Furmanite International Limited

Directors' report and financial statements

Registered number 238721

31 December 2000



A20
COMPANIES HOUSE
0399
10/07/01

Contents

Directors' report	1
Statement of directors' responsibilities	3
Report of the auditors to the members of Furmanite International Limited	4
Profit and loss account	5
Statement of total recognised gains and losses	5
Balance sheet	6
Notes	7

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2000.

Principal activities

The principal activity of the company continued to be the provision of specialist on line engineering services on continuous process plant.

Business review

The turnover for 2000 was favourably impacted by strong customer demand for Furmanite's on-site services in leaksealing and machining services. There was also an increasing demand from our overseas customer base as we expanded our portfolio of on-site core services and specialised pipeline intervention outside the UK. This offset unfavourable declines in metal disintegration, passive fire protection, and loss of the BASF contract in 1999.

The restructuring that took place during 1999 has aligned the direct and fixed cost structure of the company to match the seasonal variations of our business cycle. This can be demonstrated through improved gross margins and reduced fixed costs during 2000 while overall turnover increased. This has lead to an overall improvement in profitability.

The anticipation is that customer demand will be equal or slightly down during 2001 with regards to routine maintenance and plant shut downs. This is directly impacted by the price of petrochemical commodities around the world as plants attempt to run at optimum capacity during high price cycles, similar to ones that existed during 2000.

Dividends and transfers to reserves

The operating profit for the period was £2,650,000. After income from investments, taxation and interest the profit for the year amounted to £2,618,000 which has been transferred to reserves. The directors do not recommend the payment of a dividend.

The Euro

The group provides services to a number of overseas clients. The majority of transactions with customers and suppliers are denominated in sterling and it is anticipated that this will continue to be the case.

Directors and directors' interests

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

J Lahey
H Wadsworth
I Roberts

None of the directors who held office at the end of the financial year had any disclosable interest in the shares and debentures of the company.

Disclosable interests in shares or debentures in Kaneb Services Inc. (the ultimate parent company) are disclosed in the accounts of Furmanite plc.

Directors' report *(continued)*

Employees

The company runs an employee share option scheme with the intention of increasing the participation of the employees in the business. The scheme, which became effective from 1 January 1998, encourages employees to acquire shares in Kaneb Services Inc, the company's ultimate parent undertaking.

It is the policy of the company to give equal consideration to applications from disabled persons having regard to the particular aptitudes and abilities of the applicants concerned. The services of any existing employee who becomes disabled are retained wherever possible.

The company places great emphasis on consultation at all levels. Regular staff newsletters keep staff informed and everyone is encouraged to suggest improvements in the way the company is run.

Political and charitable contributions

The company made no political or charitable contributions during the year.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board 25 June 2001

S Westurn
Secretary

2001

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 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;
- 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 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.

KPMG

Edward VII Quay
Navigation Way
Ashton-on-Ribble
Preston PR2 2YF
United Kingdom

Report of the auditors to the members of Furmanite International Limited

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, 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. 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 the company's affairs as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

3 July 2001

Profit and loss account

for the year ended 31 December 2000

	Notes	2000 £000	1999 £000
Turnover - continuing operations	2	**21,182**	20,890
Cost of sales		**(13,766)**	(13,932)
Gross profit		**7,416**	6,958
Administrative expenses		**(4,766)**	(6,827)
Operating profit - continuing operations		**2,650**	131
Income from fixed asset investments	6	**-**	3
Profit on sale of investments in participating interests		**268**	-
Other interest receivable and similar income		**246**	125
Interest payable and similar charges	7	**(535)**	(499)
Profit/(loss) on ordinary activities before taxation		**2,629**	(240)
Tax on profit on ordinary activities	8	**(11)**	-
Profit/(loss) for the financial year		**2,618**	(240)
Dividends	9	**-**	(4,000)
Profit/(loss) retained for the financial year		**2,618**	(4,240)

Statement of total recognised gains and losses

for the year ended 31 December 2000

The profit of £2,618,000 (1999: loss of £240,000) as shown in the profit and loss account is the only gain or loss recognised in these financial statements.

Balance sheet
at 31 December 2000

	Note	2000		1999	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	*10*		**5**		8
Tangible assets	*11*		**2,572**		2,708
Investments	*12*		**146**		230
			2,723		2,946
Current assets					
Stocks	*13*	**1,615**		1,894	
Debtors	*14*	**7,140**		8,045	
Cash at bank and in hand		**139**		31	
		8,894		9,970	
Creditors: amounts falling due within one year	*15*	**(3,236)**		(4,431)	
Net current assets			**5,658**		5,539
Total assets less current liabilities			**8,381**		8,485
Creditors: amounts falling due after more than one year	*16*		**(2,372)**		(5,061)
Provisions for liabilities and charges	*17*		**(120)**		(153)
Net assets			**5,889**		3,271
Capital and reserves					
Called up share capital	*18*		**733**		733
Share premium account	*19*		**619**		619
Revaluation reserve	*19*		**716**		716
Profit and loss account	*19*		**3,821**		1,203
Equity shareholders' funds			**5,889**		3,271

These financial statements were approved by the board of directors on 25th June 2001 and were signed on its behalf by:

I Roberts
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, modified to include the revaluation of certain assets.

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

As the company is a wholly owned subsidiary of Kaneb Services Inc, 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. The consolidated financial statements of Kaneb Services Inc, within which this company is included, can be obtained from the address given in note 22.

Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from a business are capitalised at cost.

Goodwill and negative goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions. The cost of goodwill is written off over its life up to a maximum period of twenty years.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets (excluding freehold land) by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	50 years
Leasehold building	-	15 to 50 years
Plant and machinery	-	3 to 10 years
Vehicles	-	3 to 4 years

No depreciation is provided on freehold land.

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)*

Research and development expenditure

Expenditure on research and development is written off in the profit and loss accounts in the year in which it is 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 weighted average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

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

2 Analysis of turnover

	2000	1999
	£000	£000
America	**908**	540
United Kingdom	**18,082**	18,009
Europe	**1,498**	1,599
Asia, Africa and former Soviet States	**694**	742
	21,182	20,890

Notes *(continued)*

3 Loss on ordinary activities before taxation

	2000 £000	1999 £000
Loss on ordinary activities before taxation is stated		
after charging		
Auditors' remuneration	**21**	20
Depreciation and other amounts written off tangible fixed assets:		
Owned	**416**	474
Exchange losses	**-**	6
Hire of plant and machinery - rentals payable under operating leases	**406**	322
Hire of other assets - operating leases	**753**	505
Reorganisation expenses	**-**	561
after crediting		
Rental income	**21**	21
Other operating income	**54**	86

4 Remuneration of directors

	2000 £000	1999 £000
Directors' emoluments	**99**	74
Company contributions to defined benefit schemes	**9**	7
Compensation for loss of office	**-**	42

	Number of directors 2000	1999
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	**1**	1

Notes *(continued)*

5 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	
	2000	1999
Managerial	**18**	21
Clerical and related	**69**	88
Operatives	**200**	255
	287	364

The aggregate payroll costs of these persons were as follows:

	2000	1999
	£000	£000
Wages and salaries	**7,945**	8,892
Social security costs	**706**	802
Pension costs	**572**	660
	9,223	10,354

6 Income from other fixed asset investments

	2000	1999
	£000	£000
Income from fixed asset investments	**-**	3

7 Interest payable and similar charges

	2000	1999
	£000	£000
On bank loans and overdrafts	**-**	141
Intercompany interest expense	**93**	-
Royalty payable to parent undertakings	**442**	358
	535	499

Of the bank and other loan interest £nil *(1999: £nil)* was payable to parent undertakings.

8 Taxation

	2000	1999
	£000	£000
Corporation tax adjustment relating to prior years	**44**	-
Movement on deferred tax provision	**(33)**	-
	11	-

No charge to taxation arises in the current year owing to the availability of losses.

Notes *(continued)*

9 Dividends

	2000 £000	1999 £000
Dividend paid (ordinary shares)	-	4,000

10 Intangible fixed assets

	Goodwill £000
Cost or valuation	
At beginning and end of year	10
Amortisation	
At beginning of year	2
Charged in year	3
At end of year	5
Net book value	
At 31 December 2000	**5**
At 31 December 1999	8

11 Tangible fixed assets

	Freehold property	Short leasehold property	Plant, machinery and vehicles	Total
	£000	£000	£000	£000
Cost or valuation				
At beginning of year	1,708	407	5,295	7,410
Additions	-	-	280	280
Disposals	-	-	(20)	(20)
At end of year	1,708	407	5,555	7,670
Depreciation				
At beginning of year	354	85	4,263	4,702
Charge for year	36	7	373	416
On disposals	-	-	(20)	(20)
At end of year	390	92	4,616	5,098
Net book value				
At 31 December 2000	**1,318**	**315**	**939**	**2,572**
At 31 December 1999	1,354	322	1,032	2,708

The Company's freehold properties were valued on 30 September 1990 by the Directors, based on a valuation carried out at that date on their behalf by Chartered Valuers and Surveyors on an open market basis.

Notes *(continued)*

11 Tangible fixed assets *(continued)*

If freehold property in the United Kingdom had not been revalued it would have been included at the following amounts:

	2000	1999
	£000	£000
Cost	**1,147**	1,147
Accumulated depreciation	**(236)**	(213)
	911	934

12 Fixed asset investments

	Participating interests	**Trade investments**	**Total**
	£000	£000	£000
Shares			
Cost			
At beginning of year	125	115	240
Disposals	(94)	-	(94)
At end of year	31	115	146
Provisions			
At beginning of year	10	-	10
Provision reversed in the year	(10)	-	(10)
At end of year	-	-	-
Net book value			
At 31 December 2000	**31**	**115**	**146**
At 31 December 1999	115	115	230

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

Participating interests	**Equity holding**	**Principal activity**	**Country of registration and operation**
Barrier Offshore Services Limited	50%	Dormant	England
Fuji Furmanite Company Limited	10%	Specialist engineering services	Japan
Joint venture partnerships			
Furmanite Gulf	50%	Specialist engineering services	Kuwait

All companies trade principally in their country of registration.

Notes *(continued)*

13 Stocks

	2000 £000	1999 £000
Raw materials and consumables	**148**	125
Work in progress	**712**	803
Finished goods and goods for resale	**755**	966
	1,615	1,894

14 Debtors

	2000 £000	1999 £000
Trade debtors	**4,313**	4,572
Amounts owed by parent and fellow subsidiary undertakings	**2,752**	3,227
Prepayments and accrued income	**75**	246
	7,140	8,045

Amounts due from group undertakings which are due after more than one year are £1,970,000 (1999: £2,500,000).

15 Creditors: amounts falling due within one year

	2000 £000	1999 £000
Bank overdraft and loans	**-**	227
Trade creditors	**624**	1,250
Amounts owed to parent and fellow subsidiary undertakings	**1,545**	1,934
Taxation and social security	**552**	699
Other creditors	**-**	-
Accruals and deferred income	**515**	321
	3,236	4,431

Bank loans and overdrafts are secured by a floating charge over company assets.

16 Creditors: amounts falling due after more than one year

	2000 £000	1999 £000
Amounts owed to group undertakings	**2,372**	5,061

Notes *(continued)*

17 Provisions for liabilities and charges

	Taxation including deferred taxation £000
At beginning of year	153
Release to profit and loss account	(33)
At end of year	120

The amounts provided for deferred taxation and the amounts not provided are set out below:

	2000		1999	
	Provided £000	**Unprovided £000**	Provided £000	Unprovided £000
Other timing differences	**120**	**67**	153	67

No provision has been made against earnings retained overseas due to the availability of double taxation relief. The only significant amount of unprovided deferred taxation is £67,000 *(1999: £67,000)* relating to an unrealised surplus on the revaluation of certain properties.

18 Called up share capital

	2000 £000	1999 £000
Authorised		
Equity: Ordinary shares of £1 each	**739**	739
Allotted, called up and fully paid		
Equity: Ordinary shares of £1 each	**733**	733

19 Share premium and reserves

	Share premium account £000	**Revaluation reserve** £000	**Profit and loss account** £000	**Total 2000 £000**	Total 1999 £000
At beginning of year	619	716	1,203	**2,538**	6,778
Profit for the year	-	-	2,618	**2,618**	(240)
Dividends	-	-	-	**-**	(4,000)
At end of year	619	716	3,821	**5,156**	2,538

Notes *(continued)*

20 Commitments

(a) Capital commitments at the end of the financial year for which no provision has been made are £75,000 (1999: £172,000).

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

	2000		1999	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire:				
Within one year	**216**	**484**	230	500
In the second to fifth years inclusive	**424**	**451**	690	440
Over five years	**389**	**-**	686	-
	1,029	**935**	1,606	940

(c) The company has provided guaranteed security on certain bank loans and overdrafts of Furmanite plc, an intermediate holding company, amounting to £9,452,000 (1999: £10,908,000) by way of a floating charge over company assets.

21 Pension scheme

The Group is party to the Furmanite International Limited Pension and Life Assurance Plan which provides benefits to its UK employees based on final pensionable salary. The Plan is a combination of the defined benefit type for members in the Plan as at 30 June 1994 and defined contribution type for new members joining after 1 July 1994 and those existing members who wished to change to the defined contribution part of the Plan. The assets of the scheme are held separately from those of the Group in a separate trustee administered fund.

The pension cost and asset or liability relating to the scheme are assessed in accordance with the advice of a professionally qualified actuary using the projected unit method. The latest actuarial valuation of the scheme was at 1 November 1999. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investments return would be 9% per annum, that the salary increases would average 7% per annum and that present and future pensions would increase at a rate of 4.5% per annum.

At the date of the latest actuarial valuation the market value of the assets of the scheme was £18,800,000 and the actuarial value of the assets was sufficient to cover 102% of the benefits that had accrued to members, after allowing for expected future increases in earnings. Actuarial advice indicates that the current level of contributions is sufficient for the foreseeable future.

The contributions payable by the company to the fund amounted to £556,000 (1999: £660,000) for both schemes.

There were no outstanding or prepaid contributions either at the beginning or end of the financial year.

Notes *(continued)*

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

At 31 December 2000, the ultimate parent undertaking was Kaneb Services Inc., a company incorporated in the United States of America. This is also the parent undertaking of the largest group for which the group accounts are prepared and of which the company is a member.

Copies of the group accounts may be obtained from:

Kaneb Services Inc.
2435 North Central Expressway #700
Richardson
Texas, 75080

The parent undertaking of the smallest group for which group accounts are prepared and of which the Company is a member is Furmanite plc, a company registered in England and Wales.

Copies of the group accounts may be obtained from:

Furmanite plc
Furman House
Shap Road
Kendal
Cumbria
LA9 6RU