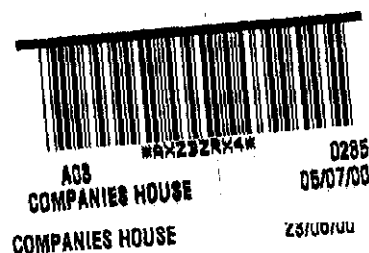
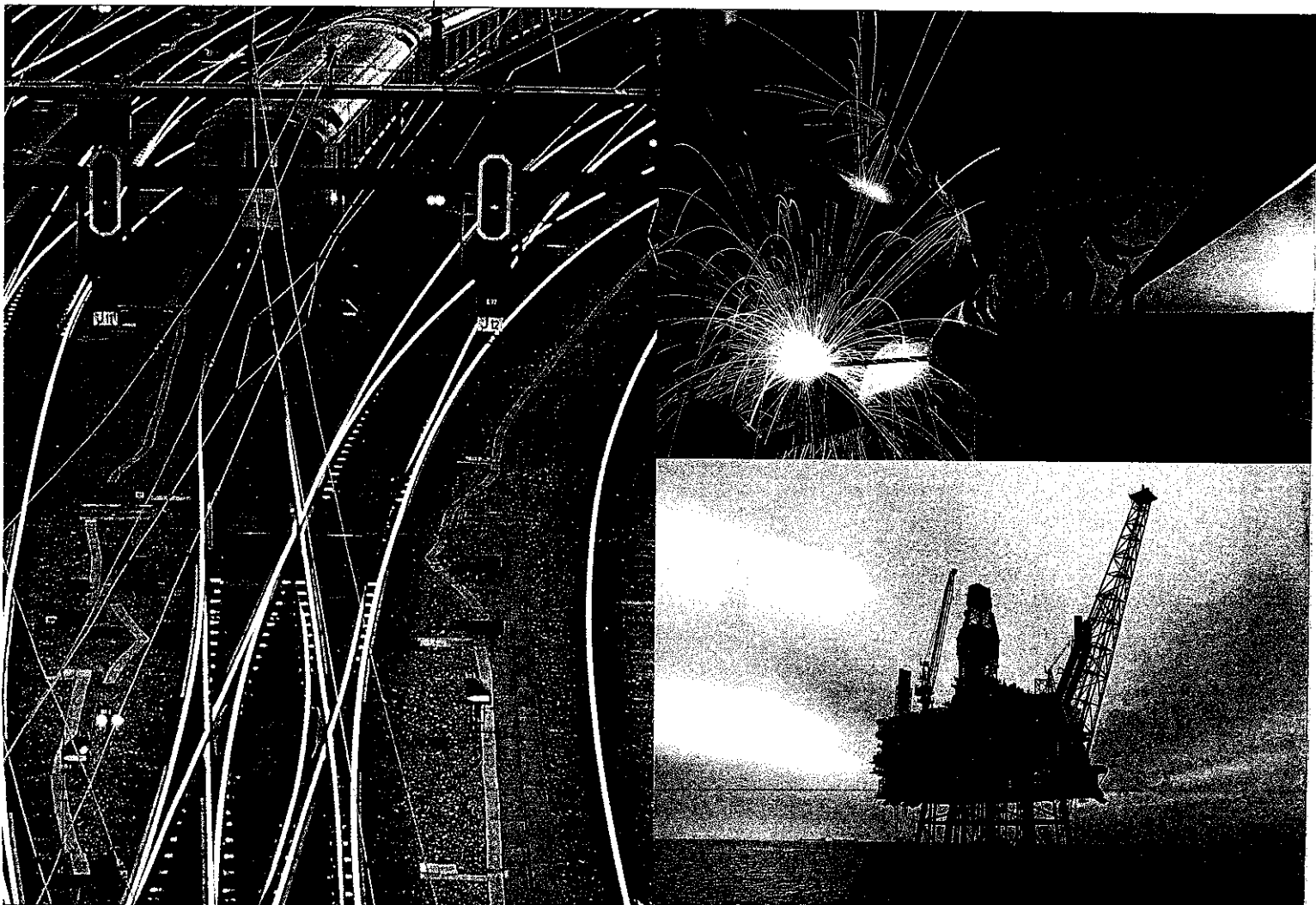


## h i g h l i g h t s

- Shell tender – £200 million 5 year contract for Drilling Division
- Significant contract successes for Inspection Division
- Profit after tax, excluding goodwill amortisation, for the year ended 31 December 1999 was £10.4 m (1998: £13.1 m)
- Adjusted earnings per ordinary share, before goodwill amortisation, were 7.2p (1998: 9.1p)
- An improving outlook after a difficult year
- A firm foundation for future growth built in difficult conditions
- Investment in US software technology company announced





We are now experiencing higher levels of activity across the Group, and we expect to see an increasing rate of progress towards the second half of the year.

We are therefore confident that the current year will demonstrate a good improvement over 1999.

## abbot at a glance

### K C A

are leading providers of drilling, well intervention and engineering services primarily in the international oil and gas industry. It is the leading UK platform drilling contractor, operating 25 rigs on 23 platforms in the UK, an increase during the year of 6 rigs, representing nearly 50% market share. Internationally KCA operates in Libya, both offshore, on the Agip Bouri field, and onshore with 3 workover rigs, and in Tunisia.

With the dramatic changes over the last 10 years in the international oil industry, KCA has responded proactively and established the new "skillsets" required to manage integrated drilling projects and invested heavily in facilities engineering, well engineering and operation expertise, combining traditional drilling contractors skills with oil company expertise and insight.

### CLIENTS INCLUDE

Shell  
ExxonMobil  
TotalFina  
Kerr McGee  
Britannia Operator Ltd  
Chevron  
AIOC  
Agip

### O I S

operates throughout the UK with a branch network of 14 offices and headquarters in Aberdeen. It has established offices in the Middle East and Far East and a major presence in South Africa through a network of offices. The company's range of services include non destructive testing, inspection management, structural surveys, pipeline inspection, rail/linear asset inspection, pressure testing, rope access, engineering, heat treatment and

mechanical testing, using the latest technology available.

Industry in general now requires ever higher standards of safety and integrity in order to satisfy stringent statutory and environmental obligations. OIS has responded with innovative engineering solutions which coupled with increasing investment in equipment information technology and training enables the company to provide customers with value added service.

### CLIENTS INCLUDE

BP Amoco  
Talisman  
TotalFina  
Conoco  
PowerGen  
British Energy

### B W

is a provider of integrated fluids management services and associated technical and engineering services to the upstream oil and gas industry. The success of the company is based on innovative products and technical solutions developed through focused research and reliable, responsive service. BW offers proven consistent quality performance and long term technical support.

BW has developed and pioneered the use of many technically and environmentally successful systems from ultra low oilwater ratio invert emulsion fluids to the first modern silicate fluids with enhanced lubricant technology.

BW operates in the UK and Irish sectors, in North and West Africa.

### CLIENTS INCLUDE

BP Amoco  
Talisman  
Lasmo  
ExxonMobil  
Enterprise  
BHP

### POWERGEN RENEWABLES

PowerGen Renewables Holdings Limited (a 50/50 joint venture between PowerGen Investments Ltd and Abbot Group plc), operating through its subsidiaries, are leading owners and developers of wind farms in the UK and Eire.

It currently operates 11 wind farms and a further 3 are under construction, and holds planning consents or energy sales for 200 MW of new developments throughout the UK and Eire.

Advances in technology, increases in experience, and a gradual decrease in cost have combined to create new opportunities for offshore wind farm development and an anticipated growth in this area.

Since the UK has possibly the best offshore wind resource in Europe a sizeable resource is being directed towards new offshore developments.

### OPERATIONAL SITES

Cumbria  
Northumberland  
Yorkshire  
Wales  
Northern Ireland  
Norfolk  
Cornwall

## chairman's statement

for the year ended 31 December 1999

The substantial commercial successes secured in 1999 have been built upon in the current year, and we anticipate achieving further considerable progress in our drive to grow our business internationally.

As indicated in my interim statement, the decline in activity, and therefore earnings, across all the Group companies continued in the second half of 1999, leading as expected to a lower overall result for 1999 than in the comparable period last year. However the Group remains profitable and in a strong financial position, with a core business based on firm long term contracts.

### RESULTS

Turnover for the year was £158 million (1998: £191 million) with operating profit, before goodwill amortisation, of £11.3 million (1998: £18.4 million).

Excluding goodwill amortisation, the drilling division contributed operating profit of £11.3 million (1998: £14.9 million), the inspection division £0.5 million (1998: £2.7 million) and drilling fluids broke even (1998: £0.9 million). The wind power division generated £0.6 million in its first year.

Goodwill amortisation doubled to £2.2 million (1998: £1.1 million). The net tax charge amounted to £1.2 million (1998: £4.9 million) after the release of a £2.0 million provision relating to prior years no longer required.

Profits for the year, excluding goodwill amortisation, were £10.5 million (1998: £13.2 million), a fall of 20%. Adjusted basic earnings per share, excluding goodwill amortisation were 7.2p (1998: 9.1p).

### DIVIDEND

In considering the current financial strength of the Group and its

prospects for the coming year, the directors are recommending a final dividend of 2.2p per share, which together with the interim dividend of 1.1p already paid will make a total of 3.3p per ordinary share, an increase of 10%. If approved, the final dividend will be paid on 9th June 2000 to eligible shareholders on the register at 12th May 2000.

### STRATEGIC DEVELOPMENT

The Group has maintained its aggressive drive to reduce dependency on the North Sea by a major push into selected international markets. In parallel there has also been a continuing effort put into the growth of new but related business areas for the inspection business.

North Africa, the Middle East and the Caspian region continue to be areas of immediate focus with some change in emphasis as developments have occurred. Iran is considered to be a major source of future growth with 43 buy-back opportunities being offered and slowly awarded to Western oil companies creating opportunities for the three Group companies.

Libya is now opening up for Western oil companies to develop significant fields both on and offshore. This, as in Iran, will provide significant medium term growth with the added advantage of remaining closed to US contractors and service companies.

The development of the Caspian region has been delayed by problems over export routes, the low oil price and the lack of exploration hardware, although there are now significant signs of a speeding up of activity and thereby growth in this area.

Technical diversification, particularly relating to the inspection division, is firmly underway as with anticipated significant changes in electricity generation we see some shifts in OIS's core business in England and Wales.

#### SUMMARY AND CONCLUSION

The substantial commercial successes secured in 1999 have been built upon in the current year, and we anticipate achieving further considerable progress in our drive to grow our business internationally. As part of this drive we have today announced a \$5m rig refurbishment and drilling programme contract on the Casablanca platform, offshore Spain. These successes will continue to underpin the Group in the medium to long term. Recent changes in the government's approach to renewable energy will, in our opinion, enhance our joint venture company's ability to develop substantial offshore wind farms and therefore become a more significant part of the Group.

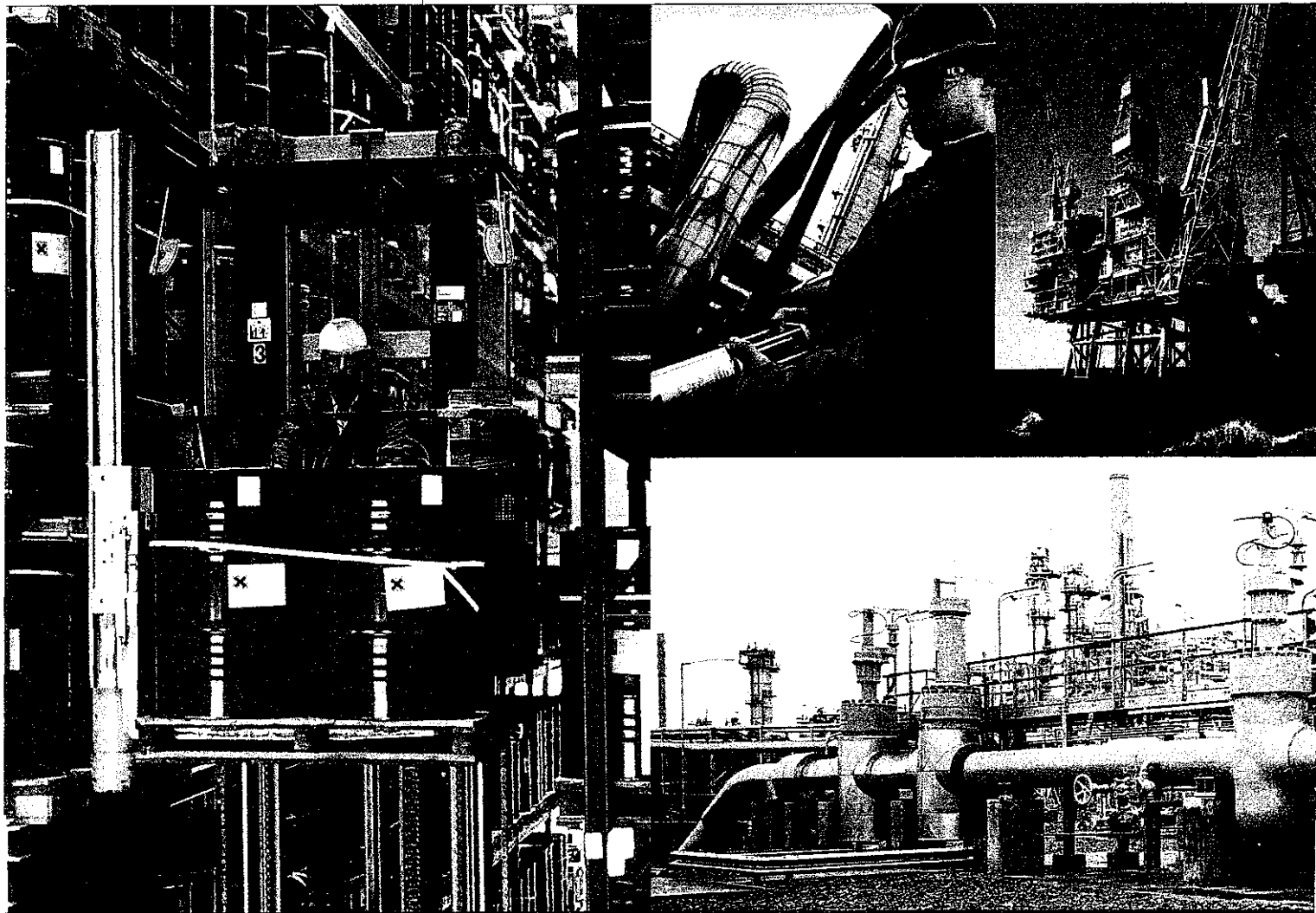
We have today separately announced an investment in Spear Technologies Inc., a California software technology company, which we believe will considerably expand our activities in the provision of inspection, maintenance and database management services for the transportation industry and in particular the railway industry. This investment has a significant long term potential for the Group.

We are now experiencing higher levels of activity across the Group, and we expect to see an increasing rate of progress towards the second half of the year. We are therefore confident that the current year will demonstrate a good improvement over 1999.

Alasdair J.D. Locke

*Executive Chairman*

13 March 2000



The Group's core business is based  
on firm long term contracts.

## operating review

for the year ended 31 December 1999

### DRILLING DIVISION

KCA's success in April in winning a major new drilling contract with Shell Expro gives it access to up to nine platforms in the "new" Northern Business Unit, which combines the old Northern Business Unit and the Brent Field Platforms. This critical strategic contract, valued in excess of £200 million over 5 years, continues to provide KCA with significant core business in terms of drilling facilities engineering and upgrade, well engineering and integrated project management, all under an incentivised contract mechanism.

Although activity levels on the Ninian field, now operated by Kerr McGee (formerly Oryx), were initially curtailed, activity levels were increased as the year progressed enabling the new incentive mechanisms agreed in late 1998 to deliver to expectations. Activity within the Chevron Alba and Britannia fields remained constant throughout the year, with full crews.

KCA also achieved another significant contract award with TotalFina for the management and operation of two rigs on the Alwyn Platform for a period of three years with options to extend. This project started up in October and following initial workover operations, full drilling commenced in early 2000. Again, this contract contains an incentivised workscope, affording the ability to enhance margins from improved performance.

Overall KCA's strong market position in the UK Continental Shelf, being contracted now on 23 installations, leaves it well placed to benefit from increasing activity levels going forward.

Overseas operations were unaffected by the oil price downturn, with the three land rigs in Libya continuing throughout the year, and the operations on the Bouri Platform experiencing uninterrupted work. The drilling programme for this platform

is anticipated to continue to July 2000. However, AGIP have released funds to carry out a feasibility study for 4 further wells and 2 sidetracks to follow later in 2000.

The project in Azerbaijan for AIOC (now BP Amoco as operator) continued with its limited engineering activities. With the signing of the inter-government agreement on main oil export routes, there are significant grounds for optimism that the project will now proceed in 2000.

KCA made steady progress in its strategy to increase its international operations base, devoting significant marketing effort in its target regions of North and West Africa, the Caspian Region and Iran. Further opportunities in Libya are being addressed in co-operation with the National Workover and Drilling Company with whom KCA has submitted joint bids for future significant work.

Foundations for further international work have been laid in Iran where the signing of a Memorandum of Understanding with the National Iranian Drilling Company and intensive marketing and tendering activity has led to the receipt of a letter of intent from a Western client for a significant development drilling contract within the country.

The Well Services division also achieved some success by winning all of Phillips North Sea slickline work, while sustaining high levels of activity with Chevron, Britannia Operator and Marathon Ireland. Well Services is also marketing its services internationally alongside the drilling division with significant opportunities and synergies identified as clients adopt integrated services contracting strategies.

## operating review

(continued)

### INSPECTION DIVISION

OIS International Inspection had a varied year with significant reduction in activity in some areas, balanced by substantial commercial success providing a strong foundation for the future.

Although the first two months of 1999 saw OIS perform satisfactorily, the downturn in activity in the upstream oil and gas segment, and the deferments of work in the downstream petrochemicals area, had a serious impact on the division's performance in the subsequent periods.

The more traditional business streams were the areas most affected by the downturn in upstream oil and gas activity and deferments in the petrochemicals areas also affected planned work. The management made a conscious decision in the light of the nature of the deferments to cut margins on some short term contracts in certain geographical areas in order to win new contracts and expand the client base.

The traditional NDT areas achieved some success with the award of a new build inspection contract for Conoco at Immingham, and a BP Chemicals contract at Hull which also included the management of a BP Amoco NDT facility.

OIS continues to be a major provider of NDT services to the power generation market including gas fired, coal fired and nuclear power stations. Towards the end of the year British Energy placed a contract with the company for the provision of automated NDT services at its gas cooled reactor power stations and its PWR station at Sizewell.

OIS was very successful in other areas of its upstream business gaining contracts with Talisman, DNV/Conoco and in particular, BP Amoco for Independent Inspection Authority and similar contracts for a very wide range of offshore installations. The BP Amoco contract alone is worth in the region of £8 million per year.

These contracts are also significant in that they increase OIS's capability in the higher technical level inspection management area, and usually include elements of corrosion engineering and management as well.

Software developed by OIS is a significant part of these contracts, particularly BP Amoco, which is also seen as a strategic contract in the context of worldwide expansion.

Internationally OIS also made progress in the Middle East with the thrust to move the business onward from traditional NDT activities where competition is intense, with the award of a Risk Based Inspection contract with QGPC in Qatar.

In South Africa OIS concluded the acquisition of Cooperheat South Africa for SA R6,000,000 (£600,000), consolidating its position in the heat treatment market there.

During December 1999 OIS concluded the sale of its 49% share in OIS-Fisher Inc, the joint venture in Newfoundland, Canada, to our partner for CDN \$3.0 million (£1.3 million) of which £1.0 million was paid immediately, with the balance to follow in two years time. There are perceived to be significant opportunities in the United States for OIS, which can now be pursued where previously activity was constrained by agreements with OIS-Fisher.

A most significant contract was awarded in August by GTBB Joint Venture to OIS's Surveys division for the provision of an engineering survey of Railtrack's West Coast main line electrification upgrades. This is a success for the newly set up division which is seen as a rational development of the technical skills of the company. The management anticipates some significant work from the railway industry in the future.



## operating review

(continued)

### DRILLING FLUIDS DIVISION

January and February 1999 proved to be encouraging months for BW Group, however, activity was not to be sustained with a constant drop off in wells drilled over the year. BW's lack of exposure to the exploration market had enabled a satisfactory performance to be achieved for 1998, but with the bottoming of oil prices in February 1999, activity inevitably fell away so that the middle two quarters were flat. There are now indications of activity picking up in 2000 which will, we believe, enable BW to capitalise on a major contract win with BP Amoco for the provision of services on five or more fields.

BW retained its contract with Enterprise albeit with some margin pressure which was balanced to a degree by some additional scope which should deliver results in 2000. It is anticipated that the ExxonMobil contract will be renewed for a further year.

BW's joint venture in Tunisia delivered its first significant contracts, one of which for NIMIR Petroleum involved one of the first HPHT wells in the area. There was some significant onshore and offshore work in Tunisia, coupled with the first product sales into Algeria. The company has plans to expand these activities into Libya and further into Algeria with the establishment of an operating base in Hassi Messaoud.

BW's engineering expertise was used, for the first time, by Conoco for a particular Southern North Sea well.

With the retention of work for ROC and Archean for onshore wells in the UK, in spite of current margin pressures, we are confident that BW is well placed for significant improvement as activity levels lift in the medium term, however, the outlook for 2000 is for modest returns overall.

### WIND POWER DIVISION

PowerGen Renewables Holdings Ltd, the Group's wind power joint venture company with PowerGen, brought a further new wind farm on line during the year, which together with the acquisition of the wind energy interest of Yorkshire Power brings the number of owned or operated wind farms at the end of the year to 11.

A further two projects have been committed to following successful planning applications; Lowca (5 MW) in Cumbria, and Tursillagh (15 MW) in Co Kerry, both of which were under construction at the year end. A further 15 MW project has received planning consent in Scotland but awaits resolution of connection matters before financial commitment. Approximately 100 MW is under planning determination in England, Scotland & Wales and if successful should be available for construction in 2000-2001.

Development has commenced on a small offshore pilot scheme adjacent to Blyth harbour in Northumberland. PowerGen Renewables partners on this project are Shell, Nuon and Border Wind, all of whom are participating in the project to gain experience of the offshore environment in this context.

Considerable progress has also been made on the technical and environmental work required to bring the significant Scroby Sands offshore wind farm project to the point of development. Further offshore developments are being examined in UK and Irish territorial waters, while in a joint venture with Saorgus Energy Ltd in the Republic of Ireland planning consents have been awarded for a further 3 wind farms (15-25 MW each).

Michael J.L. Salter

*Chief Operating Officer*

13 March 2000

## financial review

for the year ended 31 December 1999

### RESULTS

Due to the reduced levels of activity across all three divisions, turnover for the year was £158 million (1998: £191 million), a fall of 17%, and operating profits before goodwill amortisation fell by 39% from £18.4 million to £11.3 million.

In respect of the drilling division, activity levels measured by number of operating string months fell from 212 in 1998 to 172 in 1999, with a resultant fall of 24% in operating profits before goodwill amortisation to £11.3 million (1998: £14.9 million) although operating profit margin remained almost unchanged at 11.0%. Overseas turnover accounted for 6% of the total.

Although the inspection division's fall in turnover was less than 3% overall, margins were particularly squeezed in the upstream and downstream oil business in the UK, such that the operating profit margin before goodwill amortisation fell to 1.2% (1998: 6.5%). Overseas turnover accounted for 30%, with work being carried out in a total of 52 countries worldwide. The drilling fluids division suffered from both a fall in activity and a squeeze on margins particularly in the second half of the year, such that the division broke even for the year.

The first year of the joint venture with PowerGen resulted in the wind power division producing operating profits of £0.6 million. Over £0.3 million net was expensed during the year in respect of development costs incurred regarding potential new onshore and offshore wind farm projects.

The total goodwill amortisation charge for the year, including the PowerGen joint venture, was £2.2 million (1998: £1.1 million). The 100% increase was due to a full year's amortisation charge in respect of the goodwill on the acquisition of BW acquired in June 1998, and a £0.2 million charge regarding the PowerGen joint venture.

In December 1999, the Group sold its 49% share in OIS-Fisher

Inc., a Canadian company operating in the inspection business principally in Newfoundland. The total consideration was CDN \$3 million (£1.3 million), of which £0.3 million is deferred consideration receivable in 2001, resulting in a net gain on sale of £0.9 million, after allocation of goodwill.

The net interest charge for the Group was £1.3 million (1998: £0.5 million), including £0.3 million (1998: £nil) in respect of the PowerGen joint venture.

The overall tax rate for the year, based on pre-tax profits excluding goodwill, of 10% was reduced due to the release of a £2.0 million taxation provision no longer required due to the agreement of certain liabilities from the early 1990's.

The directors are recommending a final dividend of 2.2p per ordinary share, giving a total of 3.3p dividend for the year, an increase of 10% over 1998.

### INVESTING FOR THE FUTURE

In the second half of the year new premises on a site adjacent to Abbot/KCA's Aberdeen headquarters were acquired at a cost of over £1.8 million. The inspection division will be relocating their headquarters to the new site after the completion of an expansion to the warehouse and workshop facilities. It is also planned that during the course of 2000 the drilling fluids division will relocate their operations to the Abbot/KCA headquarters.

The two sites being vacated, with a combined book value of over £1.5 million, are currently up for sale. By centralising the Group's Aberdeen activities in one location certain economies will be achieved in respect of operational and administrative efficiencies.

With the award to the drilling division of the new Shell Northern Field Unit contract covering 9 platforms and the requirement for the provision of a larger mobile tool package,

## financial review

(continued)

it was decided to sell the existing Shell mobile tool package, book value £3.4 million, to a specialist third party tool rental company. KCA now rents in the enlarged package on an as required basis and on rents this to Shell.

Approximately £3.7 million was spent across the Group on fixed asset additions, excluding property, analysed £2.5 million, £0.9 million and £0.3 million over the inspection, drilling and drilling fluids divisions respectively.

### CASH FLOW AND FINANCING

The Group's financial instruments, excluding the external financing arranged within the PowerGen Renewables joint venture, includes both floating rate loans for £14,050,000, maturing over 3 to 10 years, and a depleting level of convertible fixed interest preference shares with a book value of £1,255,000. The interest and capital repayments on these instruments are met through operating earnings. The Group also utilises certain bank overdraft facilities for working capital management.

Total debt reduced by £2.8 million during the year, with the term loan reducing by £3.5 million. An additional facility of £1.8 million, repayable over 10 equal annual instalments, was taken out to finance the acquisition of the premises for OIS. An interest rate of base rate plus 1% is being incurred on all the UK bank term loans and overdraft borrowings.

The Group's net cash/overdraft position at 31 December 1999 is made up of a net £ sterling overdraft of £0.5 million, US Dollar balances of £1.4 million and other foreign currency balances of £0.9 million.

As agreed when entering the joint venture with PowerGen, a refinancing exercise was undertaken in the second quarter of 1999 in order to repay existing PowerGen loans of £14.5 million and to finance the future expansion of the business. A new facility for £48.0 million has been put in place of which £18.9 million was drawn at 31st December 1999. Such investment is on a 3:1 debt/equity ratio. The loan is non-recourse and secured over the joint venture's assets.

The most significant treasury exposures facing the Group are interest rate risk and foreign currency risk. The Group's policy is typically not to enter into complex derivatives transactions, such as interest rate swaps and forward foreign currency contracts, to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. Any such transactions that are undertaken are minimal and short term in nature and are only entered into if they relate to underlying exposures and are not viewed as speculative.

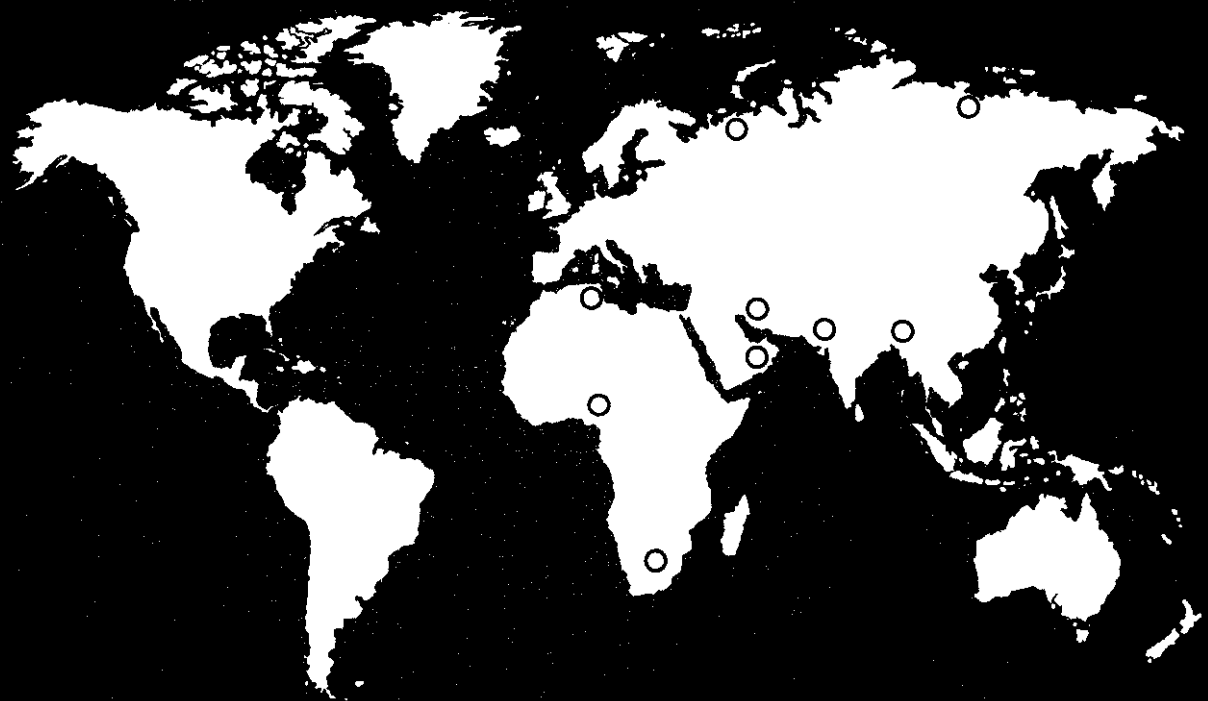
Senior management regularly review the net exposure to interest rate and currency risk and actively consider whether the adoption of appropriate financial derivatives to address these risks is required.

Peter J. Milne

*Finance Director*

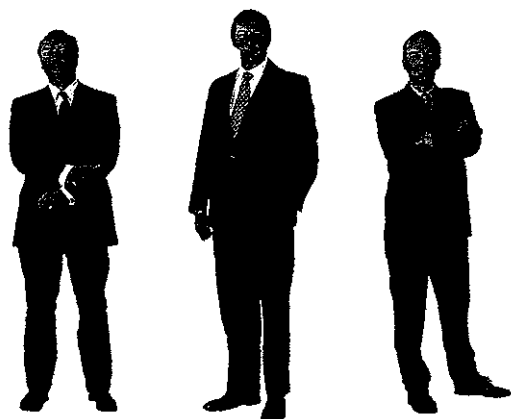
13 March 2000

The Group has maintained its aggressive drive to reduce dependency on the North Sea by a major push into selected international markets.



## directors' report

for the year ended 31 December 1999



Alasdair J. D. Locke  
Executive Chairman

Michael J. L. Salter  
Chief Operating Officer

Peter J. Milne  
Finance Director

The directors present their annual report on the affairs of Abbot Group plc ("the Company") and its subsidiary undertakings (together "the Group"), together with the consolidated accounts and auditors' report, for the year ended 31 December 1999.

### PRINCIPAL ACTIVITIES

The Group's principal activities are the provision of drilling and related well and facilities engineering services, drilling fluids, and the provision of non-destructive testing and inspection services, on a world-wide basis, principally to the energy industry. Other business activities, by way of joint venture, include the generation of electricity from renewable energy sources.

The subsidiary and joint venture undertakings principally affecting the results or net assets of the Group in the year are set out in note 14 to the accounts.

### BUSINESS REVIEW

A review of the Group's performance and comments on the financial results and outlook for the future are contained in the Chairman's Statement and the Operating and Financial Reviews.

### RESULTS AND DIVIDENDS

The Group made a profit on ordinary activities before taxation of £9,367,000 (1998: £16,939,000). The audited accounts for the year ended 31 December 1999 are set out on pages 24 to 55.

The directors recommend a final dividend of 2.2p (1998: 2.0p) per ordinary share to be paid on 9 June 2000 to ordinary shareholders on the register at the close of business on 12 May 2000, which, together with the interim dividend of 1.1p (1998: 1.0p) paid on 5 November 1999, makes a total of 3.3p per ordinary share for the year (1998: 3.0p). Dividends of 7.25p (1998: 7.25p) per preference share were also paid in the year.

### SHARE CAPITAL

During the year options were exercised in respect of 907,550 ordinary shares, and 968,224 preference shares were converted into 774,579 ordinary shares.

Full details of the movements on share capital are given in note 22 to the accounts.

### DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as follows:

A.J.D. Locke	(executive chairman)
M.J.L. Salter	(chief operating officer)
P.J. Milne	(finance director)
J.W. Hollis	(appointed 1 August 1999)
G.D. Lafferty	
M.A. McDowell	
G.M. Philipps	

The interests of the directors in the ordinary shares and options of the Company, except as disclosed below, are disclosed in note 7.

## directors' report

(continued)

### YEAR 2000

The Group put in place a programme to address potential year 2000 issues. The total cost was some £600,000, of which £175,000 has been expensed.

The Group did not experience any problems across its range of computer operating systems with the date rollover.

### SUBSTANTIAL SHAREHOLDINGS

At 13 March 2000 the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests of 3% or more in the ordinary share capital of the Company:

	Number of ordinary shares	Percentage held %
Mr A.J.D. Locke	40,000,000	27.62
Iskut Investment Holdings Limited *	5,150,701	3.56
Iskut Investment Company Limited *	533,412	0.36
CGU Plc	5,088,000	3.51

\* These companies are beneficially owned by Mr Leif O. Hoegh.

### SUPPLIER PAYMENT POLICY

The Group policy is to agree terms of payment with suppliers prior to entering into contractual relationships and to abide by those terms of payment. As the Company is principally a holding company it has no trade creditors and accordingly no disclosure is made of the year end creditor days.

### DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes and abilities of the applicant. If employees become disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

### HEALTH AND SAFETY AT WORK

The well-being of the employees is given the highest priority throughout the Group and it is the Group's policy not only to comply with health and safety measures, as required by law, but to act positively to prevent injury and ill health, and damage to the environment arising from its operations.

### DIRECTORS' RESPONSIBILITIES

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 the Group, and of the profit or loss of the Group for that year. 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; and

## directors' report

(continued)

- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group 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 enable them to ensure that the accounts 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.

### ANNUAL GENERAL MEETING

The notice convening the annual general meeting to be held on 9 May 2000, which can be found on page 56, contains details of a special resolution empowering the directors to allot relevant securities for cash up to a maximum nominal amount of £1,086,319.

### PURCHASE OF OWN SHARES

The Company is taking this opportunity to seek authority to purchase its own ordinary shares.

The Directors now propose that the Company be authorised to purchase a maximum of 14,484,256 ordinary shares (representing just under 10% of such shares in the share capital of the Company in issue as at 13th March 2000) within the limits described in Resolution 9 contained in the notice of the Annual General Meeting. It is intended that purchases will only be made on the London Stock Exchange. This should not be taken to imply that shares will be purchased. The directors believe that it is in the best interests of all shareholders that the Company should have the flexibility to make market purchases of its own shares.

The effect of such purchases would be to reduce the number of shares in issue and the directors would accordingly only make such purchases after considering the effect on earnings per share and the benefit for longer-term shareholders.

### AUDITORS

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board,

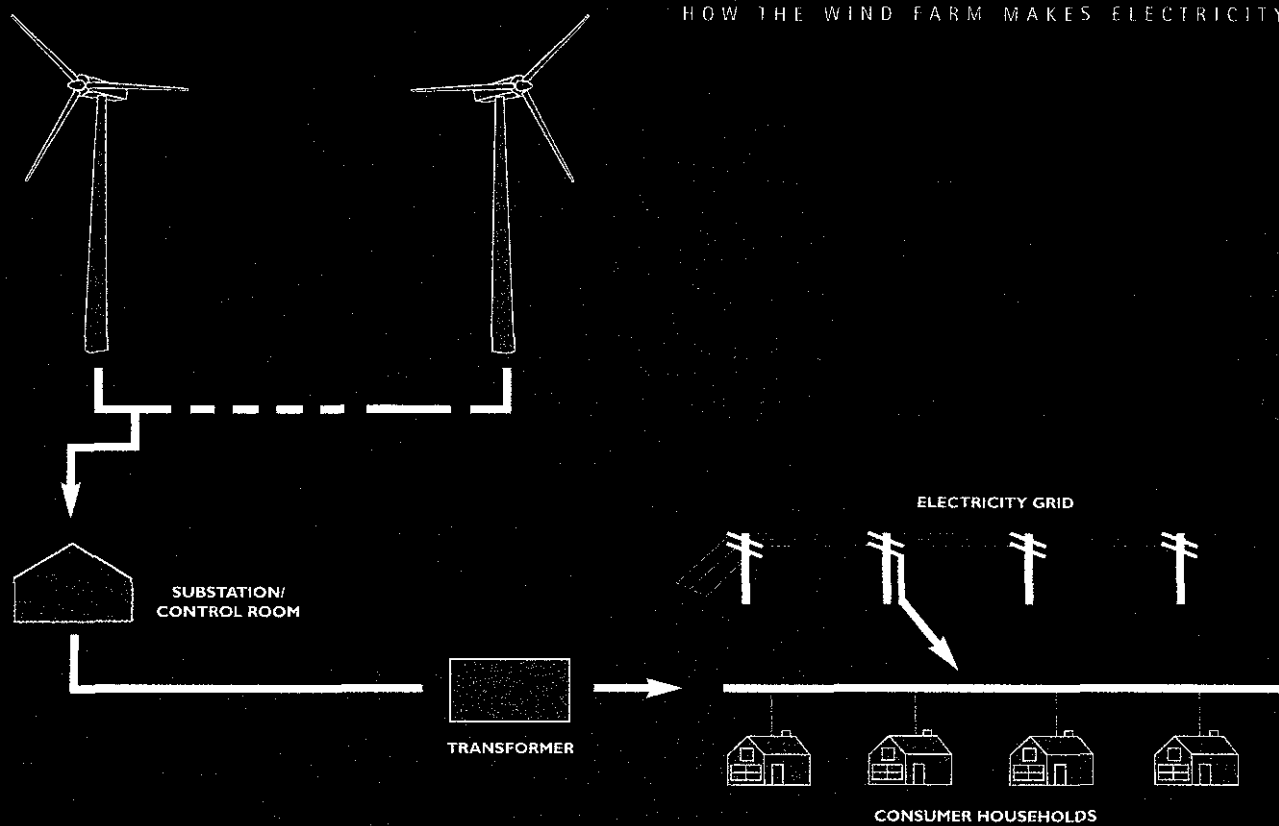
Alec W.J. Banyard,

Secretary

3 Colmore Circus, Birmingham B4 6BH

13 March 2000

# HOW THE WIND FARM MAKES ELECTRICITY



-  OPERATIONAL WIND FARMS
-  SITES UNDER CONSTRUCTION
-  PROPOSED OFFSHORE DEVELOPMENTS



## corporate governance

In June 1998 the Hampel Committee and the London Stock Exchange published the Combined Code on corporate governance. This combines the Cadbury Code on corporate governance, the Greenbury Code on directors' remuneration and new requirements arising from the findings of the Hampel Committee.

### STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year with the Provisions of the Code of Best Practice set out in section 1 of the Combined Code, except that as Executive Chairman, Alasdair Locke has certain responsibilities often associated with a Chief Executive Officer (CEO). The Board believes this to be appropriate since due to his significant shareholding, his interests are closely aligned with those of most other shareholders. Responsibility for operational matters rests with Michael Salter, Chief Operating Officer; the Board has nominated Guy Lafferty as senior non-executive, who together with Geoffrey Philipps and John Hollis provide strong independent advice.

### STATEMENT ABOUT APPLYING THE PRINCIPLES OF GOOD GOVERNANCE

The Company has applied the Principles of Good Governance set out in section 1 of the Combined Code by complying with the Code of Best Practice as reported above. Further explanation of how the Principles have been applied is set out below and, in connection with directors' remuneration, in the Remuneration Report.

### DIALOGUE WITH SHAREHOLDERS

The Company has a well established programme of meeting with

substantial investors and brokers, including presentations in respect of both the interim and annual reports and holding discussions in respect of future growth and strategy.

### BOARD OF DIRECTORS

The Board of directors at 13 March 2000 comprises seven directors: three executive directors and four non-executive. A schedule of items reserved for the full Board's approval is in place, which includes, inter alia, the approval of annual and interim results, significant transactions, major capital expenditures and the yearly business plan and budget. Matters are delegated to the audit and remuneration committees, as appropriate, including those detailed below. Being a small Board, the nomination and appointment of new directors is a matter for the Board as a whole.

### AUDIT COMMITTEE

Non-executive members: Guy D. Lafferty (Chairman), Michael A. McDowell, Geoffrey M. Philipps.

The committee's terms of reference are principally concerned with accounting matters, financial reporting and internal controls. The committee meets not less than three times a year to review all significant judgements made in the preparation of the half-yearly and annual accounts, before they are submitted to the Board. It agrees with the auditors the nature and scope of their work and discusses with them the results thereof. The committee has the power to seek external advice as and when required.

John Hollis has accepted the Board's invitation to join the audit committee as from the date of its next meeting, with Geoffrey Philipps stepping down.

## corporate governance

(continued)

### REMUNERATION COMMITTEE

Non-executive members: Geoffrey M. Philipps (Chairman),  
Guy D. Lafferty.

The committee's terms of reference are principally concerned with the remuneration (in all its forms) of main board directors and other senior executives of the Group.

The committee meets not less than once a year and with the assistance of information provided from external sources and from sources within the Company ensures that the salary, benefits and pension arrangements of the executive directors, together with awards under any share incentive plan, share option or other similar schemes are appropriate. John Hollis has accepted the Board's invitation to join the remuneration committee as from the date of its next meeting.

### INTERNAL CONTROL

The Board of directors is ultimately responsible for the Group's system of internal control. The Combined Code introduced a requirement that the directors review the effectiveness of the Group's system of internal control and that this review should cover not only internal financial controls, as was the previous case, but all controls including in addition, for example, operational, health and safety, compliance, and risk management.

In accordance with "Internal Control: Guidance for directors on the Combined Code" (the Turnbull guidance) which was published in September 1999, the directors have taken advantage of the London Stock Exchange's transitional rules.

The Board confirm that they have established procedures to implement the Turnbull guidance such that they can fully comply with it for the year ending 31 December 2000.

A Risk Management Committee has been set up, comprising John W. Hollis (Chairman), Peter J. Milne and Alec W. J. Banyard. Its role, on behalf of the Board, and in conjunction with the Audit Committee, is to review the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed. Line management are responsible for the process of identification and evaluation of significant risks, assessing the design and operation of suitable internal controls, and the integration of this process into the day to day operations of the Group.

To date through a series of workshops at Group and subsidiary company board levels, the significant risks have been identified and evaluated and procedures put in place whereby the risks are regularly assessed and reported upon up through increasingly higher levels of management and finally, to the Board.

### INTERNAL FINANCIAL CONTROLS

The Board of directors has overall responsibility for ensuring that the Group maintains a system of internal financial control to provide them with reasonable assurance regarding the maintenance of proper accounting records, the reliability of the financial information used within the business and for publication and that assets are safeguarded.

There are inherent limitations in any system of internal financial control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

## corporate governance

(continued)

The key internal financial control procedures are as follows:

### MANAGEMENT

#### INFORMATION SYSTEMS

Incorporating planning, budgeting and forecasting systems and a monthly review of actual results compared with budget.

#### GROUP CONTROLS

Accounting systems and controls are in place throughout the Group and are monitored on a regular on-going basis.

#### ORGANISATION

There are well structured financial and administrative functions at both head office and subsidiary level staffed by appropriately qualified personnel. These functions include Group accounting, central treasury management and company secretarial roles.

All functions report to the Board of directors on a regular basis to provide assurance that their respective areas of responsibility are adequately controlled.

The Group regularly reviews the need for an internal audit function. The Audit Committee reviews the operation and effectiveness of this framework on a regular basis.

#### GOING CONCERN

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

## remuneration report

As well as complying with the Provisions of the Code as disclosed in the Company's corporate governance statements, the Board has applied the Principles of Good Governance relating to directors' remuneration as described below.

The membership and terms of reference of the Remuneration Committee are disclosed in the section on Corporate Governance on page 17.

### REMUNERATION POLICY

The Company has complied throughout the year with Section A "Remuneration committees", and Section B "Remuneration policy, service contracts and compensation" of the best practice provisions on directors' remuneration annexed to the listing rules.

The policy of the Committee is to ensure that the total remuneration packages of executive directors and senior executives reflect the size, performance and complexity of the Group's business and the contribution of the individual job-holders. The Committee receives advice from external sources to help them in this process.

The directors believe that an important element of remuneration at the executive level is participation in an incentive plan, so as to:

- provide an additional incentive to management;
- attract and retain management of the quality required
- reward management on a basis consistent with the Group's performance.

### THE ABBOT GROUP

#### SHARE INCENTIVE PLAN

The Abbot Group Share Incentive Plan was approved by shareholders on 11 June 1996. Subsequent to the achievement of

various performance related targets for the three year period ending 31 December 1998, full details of which were set out in the 1998 Annual Report and Accounts, options over 907,550 shares at nil cost were exercised during the year, and options over a total of 845,200 shares at nil cost remained outstanding at 31 December 1999. 118,450 options are exercisable immediately with the balance of 726,750 options exercisable from June 2000. No further awards are to be made under this plan.

### THE ABBOT GROUP 1999

#### EXECUTIVE INCENTIVE PLAN

The Abbot Group 1999 Executive Incentive Plan ("the Plan") was approved by Shareholders on 11 May 1999.

The principal terms of the Plan are as follows:

1. Under the Plan executive directors and other selected senior executives may, after the announcement of results of a "bonus year", be awarded a bonus of up to 75 per cent of the amount of basic annual salary paid for that bonus year. The amount of such bonus will be at the discretion of the Remuneration Committee but will be determined by reference to the attainment of individual and financial targets set at the beginning of that bonus year.

2. The executive may elect to take the whole or any part of such bonus in the form of shares in the Company ("Annual Award Shares") which, if the Awardholder continues to hold the shares for a period of three years ("the Holding Period"), will be matched up to 1 for 1 by a "gift" of additional shares at the end of the Holding Period ("a Matching Share Award").

## remuneration report

(continued)

3. The market value of shares taken under an Annual Share Award (as at the time they are appropriated) will be equal to the net amount of cash bonus foregone (after deduction of income tax and any employees' national insurance contributions). The value of shares over which a Matching Share Award is made ("Matching Shares") is determined by reference to the gross amount of cash bonus foregone.

No bonuses were awarded in respect of the financial year 1999 under the Plan.

Financial performance targets have been set for the financial year 2000 which, if achieved, would result in bonuses of no more than 50% of basic salary being paid to executive directors and a number of senior executives across the Group.

### DIRECTORS' REMUNERATION

#### (INCLUDING INTERESTS IN SHARES)

Full details of the remuneration packages of individual directors and information on options granted under the Abbot Group Share Incentive Plan are set out in note 7 to the accounts.

The remuneration of non-executive directors is determined by the executive directors, based on a review of current practice in the marketplace.

### DIRECTORS' CONTRACTS

There have been no changes to any of the directors' service agreements; no contracts include notice periods of greater than twelve months.

### RE-ELECTION OF DIRECTORS

In accordance with the Articles, Messrs. Salter and Lafferty retire by rotation and offer themselves for re-election. Mr. Salter's service agreement is subject to twelve months' notice by the Company. Mr. Lafferty's appointment is subject to three months' notice.

In accordance with the Articles, Mr. Hollis who was appointed during the year retires and offers himself for re-election. Mr. Hollis's appointment is subject to three months' notice.

Peter J. Milne

*Finance Director*

13 March 2000

## auditors' report

TO THE SHAREHOLDERS OF  
ABBOT GROUP PLC:

We have audited the accounts on pages 24 to 55 which have been prepared under the historical cost convention and the accounting policies set out on pages 28 and 29.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report including, as described on pages 14 and 15, preparing the accounts 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, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts 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 accounts, 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 or the Listing Rules regarding directors' remuneration and transactions with the Company and the Group is not disclosed.

We review whether the corporate governance statement on pages 17 to 19 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report

including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

### BASIS OF AUDIT 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 circumstances of the Company and of the Group, 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 and of the Group at 31 December 1999 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

*Chartered Accountants and Registered Auditors*

*1 Surrey Street, London WC2R 2PS*

*13 March 2000*

the figures

## consolidated profit and loss account

for the year ended 31 December 1999

	Notes	Results before goodwill amortisation 1999 £'000	Goodwill amortisation 1999 £'000	Total results 1999 £'000	1998 £'000
Turnover: Group and share of joint venture turnover		159,596	-	159,596	191,185
Less share of joint venture turnover		(1,936)	-	(1,936)	-
Group turnover	2	157,660	-	157,660	191,185
Cost of sales		(130,392)	-	(130,392)	(157,970)
Gross profit		27,268	-	27,268	33,215
Operating expenses	3	(15,982)	(2,045)	(18,027)	(15,875)
Operating profit		11,286	(2,045)	9,241	17,340
Share of operating profit in					
- joint venture		555	(200)	355	-
- associates		199	-	199	52
Profit on sale of interest in associate	4	920	-	920	-
Profit on ordinary activities before interest and taxation		12,960	(2,245)	10,715	17,392
Net interest payable	5	(1,348)	-	(1,348)	(453)
Profit on ordinary activities before taxation	8	11,612	(2,245)	9,367	16,939
Taxation on profit on ordinary activities	9	(1,213)	-	(1,213)	(4,905)
Profit on ordinary activities after taxation		10,399	(2,245)	8,154	12,034
Minority interest	25	77	-	77	50
Profit for the year		10,476	(2,245)	8,231	12,084
Dividends, including non-equity	10			(4,886)	(4,480)
Retained profit for the year	23			3,345	7,604
Earnings per ordinary share					
Basic	11			5.7p	8.4p
Diluted	11			5.6p	8.2p
Adjusted, basic - excluding goodwill amortisation	11			7.2p	9.1p

The movement on reserves is shown in note 23.

The accompanying notes are an integral part of this consolidated profit and loss account.

## consolidated statement of total recognised gains and losses

for the year ended 31 December 1999

	1999 £'000	1998 £'000
Profit for the year	8,231	12,084
Exchange losses on investment in overseas subsidiaries, net	(15)	(256)
Total recognised gains for the year	8,216	11,828

The accompanying notes are an integral part of this consolidated statement of total recognised gains and losses.



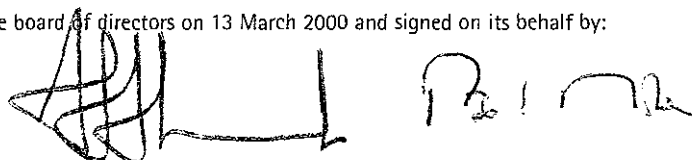
## consolidated balance sheet

31 December 1999

	Notes	31 December 1999 £'000	31 December 1998 £'000
Fixed assets			
Goodwill	12	16,580	18,151
Tangible assets	13	20,701	21,289
Investments - joint venture			
share of gross assets		14,632	9,752
share of gross liabilities		(11,045)	(6,534)
goodwill		2,376	2,492
	14	5,963	5,710
Investments - others	14	-	119
		43,244	45,269
Current assets			
Stocks	15	6,819	7,241
Debtors	16	36,602	50,040
Cash at bank and in hand		2,307	2,623
		45,728	59,904
Creditors: Amounts falling due within one year	17	(33,533)	(52,016)
Net current assets		12,195	7,888
Total assets less current liabilities		55,439	53,157
Creditors: Amounts falling due after more than one year	18	(10,681)	(12,446)
Provisions for liabilities and charges	20	(1,210)	(347)
Net assets		43,548	40,364
Capital and reserves			
Called-up share capital	22	22,981	23,697
Share premium account	23	48,344	46,463
Profit and loss account	23	(27,784)	(29,990)
Total shareholders' funds	24	43,541	40,170
Equity minority interests	25	7	194
		43,548	40,364
Equity shareholders' funds		42,286	37,947
Non-equity shareholders' funds		1,255	2,223
		43,541	40,170

The accounts were approved by the board of directors on 13 March 2000 and signed on its behalf by:

A.J.D. Locke    Director  
P.J. Milne     Director



The accompanying notes are an integral part of this balance sheet.

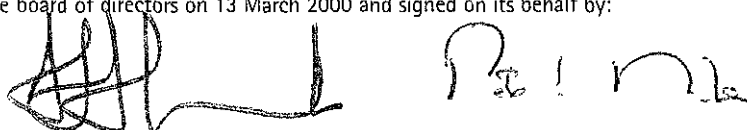
## company balance sheet

31 December 1999

	Notes	31 December 1999 £'000	31 December 1998 £'000
<b>Fixed assets</b>			
Tangible assets	13	8,328	4,944
Investments - joint venture		6,163	5,710
Investments - others	14	96,471	99,495
		110,962	110,149
<b>Current assets</b>			
Debtors	16	7,666	10,192
Cash at bank and in hand		-	188
		7,666	10,380
<b>Creditors: Amounts falling due within one year</b>	17	(27,213)	(27,066)
<b>Net current (liabilities)</b>		(19,547)	(16,686)
<b>Total assets less current liabilities</b>		91,415	93,463
<b>Creditors: Amounts falling due after more than one year</b>	18	(10,370)	(12,250)
<b>Provisions for liabilities and charges</b>	20	(157)	(84)
<b>Net assets</b>		80,888	81,129
<b>Capital and reserves</b>			
Called-up share capital	22	22,981	23,697
Share premium account	23	48,344	46,463
Profit and loss account	23	9,563	10,969
<b>Total shareholders' funds</b>		80,888	81,129
<b>Equity shareholders' funds</b>		79,633	78,906
<b>Non-equity shareholders' funds</b>		1,255	2,223
		80,888	81,129

The accounts were approved by the board of directors on 13 March 2000 and signed on its behalf by:

A.J.D. Locke      Director  
P.J. Milne        Director



The accompanying notes are an integral part of this balance sheet.

**consolidated cash flow statement**

for the year ended 31 December 1999

	Notes	1999 £'000	1998 £'000
Net cash inflow from operating activities	26a)	16,284	21,844
Dividends received from joint venture and associates		312	119
Returns on investments and servicing of finance	26b)	(1,128)	(653)
Taxation	26c)	(5,472)	(5,285)
Capital expenditure and financial investments	26d)	(3,361)	(14,246)
Acquisitions and disposals	26e)	663	(21,592)
Equity dividends paid		(4,472)	(4,009)
Net cash inflow (outflow) before financing		2,826	(23,822)
Financing			
Issue of ordinary share capital		-	5
(Decrease) increase in debt		(1,857)	13,680
Net cash (outflow) inflow from financing	26f)	(1,857)	13,685
Increase (decrease) in cash	27	969	(10,137)

The accompanying notes are an integral part of this consolidated cash flow statement.

## notes to accounts

31 December 1999

### 1 ACCOUNTING POLICIES

A summary of the principal Group accounting policies, all of which, where relevant, have been applied consistently throughout the year and the preceding year is set out below.

#### a) Basis of accounting

The Group accounts are prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting and financial reporting standards.

#### b) Basis of consolidation

The Group accounts incorporate the accounts of the Company and all of its subsidiary undertakings up to the end of the financial year. The results of subsidiaries acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. Goodwill arising on consolidation (representing the excess of fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised and written off on a straight line basis over its useful economic life on a case by case basis, ranging between five and a maximum of twenty years. The directors consider impairment when there are indications this might have occurred and otherwise as required by FRS 11.

The Group took advantage of the transitional arrangements within FRS 10 not to reinstate goodwill that has previously been written off to reserves prior to 1998. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

The Company has taken advantage of the exemption in section 230 of the Companies Act 1985 not to present its own profit and loss account. The Company's profit for the year determined in accordance with the Act (including dividends from subsidiaries) was £3,794,000 (1998: £12,541,000).

#### c) Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over their estimated useful lives. The estimated useful working lives for different categories of fixed assets, including assets held under finance leases, are as follows:

Freehold buildings	50 years
Leasehold land and buildings	50 years
	(or over the unexpired lease period, if shorter)
Plant, machinery and vehicles	2-10 years
Drilling rigs and equipment	3-10 years
Drilling rigs and equipment which are temporarily not operational	are not depreciated.

#### d) Investments

Investments held as fixed assets are shown at cost less appropriate provision where the directors consider that impairment in value has occurred.

In the Group's accounts, investments in the joint venture are accounted for using the gross equity method, and investments in associated undertakings are accounted for using the equity method.

## notes to accounts (continued)

### e) Stocks and work in progress

Stocks of spare parts which are held for use in the Group's drilling operations are stated at cost less a provision in respect of those spares attached to the older rigs and equipment. Other stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes an appropriate proportion of attributable overheads. Mud is repurchased based on the current cost of its constituent parts.

### f) Taxation

Corporation tax payable is provided on taxable profits at current rates. Deferred taxation, which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities has been calculated on the liability method. Deferred tax is provided on timing differences which are expected to 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.

### g) Pension costs

Contributions to various Group pension schemes are charged to the profit and loss account so as to spread the expected cost of providing benefits, calculated in accordance with actuarial advice, on a systematic basis over employees' working lives.

### h) Foreign currency

Transactions denominated in foreign currencies are translated and recorded at the rate of exchange ruling at the date of the transaction or contracted rates where appropriate. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the

exchange rates ruling at the balance sheet date. Translation gains or losses are included in the profit and loss account for the year.

The accounts of overseas subsidiaries are translated into sterling at exchange rates ruling at the balance sheet date and translation gains or losses on the opening net investment are included as a movement in reserves.

### i) Turnover

Group turnover is all derived from continuing operations and comprises the invoiced value of goods and services (excluding VAT) provided, including the value of services subcontracted by the Group.

### j) Leases

Assets held under finance leases are capitalised, and classified under tangible fixed assets. Depreciation is provided on a straight-line basis so as to write off the capitalised cost, less estimated residual value where appropriate, over the shorter of the lease term, including secondary periods where appropriate, and the estimated useful working life of the asset. Corresponding obligations under finance leases are classified as lease obligations under creditors and the related finance cost charged to the profit and loss account using the sum of the digits method. Operating lease rentals are charged to the profit and loss account on a straight line accruals basis.

## notes to accounts (continued)

### 2 SEGMENTAL ANALYSIS

Group turnover, operating profit and net assets are analysed as follows:

a) By class of business	Operating profit before goodwill amortisation		Operating profit	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Drilling	11,295	14,856	11,295	14,825
Inspection	509	2,738	154	2,484
Drilling fluids *	(33)	935	(1,723)	135
Corporate and other	(485)	(104)	(485)	(104)
	11,286	18,425	9,241	17,340

	Turnover		Net operating assets	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Drilling	102,364	136,162	14,393	15,531
Inspection	41,029	42,122	14,941	11,483
Drilling fluids *	13,447	11,162	16,874	19,302
Corporate and other	820	1,739	11,129	10,843
Total	157,660	191,185	57,337	57,159
Net interest bearing (liabilities)			(13,789)	(16,795)
Total net assets			43,548	40,364

\* 1998 - Drilling fluids figures being for the 6 months from acquisition to 31 December 1998.

There is no material inter-segment turnover. There are no discontinued activities in 1999 or 1998.

Analysis of the wind power division (the PowerGen Renewables joint venture) is disclosed within note 14.

## notes to accounts (continued)

## 2 SEGMENTAL ANALYSIS (continued)

b) By geographical market	Turnover		Net assets	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
United Kingdom	136,160	167,330	37,913	36,366
Africa	12,180	10,721	5,406	4,393
Middle and Far East	5,830	7,592	192	(882)
Rest of World	3,490	5,542	37	487
	157,660	191,185	43,548	40,364

There is no material difference between sales by destination and origin.

The geographical analysis of the Group's operating profit has been omitted since, in the opinion of the directors, disclosure thereof would be seriously prejudicial to the interests of the Group.

## 3 OPERATING EXPENSES

	1999	1998
	£'000	£'000
Administration expenses	15,982	14,790
Goodwill amortisation	2,045	1,085
	18,027	15,875

## 4 PROFIT ON SALE OF INTEREST IN ASSOCIATE

In December 1999 the Group sold its 49% interest in OIS-Fisher Inc.

	1999	1998
	£'000	£'000
Consideration	1,277	-
Net book value	(242)	-
Professional fees	(27)	-
Allocation of goodwill	(88)	-
	920	-

Of the total consideration, £666,000 was received in December 1999, £334,000 was received in January 2000, with the balance due in December 2001.

## notes to accounts (continued)

### 5 NET INTEREST PAYABLE

	1999 £'000	1998 £'000
On bank loans and overdrafts	1,143	1,005
On other loans	141	80
Finance charges payable under finance leases and hire purchase contracts	2	3
Share of joint venture interest payable	384	-
<b>Interest payable</b>	<b>1,670</b>	<b>1,088</b>
Bank interest receivable	(283)	(635)
Share of joint venture interest receivable	(39)	-
<b>Interest receivable</b>	<b>(322)</b>	<b>(635)</b>
	<b>1,348</b>	<b>453</b>

### 6 EMPLOYEE COSTS

The aggregate remuneration of all employees (including executive directors) of the Group comprised:

	1999 £'000	1998 £'000
Wages and salaries	55,880	61,119
Social security costs	5,549	5,511
Other pension costs	1,610	1,918
Costs associated with employee share schemes	(178)	710
	<b>62,861</b>	<b>69,258</b>

The average monthly number of persons, including directors, employed by the Group was as follows:

	1999 Number	1998 Number
Drilling	961	1,155
Inspection	819	804
Drilling fluids	53	66
Administration and support	237	254
	<b>2,070</b>	<b>2,279</b>



## notes to accounts (continued)

### 7 DIRECTORS' REMUNERATION

#### Aggregate remuneration

The total amounts for directors' remuneration and other benefits were as follows:

	1999	1998
	£'000	£'000
Emoluments	443	423
Gains on exercise of share options	77	88
	520	511

The directors received the following remuneration in respect of their services as directors of the Company:

	Fees/Basic Salary £'000	Taxable Benefits £'000	1999 Total £'000	1998 Total £'000
A.J.D. Locke	150	2	152	152
M.J.L. Salter	131	8	139	127
P.J. Milne	108	9	117	104
J.W. Hollis	5	-	5	-
G.D. Lafferty	10	-	10	10
M.A. McDowell	10	-	10	10
G.M. Philipps	10	-	10	10
J.A. Foreman	-	-	-	5
C.A.E.T. Stevenson	-	-	-	5
	424	19	443	423

Fees under agreements to provide the Company with services of J.W. Hollis, G.D. Lafferty, M.A. McDowell and G.M. Philipps are paid to Hollis Consultancy Services Limited, Delemere Limited, Ocean Energy Services Ltd and Opencroft Limited respectively.

## notes to accounts (continued)

## 7 DIRECTORS' REMUNERATION (continued)

Details of options held by the directors under the Abbot Group Share Incentive Plan, to acquire ordinary shares in the Company are as follows:

Name of director	1 January 1999	Exercised	31 December 1999	Exercised price	Market price on exercise p	Gains on exercise 1999 £'000	Gains on exercise 1998 £'000
M.J.L. Salter	190,000	-	190,000	nil	-	-	40
P.J. Milne	145,000	(72,500)	72,500	nil	106	77	48

The options are exercisable, assuming continuity of service, between the following dates:

M.J.L. Salter	-	95,000 options	current - June 2003
	-	95,000 options	June 2000 - June 2003
P.J. Milne	-	72,500 options	June 2000 - June 2003

Market price at date of grant, 25 June 1996 - 76p. Market price at 31 December 1999 - £1.085 (31 December 1998: £1.78) and range during the year was £1.005 to £1.925. No options lapsed or were granted to the directors during the year.

The interest of A.J.D. Locke in the ordinary share capital of the Company is disclosed in the directors' report on page 14. The interests of the other directors who held office at 31 December 1999 were as follows:

	Number of ordinary shares	
	31 December 1999	31 December 1998
M.J.L. Salter	43,124	43,124
P.J. Milne	69,500	39,000
J.W. Hollis	6,000	-
G.D. Lafferty	6,000	6,000
M.A. McDowell	-	-
G.M. Philipps	5,000	5,000

J.W. Hollis did not hold any interest in ordinary shares as at date of appointment.

None of the directors had any interest in the 7.25% cumulative convertible redeemable preference shares of £1 each.

## notes to accounts (continued)

### 7 DIRECTORS' REMUNERATION (continued)

#### Directors' pension entitlements

At 31 December 1999 there were 2 directors (1998: 2) to whom benefits were accruing under defined benefit pension schemes, as follows:

Name of director	Age at year end	Increase in accrued pension excluding inflation £'000	Accrued pension 31 December 1999 £'000	Accrued pension 31 December 1998 £'000
M.J.L. Salter	52	3	13	10
P.J. Milne	45	10	37	26

The pension entitlements shown in respect of Messrs Milne and Salter are those which would be paid annually from normal retirement age based on service at the end of the year. Basic salary only is pensionable.

M.A. McDowell was paid a pension of £54,000 per annum (1998: £13,000, commencing 1 October 1998).

The following is additional information relating to directors' pensions:

- (a) Normal retirement age: 60
- (b) Dependants' rights: Dependants' pension payable at 60% of full rate
- (c) Early retirement rights: Retirement after age 50, with pension calculated on actual years service completed, with reduction in annual amount to take account of longer payment period
- (d) Pension increase: 3% per annum
- (e) Other discretionary benefits: None
- (f) Director contribution rate: 5% of pensionable salary

### 8 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging the following amounts:

	1999 £'000	1998 £'000
Depreciation and amounts provided against tangible fixed assets	3,235	4,612
Goodwill amortisation	2,245	1,085
Payments under operating leases		
- leasehold properties	1,029	963
- plant and machinery	251	115
Remuneration in respect of audit services		
- Arthur Andersen	233	203
- Other group company auditors	5	5

Amounts paid to Arthur Andersen for non-audit services including amounts not charged to profit on ordinary activities before taxation, were £49,000 (1998: £154,000).

Due principally to significantly improved circumstances in relation to certain of the Group's overseas customers, provisions of some £750,000 have been released during 1999.

## notes to accounts (continued)

## 9 TAXATION

The net tax charge for the year comprises:

	1999 £'000	1998 £'000
In respect of the current year		
- UK corporation tax	2,723	5,276
- double taxation relief	(159)	(363)
- overseas taxation	726	813
- deferred taxation	111	(2)
	3,401	5,724
- share of joint venture and associates tax	(26)	-
	3,375	5,724
Adjustments relating to prior years		
- current taxation *	(2,282)	(819)
- deferred taxation	120	-
	1,213	4,905

\* £2 million of the adjustment relating to prior years in 1999 represents the release of certain exceptional taxation provisions established several years ago and considered to be no longer required.

## 10 DIVIDENDS

	1999 £'000	1998 £'000
Dividends on ordinary shares:		
Adjustment in respect of shares issued during the year and ranking for prior year final dividend	15	24
Interim dividend 1.10p (1998: 1.00p)	1,593	1,432
Proposed final dividend 2.20p (1998: 2.00p)	3,187	2,864
Dividends on preference shares (see note 24)	91	160
	4,886	4,480

The preference dividend is paid in two equal instalments on 2 January and 2 July each year.

## notes to accounts (continued)

### 11 EARNINGS PER ORDINARY SHARE

The calculations of earnings per share are based on the following profits and numbers of shares.

	Basic		Diluted	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Profit for the financial year	8,231	12,084	8,231	12,084
Preference dividends	(91)	(160)	-	-
	8,140	11,924	8,231	12,084
			1999	1998
			Number	Number
			of shares	of shares
Weighted average number of shares:				
- For basic earnings per share			144,064,489	142,598,765
- Conversion of preference shares			1,003,850	1,778,429
- Exercise of share options			845,200	1,836,667
For diluted earnings per share			145,913,539	146,213,861

Adjusted, basic earnings per share which excludes goodwill amortisation of £2,245,000 in the current year (1998: £1,085,000), is provided for comparative purposes.

### 12 GOODWILL

	£'000
Cost	
At 1 January 1999	19,236
Additions	474
At 31 December 1999	19,710
Amortisation	
At 1 January 1999	1,085
Charge for the year	2,045
At 31 December 1999	3,130
Net book value	
At 31 December 1999	16,580
At 31 December 1998	18,151

## notes to accounts (continued)

### 13 TANGIBLE FIXED ASSETS

Group	Land and buildings	Drilling rigs and equipment	Plant, machinery and vehicles	Total
Cost	£'000	£'000	£'000	£'000
At 1 January 1999	8,570	18,503	22,141	49,214
Additions	2,540	331	3,272	6,143
Disposals	(67)	(7,362)	(2,195)	(9,624)
Exchange adjustment	-	-	42	42
At 31 December 1999	11,043	11,472	23,260	45,775
Depreciation				
At 1 January 1999	1,299	9,572	17,054	27,925
Charge for year	188	989	2,058	3,235
Disposals	(57)	(3,961)	(2,102)	(6,120)
Exchange adjustment	-	-	34	34
At 31 December 1999	1,430	6,600	17,044	25,074
Net book value				
At 31 December 1999	9,613	4,872	6,216	20,701
At 31 December 1998	7,271	8,931	5,087	21,289

As at 31 December 1999 included in plant, machinery and vehicles are leased assets with a cost of £586,000 (1998: £694,000) and a net book value of £28,000 (1998: £60,000). Depreciation of £32,000 (1998: £46,000) has been charged during the year in respect of these assets.

Land and buildings (net book value) comprise:

	1999	1998
	£'000	£'000
Freehold	9,201	6,881
Long leaseholds	237	190
Short leaseholds	175	200
	9,613	7,271

Freehold land, amounting to £95,000 (1998: £95,000) has not been depreciated.

## notes to accounts (continued)

## 13 TANGIBLE FIXED ASSETS (continued)

Company	Freehold land and buildings £'000	Plant, machinery and vehicles £'000	Total £'000
<b>Cost</b>			
At 1 January 1999	5,143	-	5,143
Additions	2,396	36	2,432
Transferred from subsidiary	1,242	-	1,242
At 31 December 1999	8,781	36	8,817
<b>Depreciation</b>			
At 1 January 1999	199	-	199
Charge for year	104	3	107
Transferred from subsidiary	183	-	183
At 31 December 1999	486	3	489
<b>Net book value</b>			
At 31 December 1999	8,295	33	8,328
At 31 December 1998	4,944	-	4,944

Land and buildings were transferred from BW Group plc to the Company in December 1999.  
Freehold land, amounting to £95,000 (1998: £nil) has not been depreciated.

## 14 FIXED ASSET INVESTMENTS

	Fair value/cost £'000	Share of post acquisition reserves £'000	Goodwill £'000	Net book value £'000
Group				
At 1 January 1999	3,320	17	2,492	5,829
Investment in PowerGen Renewables Holdings Limited	369	-	84	453
Share of profit for the year of joint ventures and associates	-	435	(200)	235
Dividends received from joint ventures and associates	-	(312)	-	(312)
Sale of interest in associate	(102)	(140)	-	(242)
At 31 December 1999	3,587	-	2,376	5,963

Fixed asset investments held at the end of 1999 represent the interest in PowerGen Renewables Holdings Limited. The PowerGen Renewables Limited group was restructured during 1999 and a new holding company, PowerGen Renewables Holdings Limited, was installed via a share exchange.

## notes to accounts (continued)

## 14 FIXED ASSET INVESTMENTS (continued)

The following information is given in respect of the Group's share of the joint venture:

	1999 £'000	1998 £'000
Share of assets		
Share of fixed assets	12,411	8,768
Share of current assets	2,221	984
	14,632	9,752
Share of liabilities		
Liabilities due within one year or less	(1,357)	(6,534)
Liabilities due after more than one year	(9,688)	-
	(11,045)	(6,534)
Share of net assets	3,587	3,218

	1999 £'000	1998 £'000
Company		
Shares in group undertakings	61,382	63,300
Loans to group undertakings	35,089	36,195
	96,471	99,495

	Shares in group undertakings		Loans to group undertakings	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Company				
Cost and Net book value				
At 1 January	63,300	48,062	36,195	31,560
Acquisition of BW Group plc	-	15,874	-	-
Liquidation of dormant subsidiaries	(1,918)	(586)	-	-
Transfer of subsidiary to OIS plc	-	(50)	-	-
Loans to subsidiaries	-	-	73	5,265
Loans repaid by subsidiaries	-	-	(1,179)	(630)
At 31 December	61,382	63,300	35,089	36,195

Loans to group undertakings comprise non-interest bearing loans of £27,649,000 (1998: £28,755,000), and interest bearing loans of £660,000 and £6,780,000 at base rate and base rate plus 1% respectively in both 1998 and 1999.



## notes to accounts (continued)

## 14 FIXED ASSET INVESTMENTS (continued)

The investments of the Company and the Group which principally affect the consolidated results and net assets of the Group are as follows:

Principal subsidiary and joint venture undertakings	Country of incorporation* and of operation	Principal activity	% of ordinary shares or equity interest held by:	
			Company %	Subsidiaries %
Subsidiary undertakings:				
KCA Drilling Limited	Great Britain	Drilling contracting	-	100
BW Group plc	Great Britain	Drilling fluids	100	-
BW Naftafluids Sarl	Tunisia	Drilling fluids	-	60
OIS plc	Great Britain and inspection services	Non-destructive testing	-	100
Atkins Inspection Services (M) Sdn Bhd	Malaysia	Inspection services	-	10**
Oilfield Inspection Services (M) Sdn Bhd	Malaysia	Non-destructive testing	-	10**
The Unit Inspection Company of South Africa (Proprietary) Limited	South Africa	Non-destructive testing and inspection services	-	100
Oilfield Inspection Services (Middle East) LLC	Abu Dhabi	Non-destructive testing	-	49**
Joint venture undertaking :				
PowerGen Renewables Holdings Limited	Great Britain	Wind power generation	50	-

\* All subsidiaries incorporated in Great Britain are registered in England and Wales, with the exceptions of KCA Drilling Limited and BW Group plc which are incorporated in Scotland.

\*\* Abbot Group exercises dominant influence over these companies by virtue of shareholder agreements.

## notes to accounts (continued)

## 15 STOCKS

	Group	
	1999	1998
	£'000	£'000
Raw materials and finished product	2,841	3,949
Spare parts and consumables	3,457	2,921
Work in progress	521	371
	6,819	7,241

There is no material difference between the balance sheet value of stocks and their replacement cost.

## 16 DEBTORS

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Trade debtors	28,845	40,042	-	-
Amounts owed by joint venture and associated undertakings	225	101	225	-
Amounts owed by subsidiary undertakings	-	-	6,892	8,413
ACT recoverable	20	424	20	1,056
Other debtors	3,137	7,379	515	702
Prepayments and accrued income	4,375	2,094	14	21
	36,602	50,040	7,666	10,192

The loan balance owed at 31 December 1999 by the joint venture of £225,000 (1998: Enil) is due after more than 1 year and bears interest at base rate plus 1%.

## notes to accounts (continued)

## 17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Obligations under finance leases and hire purchase contracts (note 19)	9	53	-	-
Bank loans and overdrafts (note 19)	4,141	5,201	5,404	3,500
Other loans (note 19)	1,799	1,899	-	-
Trade creditors	11,015	21,089	-	-
Amounts owed to subsidiary undertakings	-	-	18,473	19,373
Other creditors				
- United Kingdom corporation tax payable	1,599	5,579	-	123
- ACT payable	-	358	-	358
- other taxation and social security	4,139	2,971	-	-
- other creditors	1,308	4,776	-	-
Accruals and deferred income	6,290	7,146	103	768
Accrued preference dividend	46	80	46	80
Proposed ordinary dividend	3,187	2,864	3,187	2,864
	33,533	52,016	27,213	27,066

## 18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Obligations under finance leases and hire purchase contracts (note 19)	2	15	-	-
Bank loans (note 19)	10,370	12,250	10,370	12,250
Other creditors and accruals	309	181	-	-
	10,681	12,446	10,370	12,250

## notes to accounts (continued)

## 19 BORROWINGS AND OBLIGATIONS UNDER FINANCE LEASES

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Borrowings are repayable as follows:				
Within 1 year				
- bank overdraft	461	1,701	1,724	-
- bank loans	3,680	3,500	3,680	3,500
- other loan	1,799	1,899	-	-
- finance leases and hire purchase	9	53	-	-
Included in note 17	5,949	7,153	5,404	3,500
Within 1-2 years				
- bank loans	3,680	3,500	3,680	3,500
- finance leases and hire purchase	2	15	-	-
Within 2-5 years				
- bank loans	5,790	8,750	5,790	8,750
Outwith 5 years				
- bank loan	900	-	900	-
Included in note 18	10,372	12,265	10,370	12,250
Total borrowings	16,321	19,418	15,774	15,750

The bank loans totalling £14,050,000 and bank overdraft with the Bank of Scotland are secured by a first bond and floating charges or debentures over all the property, assets and undertakings from time to time of Abbot Group plc and the principal UK operating subsidiary companies. The principal loan is repayable over 14 quarterly instalments of £875,000, with the secondary loan being repayable by 10 annual instalments of £180,000. Interest on both loans and overdraft is charged at base rate plus 1%. The other loan of £1,799,000, which is repayable on 28 days notice with interest charged at base rate minus 0.75%, is secured by a bank guarantee.

## notes to accounts (continued)

## 20 PROVISIONS FOR LIABILITIES AND CHARGES

This comprises deferred taxation:

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Excess of tax allowances over book depreciation of fixed assets	1,157	918	157	84
Other timing differences	53	61	-	-
	1,210	979	157	84
ACT recoverable	-	(632)	-	-
	1,210	347	157	84

There is no material unprovided deferred taxation.

## 21 MOVEMENT ON PROVISIONS FOR LIABILITIES AND CHARGES

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
At 1 January	347	346	84	-
Charge (credit) for year	231	(2)	73	84
Acquisition - Arlis Welding (Inspection) Company Limited	-	7	-	-
Movement in ACT recoverable	632	(4)	-	-
At 31 December	1,210	347	157	84

## 22 CALLED-UP SHARE CAPITAL

	Group and Company	
	1999	1998
	£'000	£'000
Authorised		
185,000,000 ordinary equity shares of 15p each	27,750	27,750
3,750,000 7.25% cumulative convertible redeemable preference shares of £1 each	3,750	3,750
	31,500	31,500

## notes to accounts (continued)

## 22 CALLED-UP SHARE CAPITAL (continued)

	Group and Company	
	1999	1998
	£'000	£'000
Allotted, called-up and fully paid		
144,842,565 (1998: 143,160,436) ordinary equity shares of 15p each	21,726	21,474
1,254,812 (1998: 2,223,036) 7.25% cumulative convertible redeemable preference shares of £1 each	1,255	2,223
	22,981	23,697

The conversion rights attaching to the 7.25% cumulative convertible redeemable preference shares of £1 each can be exercised by shareholders each financial year to 2000. The preference shares may be converted during the period of 30 days following the date of despatch of the accounts. The rate for conversion is four ordinary shares for every £5 nominal value of preference shares.

The Company may redeem the preference shares at par at any time immediately after the 30 days conversion period following the despatch of the 2000 accounts, but no later than 31 December 2005.

A total of 1,682,129 ordinary shares of 15p each were allotted during the year in respect of the following transactions:

	Number of ordinary shares	Nominal Value £'000	Cash consideration £'000
Conversion of 968,224 preference shares	774,579	116	-
Options exercised	907,550	136	-
	1,682,129	252	-

The company has also granted options under the provisions of The Abbot Group Share Incentive Plan at an exercise price of £nil in respect of the following ordinary shares of 15p each:

Number of shares subject to options	Earliest exercise date	Latest exercise date
118,450	Current	June 2003
726,750	June 2000	June 2003
845,200		

83,917 options lapsed in 1999 (1998: 8,333).

## notes to accounts (continued)

## 23 RESERVES

	Share premium account £'000	Profit and loss account £'000
Group		
At 1 January 1999	46,463	(29,990)
Issue of ordinary shares		
- conversion of preference shares	852	-
- options exercised	1,029	-
Exchange movement on investment in overseas subsidiaries	-	(15)
Goodwill written back on disposal of associate	-	88
Awards under share incentive plan		
- reduction in accrual re options granted	-	(47)
- options exercised	-	(1,165)
Retained profit for the year	-	3,345
At 31 December 1999	48,344	(27,784)

Total cumulative goodwill of £53,914,000 (1998: £51,669,000) has been written off to date, of which £50,496,000 (1998: £50,584,000) has been written off directly to reserves.

	Share premium account £'000	Profit and loss account £'000
Company		
At 1 January 1999	46,463	10,969
Issue of ordinary shares		
- conversion of preference shares	852	-
- options exercised	1,029	-
Awards under share incentive plan		
- reduction in accrual	-	(237)
- options exercised	-	(77)
Retained loss for the year	-	(1,092)
At 31 December 1999	48,344	9,563

Included within the profit and loss account of the Company at 31 December 1999 are non distributable reserves of £284,000 with respect to the share incentive plan (1998: £598,000).

## notes to accounts (continued)

## 24 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1999	1998
	£'000	£'000
Total recognised gains for the year	8,216	11,828
Preference dividends for the year	(91)	(160)
Ordinary dividends for the year	(4,795)	(4,320)
Issue of ordinary shares		
- nominal value	252	200
- share premium	1,881	1,534
- conversion of preference shares	(968)	(1,527)
Goodwill written back on disposal of associate	88	-
Awards under employee share schemes (see note 23)	(1,212)	285
Net increase in shareholders' funds	3,371	7,840
Opening shareholders' funds	40,170	32,330
Closing shareholders' funds	43,541	40,170

## 25 MINORITY INTERESTS

	1999	1998
	£'000	£'000
At 1 January	194	90
Share of loss for the year	(77)	(50)
Interests purchased by minorities in the year	14	154
Interests disposed by minorities in the year	(101)	-
Exchange movement	(23)	-
At 31 December	7	194



## notes to accounts (continued)

## 26 ANALYSIS OF CASH FLOWS

## a) Reconciliation of operating profit to operating cash flows

	1999 £'000	1998 £'000
Operating profit	9,241	17,340
Goodwill amortisation	2,045	1,085
Depreciation charge	3,235	4,612
Profit on sale of tangible fixed assets	(106)	(80)
(Increase) decrease in stocks	(328)	1,223
Decrease (increase) in debtors	14,231	(9,064)
(Decrease) increase in creditors	(11,987)	6,241
Share incentive plan - (credit) charge in the year (see note 23)	(47)	487
Net cash inflow from operating activities	16,284	21,844

## b) Returns on investments and servicing of finance

	1999 £'000	1998 £'000
Interest received	283	651
Interest paid	(1,286)	(1,085)
Interest element of finance lease rental payments	-	(3)
Preference dividends paid	(125)	(216)
Net cash outflow	(1,128)	(653)

## c) Taxation

	1999 £'000	1998 £'000
UK corporation tax paid	(5,135)	(4,105)
Overseas tax paid	(337)	(1,180)
Net cash outflow	(5,472)	(5,285)

## notes to accounts (continued)

## 26 ANALYSIS OF CASH FLOWS (continued)

## d) Capital expenditure and financial investments

	1999	1998
	£'000	£'000
Purchase of tangible fixed assets	(6,143)	(9,056)
Sale of tangible fixed assets	3,610	370
Investment in 50% interest in PowerGen Renewables Holdings Ltd	(828)	(5,560)
<b>Net cash outflow</b>	<b>(3,361)</b>	<b>(14,246)</b>

## e) Acquisitions and disposals

	1999	1998
	£'000	£'000
Purchase of subsidiaries - Arlis and ICI, Teesside	-	(3,494)
Net cash acquired with subsidiary undertaking - Arlis	-	66
Purchase of subsidiary undertaking - BW	-	(15,874)
Net overdraft acquired with subsidiary undertaking - BW	-	(2,514)
Disposal of subsidiary undertaking - deferred consideration	-	70
Purchase of minority interest in subsidiary undertaking - ICON	(17)	-
Sale of interest to minorities	14	154
Sale of interest in associate	666	-
<b>Net cash inflow (outflow)</b>	<b>663</b>	<b>(21,592)</b>

## f) Financing

	1999	1998
	£'000	£'000
Issue of ordinary share capital	-	5
Debt due beyond one year - new loan drawn down	1,820	14,000
Debt due within one year - new loan drawn down	180	3,500
Repayment of loans	(3,600)	(3,750)
Capital element of finance lease rental payments	(57)	(70)
<b>Net cash (outflow) inflow</b>	<b>(1,857)</b>	<b>13,685</b>

## notes to accounts (continued)

## 27 RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET (DEBT) CASH

	1999	1998
	£'000	£'000
Increase (decrease) in net cash in the year	969	(10,137)
Decrease (increase) in loans and finance leases	1,857	(13,680)
Change in net cash (debt) resulting from cash flows	2,826	(23,817)
Loans and finance leases assumed on acquisition of BW	-	(3,899)
Exchange movements	(45)	(150)
Movement in net cash (debt) in the year	2,781	(27,866)
Net (debt) cash at 1 January	(16,795)	11,071
Net (debt) at 31 December	(14,014)	(16,795)

## 28 ANALYSIS OF NET DEBT

	At 1 January 1999 £'000	Cash flows £'000	Other non cash changes £'000	Exchange movements £'000	At 31 December 1999 £'000
Cash in hand and at bank	2,623	(271)	-	(45)	2,307
Overdrafts	(1,701)	1,240	-	-	(461)
Debt due after 1 year	922	969	-	(45)	1,846
Debt due within 1 year	(12,250)	(1,620)	3,500	-	(10,370)
Finance leases	(5,399)	3,420	(3,500)	-	(5,479)
	(68)	57	-	-	(11)
	(16,795)	2,826	-	(45)	(14,014)

## notes to accounts (continued)

## 29 DERIVATIVES AND FINANCIAL INSTRUMENTS

## a) Interest rate risk profile of financial liabilities

The Group has the following interest rate risk profile on financial instruments, excluding short term working capital balances, held as at 31 December 1999:

Book value	Interest basis	
	Fixed £'000	Floating £'000
Preference shares (see note 22)	1,255	-
Bank loans (see note 19)	-	14,050
	1,255	14,050

All of the above instruments are denominated in £ sterling.

## b) Currency exposures

The Group is primarily exposed to currency risk in US \$ throughout the world as the principal currency for oil and gas operations and to £ sterling denominated trading and loan balances within overseas Group companies.

The table below shows the Group's transactional currency exposures as at 31 December 1999. Transactional exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating unit involved.

	Net foreign currency monetary assets/(liabilities)			
	UK £ £'000	US \$ £'000	Libyan Dinar £'000	Other £'000
Functional currency of Group operation				
UK £	n/a	3,709	434	121
US \$	-	n/a	-	(506)
Other	(1,814)	(861)	-	(296)
	(1,814)	2,848	434	(681)
				787

Other functional currencies comprise principally the Malaysian Ringgit and the South African Rand.

## c) Fair values of financial instruments

The book value of financial instruments held as at the end of 1999 is not materially different to the fair value of these items.

## notes to accounts (continued)

## 30 ACQUISITIONS

In June 1998, the Group purchased BW Group plc from its management and venture capital investors. Values attributable to the net tangible assets are as follows:

	Net book value at date of acquisition £'000	Fair value revaluations £'000	Net book/fair value at date of acquisition £'000
Tangible fixed assets	1,466	-	1,466
Stocks	5,177	(750)	4,427
Debtors	3,467	-	3,467
Deferred tax asset	-	200	200
	10,110	(550)	9,560
Creditors: Amounts falling due within one year, including bank overdraft of £2,514,000 and loans of £3,899,000.	(10,160)	-	(10,160)
Net (liabilities) acquired	(50)	(550)	(600)
Goodwill purchased			16,474
Total consideration			15,874

The fair value adjustments relate to the reduction of stock, and the related taxation effect, following detailed analysis during 1999.

## notes to accounts (continued)

## 3.1 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

## a) Capital commitments

At 31 December 1999 Group undertakings had contracted capital commitments of £2,078,000 (1998: £1,824,000).

## b) Lease commitments

At 31 December 1999 the Group's annual obligations under operating lease rentals were as follows:

	Land and buildings		Other		Total	
	1999	1998	1999	1998	1999	1998
	£'000	£'000	£'000	£'000	£'000	£'000
Lease expiry date:						
Within one year	271	352	67	42	338	394
Between one and five years	465	413	383	330	848	743
More than five years	221	226	-	-	221	226
	957	991	450	372	1,407	1,363

## 3.2 PENSION SCHEMES

During the year, the Group operated a number of different pension schemes and arrangements, details of which are shown below.

## a) KCA Drilling Limited defined benefit scheme

A charge of £382,000 (1998: £432,000) has been made in the year for regular pension costs of which £382,000 (1998: £432,000) was paid to the scheme, based upon the 1 January 1999 full actuarial valuation.

A full valuation was carried out at 1 January 1999 by the actuaries and using an assumed rate of return on investments of 9% per annum, an annual increase in salaries of 6.5% per annum and dividend growth of 4.5% per annum, the market value of the scheme's assets was £7,697,000 and the actuarial value of the assets, taking account of the expected future increase in earnings, has sufficient to cover 96% of the benefits that have accrued to members.

For funding purposes the deficit on the scheme will be eliminated by an increased rate of contribution by the employer over the average service life of the members.

## b) KCA Drilling Limited group personal pension plan

The company contributes to individual employee's pension plans. A charge of £550,000 (1998: £1,009,000) has been made in the year.

## notes to accounts (continued)

### 32 PENSION SCHEMES (continued)

#### c) OIS pension schemes

OIS operates two pension schemes. The UK scheme is a contracted in money purchase type, the assets being held by an insurance company invested in various funds. The scheme is an exempt approved occupational pension scheme. The overseas scheme is a defined contributions scheme. The total pension cost for OIS in the year to 31 December 1999 was £521,000 (1998: £386,000) of which £91,000 (1998: £61,000) relates to the overseas schemes.

#### d) BW pension schemes

BW contributes to individual employee's pension plans. A charge of £128,000 (1998: £64,000) has been made in the year.

### 33 SUBSEQUENT EVENT

In February 2000 the Group signed a letter of intent with Spear Technologies Inc. ("Spear"), a California based software development company whereby the Group will subscribe for up to US \$6 million of convertible unsecured loan notes in Spear.

These loan notes will also have attached a call option which will entitle the Group to acquire all of Spear.

## notice of annual general meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Minto Drive, Altens, Aberdeen AB12 3LW on Tuesday 9 May 2000 at 12.30pm for the following purposes.

1. To receive and adopt the Directors' Report and Accounts for the year ended 31 December 1999.
2. To declare a final dividend of 2.20p per ordinary share for the year ended 31 December 1999 payable to eligible ordinary shareholders on its register of members at the close of business on 12 May 2000.
3. To re-appoint as Directors Michael J.L. Salter and Guy D. Lafferty who, retiring in accordance with Article 95 of the Articles of Association of the Company, offer themselves for re-appointment in accordance with Article 97 of the Articles of Association of the Company.
4. To re-appoint as a Director John W. Hollis who retiring in accordance with Article 90 of the Articles of Association of the Company, offers himself for re-appointment.
5. To re-appoint Arthur Andersen as Auditors of the Company to hold office from the conclusion of the Meeting until the conclusion of the next General Meeting of the Company at which accounts are laid.
6. To authorise the Directors to determine the remuneration of the Auditors.

As Special Business, to consider and if thought fit, pass the following resolutions:

### Ordinary Resolution

7. That, in substitution for any previous authority, the directors be hereby generally and unconditionally authorised, in accordance with section 80 Companies Act 1985, to allot relevant securities (as defined in that section) up to a maximum aggregate nominal amount of relevant securities of £5,746,257 to expire on the earlier of the conclusion of the next Annual General Meeting of the Company and the date fifteen months after the passing of this resolution, but the Company may before this authority expires make an offer or agreement which would or might require relevant securities to be allotted after this authority expires, and the

Company may allot relevant securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

### Special Resolutions

8. That, subject to resolution 7 above being passed, the Directors be and they are hereby generally empowered pursuant to Section 95 of the Companies Act 1985 (the "Act") to allot equity securities (within the meaning of Section 94(2) of the Act) of the Company for cash pursuant to the authority conferred by that resolution as if Section 89(1) of the Act did not apply to such allotment provided that this power shall be limited:

(i) to allotments of equity securities where such securities have been offered (whether by way of a rights issue open offer or otherwise) to holders of ordinary shares and, if in accordance with their rights as the Directors so determine, holders of other equity securities of any class made in proportion (as nearly as may be) to their existing holdings of ordinary shares (as the case may be) other equity securities of the class concerned (so that any offer to holders of other equity securities of any class shall be on a basis of their rights to receive such offer and, failing which, shall be on the basis that their holdings had been converted into or that they had subscribed for ordinary shares on the basis then applicable) but subject to the Directors having a right to make such exclusions or other arrangements in connection with such offering as they deem necessary or expedient;

(a) to sell, for the benefit of those shareholders who are citizens of or resident in any overseas territory where in the opinion of the Directors it would at the time of the offer be illegal (by relevant law) or unduly costly or burdensome for the Company to make or for those shareholders to accept an offer of equity securities of the Company, the equity securities to which they would otherwise be entitled, save that the proceeds (net of expenses) of £3 or less due to any such shareholders may be retained for the benefit of the Company; and

(b) to aggregate and sell for the benefit of the Company all fractions of a share which may arise in apportioning the equity securities among the original shareholders:

(ii) to allotments of equity securities pursuant to the Company's Share Option Scheme; and



## notice of annual general meeting

(continued)

(iii) to allotments (otherwise than pursuant to sub-paragraphs (i) and (ii) above) of equity securities having in the case of relevant shares (as defined in Section 94 of the Act) a nominal amount, or in the case of other securities, giving the right to subscribe for or convert into relevant shares having a nominal amount not exceeding in aggregate £1,086,319.

and this power shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and the date fifteen months after the passing of this Resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

9. That, in accordance with Article 50 of the Articles of Association of the Company and Chapter VII of Part V of the Act and subject to the following provisions of this Resolution, the Company be and is hereby generally authorised (pursuant to Section 166 of the Act) to make market purchases (within the meaning of section 163(3) of the Act) of its own shares on such terms and in such manner as the Directors of the Company may from time to time determine provided that:

(i) the maximum number of ordinary shares of 15p each authorised to be acquired is 14,484,256;

(ii) the minimum price which may be paid for each ordinary share is 15p (exclusive of expenses);

(iii) the maximum price (exclusive of expenses) which may be paid for each ordinary share is, in respect of a share contracted to be purchased on any day, an amount equal to 105 per cent of the average of the middle market quotations of ordinary shares taken from the Daily Official List of London Stock Exchange Limited for the ten business days immediately preceding the day on which the contract of purchase is made.

The company may make a contract of purchase of ordinary shares under this authority before this authority expires which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract.

This authority will (unless renewed) expire at the conclusion of the next annual general meeting of the Company held after the date on which this resolution is passed or, if earlier, 12 months from the date of passing of this resolution.

By order of the Board

Alec W.J. Banyard

Secretary

Registered Office:

3 Colmore Circus

Birmingham B4 6BH

31 March 2000

Note: A holder of ordinary shares may appoint one or more proxies to attend, and on a poll, vote in his/her stead. A proxy need not be a member of the company. Completed forms of proxy must be lodged at the address shown on the form of proxy not later than 48 hours before the meeting. Ordinary shareholders who have lodged proxy forms are not thereby prevented from attending the meeting and voting in person if so desired. Holders of Convertible Preference Shares may not attend and vote at the meeting.

## corporate information

**Alasdair J.D. Locke (46)** Executive Chairman. Alasdair has been involved in the oil and shipping industries since 1974, and held senior executive positions within the banking industry. His involvement with the Group is his only significant investment in the oil and gas industry.

**Michael J.L. Salter (52)** Chief Operating Officer. Mike graduated in mechanical engineering at the University of Glasgow. He joined Bawden Drilling in 1980, and became Vice President/General Manager in charge of all European activities in 1987. He moved in early 1990 to be Chief Executive of Smedvig Limited in the UK. He joined the Group as Director of Business Development during 1995 and was appointed Chief Operating Officer in January 1997.

**Peter J. Milne (45)** Finance Director. Following qualification as a chartered accountant with Deloitte in 1977, Peter held a post with KPMG in Hong Kong until 1980. He first joined KCA Drilling Limited in 1981 and after spending four years in Saudi Arabia as General Accounting Supervisor in a Mobil/Petromin joint venture refinery project, from 1984 to 1987, he rejoined KCA Drilling Limited and was appointed Finance Director in 1994.

**John W. Hollis (58)** Non-Executive Director. Appointed in August 1999, John has worked for the Iraq Petroleum Company, Shell, Mobil, Britoil and BP Amoco during his 36-year career in exploration and production. His most recent appointments were Senior Vice President (Azerbaijan) and General Manager (Norway) with BP Amoco.

**Guy D. Lafferty (45)** Non-Executive Director. Guy is managing director of Höegh Capital Partners Advisors Ltd, which is a London based advisor on investment strategy, asset allocation, macro economic conditions and portfolio performance measurement. He is also the managing partner of Lafferty & Partners, a specialist oil and gas industry corporate finance advisor which was established in 1990. He had previously spent 16 years with National Westminster Bank and the Royal Bank of Canada Group where his banking experience related principally to the oil and gas industries.

**Michael A. McDowell (54)** Non-Executive Director. Mike has an extensive background in the oil and gas industry. He spent five years with BP and seven years with P&O Oil Field Services prior to joining KCA Drilling Limited in 1980 where he became a director in 1981 upon the public flotation of the company and was appointed managing director in 1983. He relinquished his executive responsibilities in July 1996 and remains on the board as a Non-Executive Director.

**Geoffrey M. Philipps (51)** Non-Executive Director. Geoffrey is an independent consultant to the shipping and oil industry working on his own account since 1988. Prior to that he was a director of Henry Ansbacher & Co Ltd, Seascope Offshore Limited, and H Clarkson & Co.

**Alec W.J. Banyard (58)** Company Secretary. Alec, a qualified accountant, has been involved in the oil services industry for the past twenty-five years. He has been involved with the Group for a number of years and was appointed Company Secretary in December 1996.

**corporate information (continued)****Registered Office**

3 Colmore Circus, Birmingham B4 6BH

Registered Number: 623285

**Joint Stockbrokers**

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**Head Office**

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Telephone: 01224 299600 Facsimile: 01224 230400

**Albert E Sharp Securities**

Temple Court, 35 Bull Street, Birmingham B4 6ES

**Principal Bankers**

Bank of Scotland

38 Albyn Place, Aberdeen AB10 1ZS

**Financial Advisers**

Cazenove &amp; Co.

12 Tokenhouse Yard, London EC2R 7AN

**Registrars**

Lloyds TSB Registrars

The Causeway, Worthing, West Sussex BN99 6DA

**Solicitors**

Pinsent Curtis

Dashwood House, 69 Old Broad Street, London EC2M 1NR

**Auditors**

Arthur Andersen

1 Surrey Street, London WC2R 2PS

**Paull & Williamsons**

6 Union Row, Aberdeen AB10 1DQ

## notes