to address the impact of the Year 2000 on our business, has been commissioned by the Board and is under way. Resources have been allocated and the Board receives regular reports on progress.

A significant risk analysis has been performed to determine the impact of the issue on all our activities. From this, prioritised action plans have been developed which are designed to address the key risks in advance of critical dates and without disruption to the underlying business activities. Priority is given to those systems which could cause a significant financial or legal impact on the company's business if they were to fail. The plan also includes a requirement for the testing of systems changes, involving the participation of users.

The risk analysis also considers the impact on our business of Year 2000 related failures by our significant suppliers (including computer bureaux) and customers. In appropriate cases we have initiated formal communication with these other parties.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will remain, because at least some level of failure may still occur. However, the Board believes that it will achieve an acceptable state of readiness and has also provided resources to deal promptly with significant subsequent failures or issues that might arise.

Black & Decker Investment Company

DIRECTORS' REPORT

Much of the cost of implementing the action plans will be subsumed into the recurring activities of the departments involved. The total cost of modifications to our computer hardware software is not considered significant in the context of these financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, 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 accounts;
- prepare the accounts 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 to enable them to ensure that the accounts comply with the Companies Act. 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.

AUDITORS

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted at the annual general meeting.

By order of the board

Secretary

REPORT OF THE AUDITORS

To the members of Black & Decker Investment Company

We have audited the accounts on pages 5 to 10 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

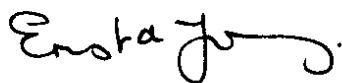
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1998 and of its profit for the year then ended.

A handwritten signature in cursive script, appearing to read 'Ernst & Young'.

Registered Auditor
Reading

30 September 1999

Black & Decker Investment Company

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1998

| | <i>Note</i> | <i>1998</i> <i>£'000</i> | <i>1997</i> <i>£'000</i> |
|--|-------------|-----------------------------|-----------------------------|
| Administrative expenses | | 24 | 25 |
| OPERATING PROFIT/(LOSS) | 3 | (24) | (25) |
| Other income | 4 | 39,732 | 38,817 |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION | | 39,708 | 38,792 |
| Taxation | 5 | - | - |
| PROFIT/(LOSS) FOR THE FINANCIAL YEAR | | 39,708 | 38,792 |
| Dividends - equity and non equity | 6 | (39,732) | (38,817) |
| PROFIT/(LOSS) FOR THE FINANCIAL YEAR | 10 | (24) | (25) |
| STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES | | | |
| Profit for the financial year | | 39,708 | 38,792 |
| Net unrealised exchange profit/(loss) on US dollar investments and preferred stock | | 305 | (104) |
| Total recognised gains and losses relating to the year | | 40,013 | 38,688 |

Black & Decker Investment Company

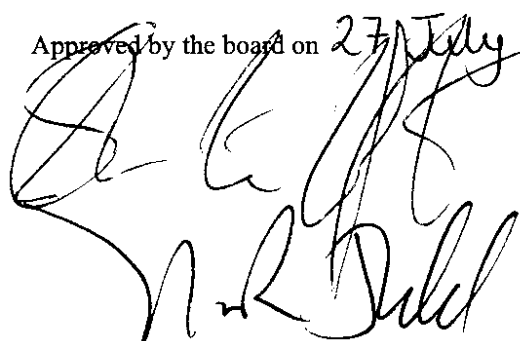
BALANCE SHEET

at 31 December 1998

| | Note | 1998 £'000 | 1997 £'000 |
|---|------|---------------|---------------|
| FIXED ASSETS | | | |
| Investments in group undertakings | 7 | 260,583 | 254,582 |
| CREDITORS: amounts falling due within one year | 8 | (79) | (55) |
| NET CURRENT (LIABILITIES) | | (79) | (55) |
| TOTAL ASSETS LESS LIABILITIES | | 260,504 | 254,527 |
| CAPITAL AND RESERVES | | | |
| Called up share capital - equity and non equity | 9 | 247,375 | 241,679 |
| Share premium account | 10 | 14,373 | 14,373 |
| Profit and loss account | 10 | (1,244) | (1,525) |
| | | 260,504 | 254,527 |

Approved by the board on

27 July 1999



) Directors

Black & Decker Investment Company

NOTES TO THE ACCOUNTS

at 31 December 1998

1. THE COMPANY

The company is incorporated in the United States of America and is registered in the United Kingdom as an overseas company under Part XXIII of the Companies Act 1985.

The accounting records of the company are maintained in pounds sterling.

2. ACCOUNTING POLICIES

Accounting convention

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

Foreign currencies

Transactions in foreign currencies are translated into sterling at rates of exchange ruling at the date of the transaction. Monetary assets and liabilities are translated at rates of exchange ruling at the year end. All differences are taken to the profit and loss account with the exception of the difference arising on US dollar denominated preferred stock, used to provide a hedge against US dollar denominated investments, which is taken directly to reserves together with the exchange difference arising on the carrying amount of the related investments.

Investment income

Dividend income is credited to the profit and loss account when declared. Interest on short term time deposits is accounted for on an accruals basis.

Cash flow statement

A cash flow statement has not been prepared as the company is exempt under Financial Reporting Standard 1 (Revised).

3. OPERATING LOSS is stated after charging:

| | 1998 £'000 | 1997 £'000 |
|------------------------|-------------------|-------------------|
| Auditors' remuneration | | |
| Audit | 2 | 2 |
| Other | 1 | 1 |
| | <u> </u> | <u> </u> |

The company does not employ any staff, the business and administration of the company being carried out by staff of another group undertaking for a management charge which is included in administrative expenses.

The directors received no remuneration during the year (1997: £Nil).

4. OTHER INCOME

| | 1998 £'000 | 1997 £'000 |
|---|-------------------|-------------------|
| Dividends receivable from immediate holding undertaking | 39,732 | 38,817 |
| | <u> </u> | <u> </u> |

5. TAXATION

There is no tax liability for the year. Management expenses in the year will be carried forward to set off against future profits.

Black & Decker Investment Company

NOTES TO THE ACCOUNTS

at 31 December 1998

6. DIVIDENDS

| | 1998 £'000 | 1997 £'000 |
|---------------------------------|---------------|---------------|
| Dividends were paid as follows: | | |
| Common stock | 4,101 | 4,006 |
| Preference stock | 35,631 | 34,811 |
| | <u>39,732</u> | <u>38,817</u> |

7. INVESTMENTS IN GROUP UNDERTAKINGS

| | 1998 £'000 | 1997 £'000 |
|------------------------------|----------------|----------------|
| Shares at cost: | | |
| Fellow group undertakings | | |
| Black & Decker Holdings Inc. | 260,541 | 254,540 |
| Black & Decker (US) Inc. | 42 | 42 |
| | <u>260,583</u> | <u>254,582</u> |

The increase in investment cost during the year represents an unrealised exchange gain of £6,001,000 on retranslating US dollar denominated preferred stock investments at year end rates of exchange. The exchange gain has been taken to reserves as it is substantially hedged by an unrealised exchange loss on the company's issued US dollar preferred stock (see note 9).

Investments comprises:

Black & Decker Holdings Inc.

| | 1998 £'000 | 1997 £'000 |
|--|----------------|----------------|
| 2,320,620 15.25% cumulative preferred stock of US\$100 each | 140,278 | 137,047 |
| 164,700 15.25% series 'A' cumulative preferred stock of US\$100 each | 9,956 | 9,727 |
| 750,000 15.25% series 'B' cumulative preferred stock of US\$100 each | 45,336 | 44,292 |
| 131,000 15.25% series 'C' cumulative preferred stock of US\$100 each | 7,919 | 7,736 |
| 195,500 15.25% series 'D' cumulative preferred stock of US\$100 each | 11,818 | 11,546 |
| 300,000 15.25% series 'E' cumulative preferred stock of US\$100 each | 18,135 | 17,717 |
| 448,300 15.25% series 'F' cumulative preferred stock of US\$100 each | 27,099 | 26,475 |
| | <u>260,541</u> | <u>254,540</u> |

Black & Decker (US) Inc.

The shares in Black & Decker (US) Inc. are 1,000 class B (non voting) common stock, par value US\$100 each.

The directors believe the market value of investments is not less than their stated cost.

Black & Decker Investment Company

NOTES TO THE ACCOUNTS

at 31 December 1998

8. CREDITORS: amounts falling due within one year

| | 1998 £'000 | 1997 £'000 |
|--|---------------|---------------|
| Accruals | 42 | 38 |
| Amounts owed to fellow subsidiary undertakings | 37 | 17 |
| | <u>79</u> | <u>55</u> |

9. CALLED-UP SHARE CAPITAL

| | 1998 Number | 1997 Number |
|---|-------------------|-------------------|
| Authorised: | | |
| Cumulative preferred stock of US\$160 each | 5,000,000 | 5,000,000 |
| Common stock shares of US\$10 each | 15,000 | 15,000 |
| | <u> </u> | <u> </u> |
| | 1998 £'000 | 1997 £'000 |
| Allotted, called up and fully paid: | | |
| 12,801 common stock shares of US\$10 each | 70 | 70 |
| 2,415,800 15.25% cumulative preferred stock of US\$160 each | 247,305 | 241,609 |
| | <u>247,375</u> | <u>241,679</u> |

The increase in sterling value of preferred stock arises from the retranslation of US dollar stock using year end rates of exchange. The resulting unrealised exchange loss has been taken to reserves as it represents a hedge against substantially all the US dollar preferred stock investment in Black & Decker Holdings Inc (see note 7).

Black & Decker Investment Company

NOTES TO THE ACCOUNTS

at 31 December 1998

10. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

| | <i>Share Capital £'000</i> | <i>Share Premium £'000</i> | <i>Profit and Loss £'000</i> | <i>Total shareholders' Funds £'000</i> |
|---|------------------------------------|------------------------------------|--|--|
| Balance at 31 December 1996 | 243,621 | 14,373 | (1,396) | 256,598 |
| Profit attributable to members of the company | - | - | 38,792 | 38,792 |
| Net foreign exchange movements | (1,942) | - | (104) | (2,046) |
| Dividends | - | - | (38,817) | (38,817) |
| Balance at 31 December 1997 | 241,679 | 14,373 | (1,525) | 254,527 |
| Profit attributable to members of the company | - | - | 39,708 | 39,708 |
| Net foreign exchange movements | 5,696 | - | 305 | 6,001 |
| Dividends | - | - | (39,732) | (39,732) |
| Balance at 31 December 1998 | 247,375 | 14,373 | (1,244) | 260,504 |

Shareholders funds are attributable as follows:

| | <i>1998 £'000</i> | <i>1997 £'000</i> |
|----------------------|-----------------------|-----------------------|
| Equity interests | 13,199 | 12,918 |
| Non equity interests | 247,305 | 241,609 |
| | 260,504 | 254,527 |

11. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemptions in Financial Reporting Standard 8 not to disclose related party transactions with group undertakings as the ultimate holding undertaking publishes consolidated financial statements.

The directors consider the ultimate controlling party to be The Black & Decker Corporation.

12. ULTIMATE HOLDING UNDERTAKING

The company's ultimate holding undertaking is The Black & Decker Corporation, incorporated in the United States of America.

The largest group in which the results of the company are consolidated is that headed by The Black & Decker Corporation and accounts are available from The Black & Decker Corporation, 701 East Joppa Road, Towson, Maryland 21286, USA.