Furmanite International Limited

Directors' report and financial statements

Registered number 238721

31 December 2002



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

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

Although 2002 revenues were slightly above 2001 levels, operating profits and margins decreased. The year started off very slow with operational activity considerably lower than forecast. Fortunately, activity began to pick up in the second quarter and business remained strong for the balance of the year. Field services, value repair and manufacturing experienced year over year revenue increases while the company continued to see weakness in passive fire protection and overseas activity. In 2002, the company successfully implemented EDT a comprehensive scheduling and electronic order management system.

The anticipation is that customer demand for routine maintenance and plant shut downs during 2003 will be equal to or slightly above 2002 levels. In 2003, the company reorganised from a group of distinct autonomous operating units to a sales led organisation supported by a unified operations group. We anticipate that this change will enable us to be more responsive to our customer needs. The overall market remains very competitive with strong pricing pressures so we continue to strive to differentiate our services and products from our competitors through our continuing commitment to quality, safety and excellence.

Dividends and transfers to reserves

The operating profit for the year was £2,089,000. After income from investments, taxation and interest, the profit for the year amounted to £1,303,000. The directors have recommended that a final ordinary dividend of £5,500,000 be paid for the year.

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:

H Wadsworth
I Roberts
J Chick
A R Nicholls (appointed 12 May 2003)

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 Xanser Corporation (the ultimate parent company) are disclosed in the accounts of Furmanite Limited.

Employees

The company introduced a new Inland Revenue approved share incentive plan in the year and strongly encourages employee participation in this plan.

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.

Directors' report *(continued)*

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 reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Chester D Smith
Secretary

26 January 2004

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

Independent auditors' report to the members of Furmanite International Limited

We have audited the financial statements on pages 5 to 18.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 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 the company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
Chartered Accountants
Registered Auditor

27 January 2004

Profit and loss account

for the year ended 31 December 2002

	Notes	2002 £000	2001 £000
Turnover - continuing operations	2	**21,241**	21,141
Cost of sales		**(13,158)**	(12,964)
Gross profit		**8,083**	8,177
Administrative expenses		**(5,994)**	(6,070)
Operating profit - continuing operations		**2,089**	2,107
Profit on sale of investments in participating interests		**-**	-
Other interest receivable and similar income	6	**70**	120
Interest payable and similar charges	7	**(457)**	(489)
Profit on ordinary activities before taxation		**1,702**	1,738
Tax on profit on ordinary activities	8	**(399)**	(652)
Profit on ordinary activities after taxation		**1,303**	1,086
Dividend	9	**(5,500)**	-
Retained (loss)/profit for the financial year	19	**(4,197)**	1,086

Statement of total recognised gains and losses

for the year ended 31 December 2002

The profit of £1,303,000 *(2001: profit of £1,086,000)* as shown in the profit and loss account is the only gain or loss recognised in these financial statements.

Balance sheet
at 31 December 2002

	Note	2002		2001	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	*10*		**1**		3
Tangible assets	*11*		**2,586**		2,594
Investments	*12*		**136**		146
			2,723		2,743
Current assets					
Stocks	*13*	**1,816**		1,886	
Debtors	*14*	**7,913**		7,152	
Cash at bank and in hand		**107**		209	
		9,836		9,247	
Creditors: amounts falling due within one year	*15*	**(8,213)**		(3,776)	
Net current assets			**1,623**		5,471
Total assets less current liabilities			**4,346**		8,214
Creditors: amounts falling due after more than one year	*16*		**(618)**		(738)
Provisions for liabilities and charges	*17*		**(950)**		(501)
Net assets			**2,778**		6,975
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*		**710**		4,907
Equity shareholders' funds			**2,778**		6,975

These financial statements were approved by the board of directors on 26 January 2004 and were signed on its behalf by:

A R Nicholls
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. The company has adopted FRS 19 'Deferred tax' in these financial statements and has followed the transitional requirements of FRS 17 'Retirement Benefits'.

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 subsidiary of the Xanser Corporation, 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 the Xanser Corporation, 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.

Notes *(continued)*

1 Accounting policies *(continued)*

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

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.

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. Deferred tax is recognised, without discounting, in respect of all timing differences which have arisen but not reversed by the balance sheet date.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of specialist online engineering services on continuous process plant to customers.

Pensions

The company operates defined contribution and defined benefit schemes (as described in note 20). The assets of the schemes are held separately from those of the company in a separate trustee administered fund. The amount charged to the profit and loss account represents contributions payable to the schemes in respect of the accounting period.

2 Analysis of turnover

	2002	2001
	£000	£000
America	**315**	642
United Kingdom	**17,907**	17,991
Europe	**1,907**	1,409
Asia, Africa and former Soviet States	**1,112**	1,099
	21,241	21,141

In the opinion of the directors, the business consists of a single activity, namely the provision of specialist on-site engineering services and an analysis of the results and net assets by class of business is therefore not appropriate.

Notes *(continued)*

3 Profit on ordinary activities before taxation

	2002 £000	2001 £000
Profit on ordinary activities before taxation is stated		
after charging		
Auditors' remuneration	**23**	22
Depreciation and other amounts written off tangible fixed assets:		
Owned	**403**	319
Hire of plant and machinery - rentals payable under operating leases	**226**	381
Hire of other assets - operating leases	**709**	733
after crediting		
Rental income	**-**	15

4 Remuneration of directors

	2002 £000	2001 £000
Directors' emoluments	**124**	106
Company contributions to defined benefit schemes	**11**	10

	Number of directors 2002	2001
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	
	2002	2001
Sales	**12**	13
Administration	**82**	78
Operatives	**196**	199
	290	290

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£000	£000
Wages and salaries	**8,206**	8,024
Social security costs	**788**	779
Pension costs	**596**	580
	9,590	9,383

6 Other interest receivable and similar income

	2002	2001
	£000	£000
Intercompany interest income	**70**	112
Other interest income	**-**	8
	70	120

7 Interest payable and similar charges

	2002	2001
	£000	£000
Intercompany interest expense	**41**	65
Royalty payable to parent undertakings	**416**	424
	457	489

8 Taxation

	2002	2001
	£000	£000
UK Corporation tax		
Current tax on income for the year at 30% *(2001: 30%)*	**126**	273
Corporation tax adjustment relating to prior years	**(176)**	(2)
Movement on deferred tax	**449**	381
	399	652

Notes *(continued)*

8 Taxation *(continued)*

Factors affecting the tax charge for the year

The current tax charge for the year is lower *(2001: lower)* than the standard rate of corporation tax in the UK (30%, 2001: 30%).

The differences are explained below:

	2002 £000	2001 £000
Current tax reconciliation		
Profit on ordinary activities before tax	1,702	1,738
Current tax at 30% *(2001: 30%)*	511	521
Effects of:		
Expenses not deductible for tax purposes	29	34
Capital allowances for period in excess of depreciation	(77)	(125)
Other differences/charges on income	(31)	(26)
Group relief	(153)	(131)
ACT written back	(153)	-
Adjustment to tax charge in respect of previous years	(176)	(2)
Total current tax	(50)	271

9 Dividend

	2002 £000	2001 £000
Final dividend	5,500	-
	5,500	-

10 Intangible fixed assets

	Goodwill £000
Cost or valuation	
At beginning and end of year	10
Amortisation	
At beginning of year	7
Charged in year	2
At end of year	9
Net book value	
At 31 December 2002	**1**
At 31 December 2001	3

Notes *(continued)*

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	5,859	7,974
Additions	-	-	397	397
Disposals	-	-	(417)	(417)
Transfers	84	(60)	(72)	(48)
At end of year	1,792	347	5,767	7,906
Depreciation				
At beginning of year	425	99	4,856	5,380
Charge for year	36	7	360	403
On disposals	-	-	(416)	(416)
Transfers	12	(24)	(35)	(47)
At end of year	473	82	4,765	5,320
Net book value				
At 31 December 2002	**1,319**	**265**	**1,002**	**2,586**
At 31 December 2001	1,283	308	1,003	2,594

The company's freehold properties were valued on 30 September 1990 by the Directors, based on an independent valuation carried out at that date on an open market basis.

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

	2002	2001
	£000	£000
Cost	**1,147**	1,147
Accumulated depreciation	**(282)**	(259)
	865	888

Notes *(continued)*

12 Fixed asset investments

	Participating interests	Trade investments	Total
	£000	£000	£000
Shares			
Cost			
At beginning of the year	31	115	146
Disposals	(10)	-	(10)
At end of year	21	115	136
Net book value			
At 31 December 2002	**21**	**115**	**136**
At 31 December 2001	31	115	146

The companies in which the company has a participating interest 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

All companies trade principally in their country of registration.

13 Stocks

	2002 £000	2001 £000
Raw materials and consumables	**159**	131
Work in progress	**784**	773
Finished goods and goods for resale	**873**	982
	1,816	1,886

14 Debtors

	2002 £000	2001 £000
Trade debtors	**5,138**	4,766
Amounts owed by parent and fellow subsidiary undertakings	**2,594**	2,280
Prepayments and accrued income	**119**	106
Corporation tax	**62**	-
	7,913	7,152

Amounts due from group undertakings which are due after more than one year are £nil (2001: £252,000).

Notes *(continued)*

15 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Trade creditors	**1,057**	1,078
Amounts owed to parent and fellow subsidiary undertakings	**600**	1,294
Dividend payable	**5,500**	-
Corporation tax	**-**	196
Taxation and social security	**602**	580
Accruals and deferred income	**454**	628
	8,213	3,776

A promissory note has been entered into between Furmanite International Limited and Furmanite 1986 to reflect the dividend payment to be made.

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

16 Creditors: amounts falling due after more than one year

	2002 £000	2001 £000
Amounts owed to group undertakings	**618**	738

17 Provisions for liabilities and charges

	Taxation including deferred taxation £000
At beginning of year	501
Charge to profit and loss account	449
At end of year	950

The amounts provided for deferred taxation are set out below:

	2002 £000	2001 £000
Difference between accumulated depreciation and capital allowances	**184**	93
Other timing differences	**766**	408
	950	501

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 *(2001: £67,000)* relating to an unrealised surplus on the revaluation of certain properties.

Notes *(continued)*

18 Called up share capital

	2002 £000	2001 £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 2002 £000**	Total 2001 £000
At beginning of year	619	716	4,907	**6,242**	5,156
Profit for the year	-	-	1,303	**1,303**	1,086
Dividend	-	-	(5,500)	**(5,500)**	-
At end of year	619	716	710	**2,045**	6,242

20 Commitments

(a) Capital commitments at the end of the financial year for which no provision has been made are £156,000 *(2001: £180,000)*.

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

	2002		2001	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	**100**	**421**	209	408
In the second to fifth years inclusive	**308**	**531**	343	543
Over five years	**959**	-	314	-
	1,367	**952**	866	951

(c) The company has provided guaranteed security on certain bank loans and overdrafts of Furmanite Limited, an intermediate holding company, amounting to £10,117,000 *(2001: £11,188,000)* by way of a floating charge over company assets.

Notes *(continued)*

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 independent actuary using the projected unit method. The latest actuarial valuation of the scheme was at 1 November 2002 and projected forward to 31 December 2002. The pension scheme year end is 31 October 2002.

The major assumptions used by the actuary were:

	At 31 December 2002	At 31 December 2001
Rate of increase in salaries	3.00%	3.00%
Rate of increase in pension payment	2.00%	2.25%
Discount rate	5.55%	6.00%
Inflation assumption	2.25%	2.50%
Revaluation of deferred pensions	2.25%	2.50%

The assets in the scheme and the expected rate of return were:

	Long-term rate of return expected at 31 December 2002	Value at 31 December 2002 £000
Equities	6.50%	13,239
Property	4.50%	8,773
Bonds	6.50%	501
Cash	4.50%	1,192
Total market value of assets		23,705
Present value of scheme liabilities		(32,452)
Deficit in the scheme		(8,747)
Related deferred tax asset		2,624
Net pension liability		(6,123)

The contributions payable by the company to the fund amounted to £583,000 *(2001: £559,000)* for both parts of the pension scheme.

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

Notes *(continued)*

21 Pension scheme *(continued)*

Analysis of the amount that would be charged to operating profit:

	At 31 December 2002 £000
Current service cost	479
Past service cost	-
Loss/(gain) on curtailment	-
Total operating charge	479

Analysis of the amount that would be credited to other finance income

	At 31 December 2002 £000
Expected return on pension scheme assets	1,713
Interest on pension scheme liabilities	(1,689)
Net return	24

Analysis of the amount that would be recognised in statement of total recognised gains and losses

	At 31 December 2002 £000
Actual return less expected return on pension scheme assets	(5,179)
Experience gains and losses arising on the scheme liabilities	(1,058)
Changes in assumptions underlying the present value of the scheme liabilities	(1,616)
Actuarial gain recognised in statement of total recognised gains and losses	(7,853)

Movement in deficit during the year

	At 31 December 2002 £000
Deficit in scheme at start of year	(842)
Movement in year:	
Current service cost	(479)
Contributions	403
Past service costs	-
Other finance income	24
Actuarial loss	(7,853)
	(8,747)

Following the full actuarial valuation at 1 November 2002 employer contributions have yet to be agreed. Currently they are paying at the rate of 12 per cent of pensionable pay. Active members pay on average at the rate of 6.40 percent of pensionable pay.

Notes *(continued)*

21 Pension scheme *(continued)*

History of experience gains and losses

	At 31 December 2002 £000
Difference between the expected and actual return on scheme assets	(5,179)
Percentage of the scheme assets	(22%)
Experience gains and losses on scheme liabilities	(1,058)
Percentage of the present value of the scheme liabilities	(3%)
Total amount recognised in statement of total recognised gains and losses	(7,853)
Percentage of the present value of the scheme liabilities	(24%)

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

At 31 December 2002, the ultimate parent undertaking was the Xanser Corporation, 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:

Xanser Corporation
2435 North Central Expressway
Suite 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 Limited, a company registered in England and Wales.

Copies of the group accounts may be obtained from:

Furmanite Limited
Furman House
Shap Road
Kendal
Cumbria
LA9 6RU