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RGC OFFSHORE PLC

DIRECTORS REPORT

FOR YEAR ENDED 30th SEPTEMBER 1985



RGC OFFSHORE PLC

DIRECTORS REPORT

FOR YEAR ENDED 30th SEPTEMBER, 1985

DIRECTORS: V.A. Grundy - Chairman  
Dr. P. Dyer - Managing Director  
S.R. Fudge  
Rt. Hon. Dr. J. Dickson Mabon  
C.J. Moore

The directors submit their report with the audited statement of accounts for the year ended 30th September, 1985.

1. Principal Activities

The principal activities of the company are the construction and equipping of offshore structures for the exploitation of oil and gas reserves in the North Sea and other offshore areas adjoining the British Isles.

The company carries out with its own labour force the construction of such structures which are made mainly from steel. The equipping of such structures is carried out in association with others either by subcontract or in joint venture.

The company is also capable of constructing steel fabrications for other markets in the construction and contracting industries. The company's Methil facilities are ideally suited to the construction and delivery by sea of major fabrications.

2. Change in Ownership

With effect from 1st October 1985 Trafalgar House Public Limited Company acquired from Howard Doris Ltd its 25% shareholding in the company and the company is now wholly owned by Trafalgar House Public Limited Company.

3. Trading Results

The directors are pleased to report that the company has made a trading profit during the year of £5,260,000 as set out in the profit and loss account on page 5. The level of business and the financial position of the company at 30th September 1985 were satisfactory and the directors expect the position to remain satisfactory for the foreseeable future.

4. Fixed Assets

The movements on fixed assets are shown on note 15 of the accounts.

## Directors

The names of the present directors are set out on page 1. Messrs. Fudge and Mabon were in office throughout the period under review.

Following the sale by British Steel Corporation of their shareholding in the company to Trafalgar House Public Limited Company on 1st October 1984, Messrs. Bray, Evans, Fitzgerald, Townsend, de Vink and Webber resigned on 1st October 1984. Messrs. E.W. Parker and V.A. Grundy were appointed directors on 1st October 1984, Mr. Parker being appointed Chairman. Messrs. P. Dyer, A.J. Granville, R.J.S. Harris and C.J. Moore were appointed directors on 22nd November, 1984. On 5th February 1985 Mr. Parker resigned as Chairman and Director. Also on 5th February 1985 Mr. Grundy was appointed Chairman and Dr. Dyer appointed Managing Director following Mr. Fudge's resignation from this post.

Following the sale by Howard Doris Ltd. on 1st October 1985 of its interest in the company Messrs. A.J. Granville and R.J.S. Harris resigned on 1st October 1985.

## 6. Directors Share Interests

Given below are details of the interests in the shares and debentures of Trafalgar House Public Limited Company (the ultimate holding company) at 30th September 1985 of Directors of the company at that date who were not also Directors of Trafalgar House Public Limited Company. Details of their interests at 30th September 1984 (or subsequent date of appointment) are shown in brackets.

### Trafalgar House Public Limited Company Ordinary Shares of 20p each

	Ord Shares Options (Note 1)	Ord Shares Fully Paid (Note 2)	Other Beneficial
S R Fudge	40,703 (Nil)	Nil (Nil)	Nil (Nil)
P Dyer	40,703 (40,000)	Nil (Nil)	Nil (Nil)
C J Moore	Nil (Nil)	Nil (Nil)	Nil (Nil)
A J Granville	Nil (Nil)	Nil (Nil)	Nil (Nil)
R J S Harris	Nil (Nil)	Nil (Nil)	Nil (Nil)
J D Mabon	Nil (Nil)	Nil (Nil)	Nil (Nil)

Notes:- (1) Options granted under the terms of the Trafalgar House Public Limited Company 1973 and 1984 executive share option schemes.

(2) Fully paid ordinary shares appropriated to participants in the Trafalgar House Public Limited Company 1979 profit sharing scheme.

## 7. Employees

The company keeps its employees fully advised of all developments of the company's trading activity and, through the full time union representatives, of the policies which the company intends to pursue.

## 8. Disabled Persons

The company has a policy of employing disabled persons in suitable vacancies where such persons are able to perform their duties effectively.

9. Charitable Contributions

The company made charitable contributions during the period amounting to £357 (1984: £50).

10. Dividends

The directors have declared an interim dividend of £5,000,000 which was paid on 1st October, 1985. They do not recommend a further dividend.

11. Close Company Provisions

As far as the directors are aware, the close company provisions of the Income and Corporation Taxes Act 1970, as amended, do not apply to the company. There has been no change in this respect since the end of the financial period.

12. Auditors

A resolution to re-appoint the auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD  
14th April 1986.



COMPANY SECRETARY

Registered Office: Dormbridge House,  
16 St. Cuthbert's Street,  
Bedford,  
MK40 3XE.

RGC OFFSHORE PLC

REPORT OF THE AUDITORS TO THE MEMBERS

1. We have audited the accounts set out on pages 5 to 15 in accordance with approved Auditing Standards. These accounts have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

2. In our opinion, the company's accounting policy in respect of contract work in progress, as disclosed in note V to these accounts, is not in accordance with Statement of Standard Accounting Practice No 9 in the following respects:-

- a) The company does not differentiate between long-term and short-term contracts and at 30 September 1985 recognised profit of £224,000 on an incomplete contract of less than one year's duration.
- b) In calculating the amount of production overheads to be included in the valuation of contract work in progress the company has taken into account £195,000 of overheads which are not directly attributable to contracts.

3. As stated in note 5 (i), the Inland Revenue has not accepted that interest received by the company should be offset by trading losses brought forward. The outcome of this matter is uncertain and no provision has been made in the accounts in respect of the potential tax liabilities of £401,000 which may arise.

4. Subject to the matters set out above, in our opinion, the accounts give a true and fair view of the state of affairs of the company at 30th September 1985 and of its profit and source and application of funds for the period then ended and comply with the Companies Act 1985.

*Coopers & Lybrand*

COOPERS & LYBRAND  
CHARTERED ACCOUNTANTS

EDINBURGH  
14th March 1986

RGC OFFSHORE PLC

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30th SEPTEMBER 1985

	<u>Note</u>	<u>Year to</u> <u>Sept 1985</u> <u>£000</u>	<u>6 months to</u> <u>Sept 1984</u> <u>£000</u>
Turnover	VIII and 1	<u>52,316</u>	<u>26,075</u>
Profit before taxation	2	5,260	1,178
Taxation on profit on ordinary activities	5	-	40
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>5,260</u>	<u>1,138</u>
Dividends	6	<u>5,000</u>	-
Retained profit for the period		<u>260</u>	<u>1,138</u>
<u>STATEMENT OF RETAINED PROFITS</u>			
Balance at beginning of the period		10,105	3,570
Retained profit for the period		<u>260</u>	<u>1,138</u>
		10,365	4,708
Surplus on revaluation of fixed assets	15	-	5,397
Balance at end of the period		<u>10,365</u>	<u>10,105</u>



RGC OFFSHORE PLC

BALANCE SHEET

AS AT 30th SEPTEMBER 1985

	<u>Note</u>	<u>30th Sept.1985</u>		<u>30th Sept 1984</u>	
		£000	£000	£000	£000
<b>FIXED ASSETS</b>					
Tangible Assets	15		11,570		10,066
<b>CURRENT ASSETS</b>					
Contract Work in Progress	10	75		5,194	
Raw Materials and Consumables		118		126	
Debtors	11	10,950		12,076	
Due from Group Companies		80		-	
Cash at Bank and in Hand		5,007		2,559	
		<u>16,230</u>		<u>19,955</u>	
<b>CREDITORS: AMOUNTS FALLING</b>					
<b>DUE WITHIN ONE YEAR</b>					
Progress Payments		-		4,679	
Creditors	12	5,742		10,237	
Due to Group Companies		244		-	
Bank Overdraft		1,449		-	
Dividend		5,000		-	
		<u>12,435</u>		<u>14,916</u>	
<b>NET CURRENT ASSETS</b>			<u>3,795</u>		<u>5,039</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>15,365</u>		<u>15,105</u>
<b><u>CAPITAL AND RESERVES</u></b>					
CALLED UP SHARE CAPITAL	8		4,300		4,300
OTHER RESERVES	9		700		700
<b>PROFIT AND LOSS ACCOUNT</b>			<u>10,365</u>		<u>10,105</u>
			<u>15,365</u>		<u>15,105</u>

*Approved for signature by the Board of Directors 15th April 1986*

  
 DIRECTOR  
  
 DIRECTOR



RGC OFFSHORE PLC

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 30th SEPTEMBER 1985

	<u>Year to Sept 1985</u>		<u>6 months to Sept. 1984</u>	
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<u>SOURCE OF FUNDS</u>				
PROFIT BEFORE TAX		5,260		1,178
ADJUSTMENTS FOR ITEMS NOT INVOLVING THE MOVEMENT OF FUNDS				
Depreciation (less grants released)		575		300
TOTAL GENERATED FROM OPERATIONS		5,835		1,478
FUNDS FROM OTHER SOURCES				
Regional Development Grants	14		143	
Disposal of fixed assets	125	139	-	143
		5,974		1,621
<u>APPLICATION OF FUNDS</u>				
Dividends Paid	-		6,000	
Additions to fixed assets	2,218		924	
Taxation	40	2,258	104	7,028
		3,716		(5,407)
<u>INCREASE/(DECREASE) IN WORKING CAPITAL</u>				
Stocks and Work in Progress		(5,127)		4,194
Debtors		(1,046)		(284)
Creditors		4,211		961
Progress Payments		4,679		(1,433)
		2,717		3,438
MOVEMENT IN NET LIQUID FUNDS				
Bank and cash balances		999		(8,845)
		3,716		(5,407)



RGC OFFSHORE PLC

GENERAL NOTES TO THE ACCOUNTS AND ACCOUNTING POLICIES

I Basis of Preparation of Accounts

The accounts are prepared under the historical cost convention except for the revaluation of short leasehold buildings.

II Land, Buildings and Plant

Fixed assets are recorded at original cost or valuation less accumulated depreciation. Cost comprises the direct expenditure incurred after deducting regional development grants and, in the case of assets constructed by the Company, includes related overheads.

Commissioning costs and interest attributable to expenditure on assets in the course of construction are written off to revenue as incurred.

Expenditure on new installations and schemes, which have not been commissioned by the accounting date, is classified as buildings and plant in the course of construction and is transferred to the appropriate fixed asset account on completion of commissioning.

The Directors have revalued the Company's short leasehold buildings on a going concern basis. This revaluation has been incorporated into the books of account.

III Depreciation

Depreciation is calculated on a straight line basis at rates appropriate to the class of asset concerned. No depreciation is charged on assets in the course of construction, nor is any further charge made in respect of assets fully written off but still in use.

The annual depreciation rates used for the main categories of fixed assets are:-

Short leasehold buildings which house plant and other works buildings	According to the period of the lease
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Plant and machinery with an estimated minimum life of 10 years	10%
--	-----

Plant and machinery with an estimated life of less than 10 years	According to the life
--	-----------------------

IV Regional Development and Other Grants

The total amounts received and receivable in respect of regional development grants on fixed assets are credited to the cost of the related asset and amortised over its anticipated useful life by a reduction in the depreciation charge.

All other grants are credited to profit and loss account.

## Stock and Work in Progress

a) Stocks of raw materials, partly processed materials, finished products, spares and stores are valued at the lower of cost and net realisable value.

Cost of raw materials, spares and stores is determined at purchase price including delivery charges. Partly processed products are stated at cost of production, including works overheads.

Net realisable value is the price at which the stock can be realised in the normal course of business, after allowing for the cost of conversion from its existing state to a finished condition, and cost of disposal. Provisions are made, where necessary, to cover slow moving and obsolete items.

b) Contract work in progress is valued at cost plus a proportion of the anticipated final profit which has been earned, prudently reflecting the amount of work performed, less foreseeable losses. Cost comprises direct costs and related works overheads.

No profit is included until a contract is sufficiently advanced for the outcome to be reasonably assessed and not before 60% of the work to be done has been completed. Provision is made for all losses likely to be incurred in completing contracts as soon as that likelihood is recognised. A prudent view is taken of claims against the company but no account is taken of any possible claim income until entitlement has been established.

The inclusion of attributable profit in work in progress is in accordance with SSAP 9. This constitutes a departure from the statutory valuation rules for current assets but is required by S.228(5) Companies Act 1985 to enable the accounts to give a true and fair view. As progress payments cannot meaningfully be allocated between cost and profit, it is impracticable to determine the effect of the departure on the balance sheet carrying amount of contract work in progress. As the Company's principal business is long term contracts, no differentiation is made between contracts of more than one year's duration and those of less than one year.

Progress payments are deducted from the value of contract work in progress up to the amount of that value. Any excess, together with loss provisions in excess of the value of contract work in progress, is included in creditors.

## VI Insurance

Legal liabilities to employees and to third parties, including professional indemnity, are protected by insurance in excess of any statutory limits. Building risks, including maritime ventures, are insured as required. All buildings and contents of offices are insured against fire and associated perils but constructional plant is insured on a comprehensive basis. Where appropriate, export credit risks are covered by the Export Credits Guarantee Department. Otherwise, losses are not insured. In these cases, likely losses are charged in the accounts as the likelihood is recognised.

VII Foreign Currencies

Assets and liabilities in foreign currencies are translated into sterling at the quoted rates of exchange ruling at the balance sheet date.

VIII Turnover

Turnover represents the sales value of work done based on monthly measurements of incomplete contracts or invoice value of completed contracts but does not include VAT. This represents a change in policy from previous years when turnover was the amount invoiced for contract work and services rendered. The comparative figures in notes 1 and 2 have been restated to reflect this change in policy.

RGC OFFSHORE PLC

NOTES ON AND FORMING PART OF THE ACCOUNTS AT 30th SEPTEMBER 1985

1. <u>Turnover</u>	Year to Sept 1985 £000	6 months to Sept. 1984 £000
United Kingdom	<u>52,316</u>	<u>26,075</u>
2. <u>Profit for period before taxation</u>		
Turnover	52,316	26,075
Change in stocks and work in progress	(448)	2,761
Materials and sub contractors	(22,362)	(13,498)
Maintenance costs (excluding labour)	(590)	(169)
Employment costs	(13,032)	(6,188)
Depreciation	(575)	(336)
Other operating charges	(9,918)	(8,085)
Sundry income and grants	80	209
	<u>5,471</u>	<u>769</u>
Interest - Receivable	316	409
- Payable	167      149	-      409
PROFIT for the period	<u>5,620</u>	<u>1,178</u>

Included under other operating charges are:

Hire of plant and machinery, including leasing costs	2,839	1,127
Auditors' remuneration including expenses	18	14

3. Emoluments of Directors

The total emoluments, including pension scheme contributions, of Directors of the company were £48,819 (6 months to Sept.1984: £23,381).

Directors emoluments disclosed in accordance with Part V of Schedule 5 of the Companies Act 1985 and excluding pension contributions, are as follows:

	£	£
Emoluments of the Chairman	Nil	Nil
Emoluments of highest paid director	30,000	21,000
Number of other directors whose emoluments		
were within the range Nil to £5,000	4	6
£5,001 to £10,000	1	-
£10,001 to £15,000	1	-

#### 4 Employee Information

The average weekly number of employees on the company's payroll including executive directors during the period is analysed below:

	Year to Sept 1985 Numbers	6 months to Sept. 1984 Numbers
Senior Executives	18	17
Production	800	773
Administration	91	91
	<u>909</u>	<u>881</u>

The total employment costs of all employees in the company including executive directors were:

	£000	£000
Wages and Salaries	11,466	5,114
Social security costs	981	362
Other pension costs	585	712
	<u>13,032</u>	<u>6,188</u>

#### 5. Taxation

Current Year	-	-
Prior Year	-	40
	<u>-</u>	<u>40</u>

- i) No charge for taxation has been made in these accounts, in view of the unutilised tax losses which the company has in hand. The Inland Revenue have not yet accepted that interest received may be offset against earlier trading losses. The taxation involved is £401,000. In the opinion of the directors no liability will fall on the company with regard to this matter and no provision has been made in the accounts.
- ii) The unutilised tax losses carried forward at 28th September 1985 exceed £13,000,000 (September 1984 - £18 Million) and are available against future trading profits.
- iii) In view of the tax losses available to be carried forward no provision for deferred tax is considered necessary.

	Year to Sept 1985 £000	6 months to Sept. 1984 £000
6. <u>Dividends</u>		
Ordinary - interim	<u>5,000</u>	<u>-</u>
7. <u>Capital Commitments</u>		
Capital expenditure not provided for in the accounts is as follows:		
	Sept 1985 £000	Sept. 1984 £000
Commitments in respect of contracts placed Amounts approved by Board of Directors in addition to commitments	415 - -	1,125 364
8. <u>Share Capital</u>		
Authorized Ordinary Shares of £1 each	<u>7,000</u> <u>7,000</u>	<u>7,000</u> <u>7,000</u>
Issued and Fully Paid Ordinary Shares of £1 each	<u>4,300</u> <u>4,300</u>	<u>4,300</u> <u>4,300</u>
9. <u>Other Reserves</u>		
<u>Capital Redemption Reserve</u>	<u>700</u>	<u>700</u>
10. <u>Contract Work in Progress</u>		
Work in progress	32,458	55,832
Amount invoiced to date	<u>32,383</u> <u>75</u>	<u>50,638</u> <u>5,194</u>
11. <u>Debtors</u>		
Amounts falling due within one year		
Trade Debtors	9,641	10,973
VAT	701	296
Prepayments and accrued income	<u>520</u>	<u>413</u>
	10,862	11,682
Amounts falling due after more than one year		
Prepayments and accrued income	<u>88</u>	<u>394</u>
	<u>10,950</u>	<u>12,076</u>

## 12. Creditors

Amounts falling due within one year

	Sept. 1985 £000	Sept. 1984 £000
Trade creditors	4,184	6,502
PAYE	208	347
Social Security	153	225
Other creditors	1,197	3,123
Taxation	-	40
	<u>5,742</u>	<u>10,237</u>

## 13. Pension Scheme

During the period covered by these accounts pension arrangements were as follows:

(a) Staff employees were members of British Steel Corporation Pension Scheme for the period 1st October 1984 to 31st March 1985. This Scheme is invested and administered independently of the Corporation. The latest actuarial valuation was carried out at 31st March 1984 and disclosed that the scheme was adequately funded. From 1st April 1985 staff employees were members of the Trafalgar House Group Pension Fund under which contributions paid by employees and employers are held in funds which are separate from the groups finances and which are administered by Trustees. Actuarial reports as at April 1985 have confirmed the adequacy of the basis of funding the scheme to meet current and prospective liabilities.

(b) A separate pension plan exists for manual employees. Participation in the plan is on a voluntary basis and the level of contribution is also at the discretion of each employee. All contributions are invested individually for each employee either in an insurance policy or a building society account. The company will match the contributions made by each employee who was a member of the British Steel Corporation Pension scheme, up to a maximum of £9 per week.

## 14. Ultimate Holding Company

With effect from 1st October 1984 the ultimate holding company became Trafalgar House Public Limited Company.

15. Tangible Fixed Assets

	Land and Buildings Short Leasehold	In course of Construction	Plant, Machinery Equipment & Vehicles	Total
	£000	£000	£000	£000
<u>Cost or Valuation</u>				
At 30 September 1984	10,664	695	8,106	19,465
Additions in the year	1,352	-	886	2,218
RDG	(1)	-	(13)	(14)
Disposals	-	-	(220)	(220)
Transfers to Group Companies	-	-	(155)	(155)
Transfers to Land & Bldgs.	695	(695)	-	-
At 30 September 1985	12,690	-	8,604	21,294
at valuation	11,359	-	-	11,359
at cost	1,331	-	8,604	9,935
<u>Depreciation</u>				
At 30 Sept. 1984	1,859	-	7,540	9,399
Charge for period	427	-	148	575
Disposals	-	-	(220)	(220)
Transfer to Group Companies	-	-	(30)	(30)
At 30 September 1985	2,286	-	7,438	9,724
Net Book Value at 30 September 1985	10,404	-	1,166	11,570
Net Book Value at 30 Sept. 1984	8,805	695	566	10,066

- (i) Interests in short leasehold land and buildings were revalued by the directors at 30th September 1984.
- (ii) The amounts shown do not include leased plant and machinery with an estimated capital value of £3.1 million (Sept. 1984: £3.4 million)
- (iii) Included in plant and machinery are assets with an original cost of approximately £6,163,000 which are fully depreciated (see note III).