

**HERRENKNECHT INTERNATIONAL
LIMITED**

Report and Financial Statements

31 December 2003



**Deloitte & Touche LLP
Newcastle upon Tyne**

HERRENKNECHT INTERNATIONAL LIMITED

REPORT AND FINANCIAL STATEMENTS 2003

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REPORT AND FINANCIAL STATEMENTS 2003

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M Herrenknecht
R T Slocombe

SECRETARY

D J Atkinson

REGISTERED OFFICE

Wearfield
Southwick Riverside
Sunderland
Tyne and Wear
SR5 2TA

BANKERS

HSBC Bank plc
Fawcett Street
Sunderland
Tyne and Wear

SOLICITORS

Hay & Kilner
30 Cloth Market
Newcastle upon Tyne

AUDITORS

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

HERRENKNECHT INTERNATIONAL LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2003.

ACTIVITIES

The principal activity of the company continues to be the supply of tunnelling equipment and associated labour.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The low level of spending in the UK water industry on pipejacking and tunnelling works has continued to make trading difficult for us and our customers.

Once the current round of waste water treatment works is complete, it is hoped that the water industry spend on pipejacking and tunnelling projects will return to its former level.

DIVIDENDS AND TRANSFER TO RESERVES

The directors do not propose the payment of a final dividend (2002: £nil). The retained profit of £207,815 (2002: £221,087) has been transferred to reserves.

DIRECTORS AND THEIR INTERESTS

The directors during the year under review and their interests in the ordinary shares of the company were:

Ordinary £1 shares	31 December	1 January
	2003 No.	2003 No.
M Herrenknecht	-	-
R T Slocombe	-	-

At 31 December 2003, M Herrenknecht had a beneficial interest in 4,750,000 (2002: 4,750,000) shares of EURO 2.55 in Herrenknecht AG.

AUDITORS

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board


Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors
and signed on behalf of the Board



Director



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HERRENKNECHT INTERNATIONAL LIMITED

We have audited the financial statements of Herrenknecht International Limited for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statements of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.


Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company as at 31 December 2003 and of the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

26 October 2004

HERRENKNECHT INTERNATIONAL LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2003

	Note	2003 £	2002 £
TURNOVER	2	3,046,050	4,174,415
Cost of sales		(1,923,352)	(3,111,398)
GROSS PROFIT		1,122,698	1,063,017
Administrative expenses		(832,071)	(772,352)
OPERATING PROFIT	4	290,627	290,665
Interest receivable and similar income	5	10,409	29,956
Interest payable and similar charges	6	(222)	(4,547)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		300,814	316,074
Tax on profit on ordinary activities	7	(92,999)	(94,987)
RETAINED PROFIT FOR THE YEAR		207,815	221,087
Retained profit brought forward		2,146,315	1,925,228
RETAINED PROFIT CARRIED FORWARD	17	2,354,130	2,146,315

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains and losses in either the current or prior period other than as stated in the profit and loss account. Accordingly no statement of total recognised gains and losses has been presented.

All activities derive from continuing operations.

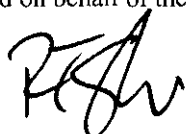
HERRENKNECHT INTERNATIONAL LIMITED

BALANCE SHEET 31 December 2003

	Note	£	2003 £	£	2002 £
FIXED ASSETS					
Tangible assets	8		897,115		1,181,850
CURRENT ASSETS					
Stocks	9	197,547		216,794	
Debtors	10	1,277,930		1,220,195	
Cash at bank and in hand		579,358		432,788	
		<u>2,054,835</u>		<u>1,869,777</u>	
CREDITORS: amounts falling due within one year	11	<u>(498,966)</u>		<u>(769,215)</u>	
NET CURRENT ASSETS			<u>1,555,869</u>		<u>1,100,562</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			2,452,984		2,282,412
PROVISIONS FOR LIABILITIES AND CHARGES	12		<u>(97,354)</u>		<u>(134,597)</u>
NET ASSETS			<u>2,355,630</u>		<u>2,147,815</u>
CAPITAL AND RESERVES					
Called up share capital	13		1,105		1,105
Capital redemption reserve			395		395
Profit and loss account	17		<u>2,354,130</u>		<u>2,146,315</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS	17		<u>2,355,630</u>		<u>2,147,815</u>

These financial statements were approved by the Board of Directors on 15 October 2004

Signed on behalf of the Board of Directors



NOTES TO THE ACCOUNTS
Year ended 31 December 2003

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted by the directors are described below and have been applied consistently in the current and prior financial period.

Accounting convention

The financial statements have been prepared under the historical cost convention.

Turnover

Turnover represents net invoiced sales and rentals of tunnelling machinery, excluding value added tax.

Tangible fixed assets

No depreciation is provided on freehold land. Depreciation is provided at the following rates in order to write off other assets over their estimated useful lives.

Freehold property	- 2% on cost
Plant and machinery	- 15% on reducing balance
Tunnelling machinery	- 25% on cost
Motor vehicles	- 25% on reducing balance
Furniture and equipment	- 33% on cost or 15% on reducing balance

Stocks

Stock has been valued on the first in first out basis at the lower of cost and net realisable value, after making due allowance for slow moving and obsolete items.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Taxation

Current tax including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on all timing differences arising from the inclusion of gains and losses in tax assessment periods different from those in which they are recognised in the financial statements, that have originated but not reversed at the balance sheet date, calculated at the average rate at which it is expected that the tax will arise. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions payable for the year are charged in the profit and loss account.

Leases

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

Cash flow statement

A cash flow statement has not been provided as the company is a subsidiary undertaking of a group that produces publicly available consolidated financial statements in which the company's financial statements are included.

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

2. TURNOVER

The turnover and profit before taxation are attributable to the principal activity of the company.

An analysis of turnover by geographical market is given below:

	2003	2002
	£	£
United Kingdom and Europe	3,037,351	4,112,277
United States of America	8,699	62,138
	<u>3,046,050</u>	<u>4,174,415</u>

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2003	2002
	£	£
Wages and salaries	863,733	782,056
Social security costs	96,758	82,670
Other pension costs	12,564	13,276
	<u>973,055</u>	<u>876,385</u>

The average monthly number of employees during the year was as follows:

	No.	No.
Directors	2	2
Administration	5	5
Engineers and technical support	19	18
	<u>26</u>	<u>25</u>

Directors' remuneration

	£	£
Emoluments (excluding pension contributions) of the highest paid director	53,861	47,000
Pension contributions to director's money purchase schemes	2,493	2,412

One director was a member of the defined contribution pension scheme (2002 : One).

HERRENKNECHT INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2003

4. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

	2003 £	2002 £
Hire of plant and machinery	1,495	29,813
Depreciation – owned assets	290,791	288,486
Loss/(profit) on disposal of fixed assets	1,542	(19,216)
Auditors' remuneration	8,500	8,300
Foreign exchange differences	22,809	(47,588)
Operating lease rentals:		
Land and buildings	120	1,490
	<u> </u>	<u> </u>

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2003 £	2002 £
Bank interest receivable	10,347	22,027
Other interest receivable	62	7,929
	<u> </u>	<u> </u>
	10,409	29,956
	<u> </u>	<u> </u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £	2002 £
Credit card fees and charges	162	234
Interest on overdue tax	-	534
Bank guarantee charges	60	3,779
	<u> </u>	<u> </u>
	222	4,547
	<u> </u>	<u> </u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003	2002
	£	£
(a) Analysis of the tax charge for the year		
Tax charge on profit before taxation at the standard rate of corporation tax in the UK of 30% (2002: 30%)	139,288	128,609
Adjustment in respect of prior years	(9,046)	(4,106)
	<u>130,242</u>	<u>124,503</u>
Timing differences, origination and reversal	(46,635)	(33,535)
Adjustment in respect of prior years	9,392	4,019
	<u>92,999</u>	<u>94,987</u>
(b) Factors affecting the tax charge for the year:		
Profit before taxation	<u>300,814</u>	<u>316,074</u>
Tax at 30% thereon	90,244	94,822
Net of non-taxable income and expenses not deductible for tax purposes	2,509	165
Depreciation in excess of capital allowances	46,535	29,516
Prior period adjustments	(9,046)	-
	<u>130,242</u>	<u>124,503</u>
Current tax charge for the period (see (a))		

8. TANGIBLE FIXED ASSETS

	Motor vehicles £	Furniture and equipment £	Freehold property £	Plant and machinery £	Tunnelling machinery £	Total £
Cost						
At 1 January 2003	162,793	165,168	585,496	44,330	970,964	1,928,751
Additions	-	7,595	-	-	-	7,595
Disposals	-	(3,670)	-	-	-	(3,670)
	<u>162,793</u>	<u>169,093</u>	<u>585,496</u>	<u>44,330</u>	<u>970,964</u>	<u>1,932,676</u>
At 31 December 2003						
Depreciation						
At 1 January 2003	67,396	136,815	35,648	32,769	474,273	746,901
Charge for the year	23,850	9,849	8,912	1,740	246,440	290,791
Disposals	-	(2,131)	-	-	-	(2,131)
	<u>91,246</u>	<u>144,533</u>	<u>44,560</u>	<u>34,509</u>	<u>720,713</u>	<u>1,035,561</u>
At 31 December 2003						
Net book value						
At 31 December 2003	<u>71,547</u>	<u>24,560</u>	<u>540,936</u>	<u>9,821</u>	<u>250,251</u>	<u>897,115</u>
At 31 December 2002	<u>95,397</u>	<u>28,353</u>	<u>549,848</u>	<u>11,561</u>	<u>496,691</u>	<u>1,181,850</u>

Included within furniture and equipment are assets with a cost of £92,561 (2002: £82,323) which are fully depreciated.

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

9. STOCKS

	2003 £	2002 £
Finished goods and raw materials	197,547	216,794

10. DEBTORS

	2003 £	2002 £
Trade debtors	971,918	963,586
Amounts owed by parent undertaking	267,767	161,446
Amounts owed by associated undertaking	22,471	41,536
Other debtors	-	3,380
Prepayments and accrued income	15,804	50,247
	<u>1,277,930</u>	<u>1,220,195</u>

All amounts are due within one year.

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £	2002 £
Trade creditors	36,411	63,213
Amounts owed to parent undertaking	44,307	319,538
Amounts owed to associated undertaking	-	8,238
Corporation tax	114,960	75,809
Other taxation and social security	61,201	75,861
Other creditors	1,846	6,456
Accruals and deferred income	240,241	220,100
	<u>498,966</u>	<u>769,215</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2003

12. PROVISIONS FOR LIABILITIES AND CHARGES

	2003 £	2002 £
Deferred taxation	97,354	134,597
		Deferred taxation £
Balance at 1 January 2003		134,597
Released during the year		(37,243)
Balance at 31 December 2003		97,354

Deferred taxation for which provision has been made in the financial statements and the amounts for which no provision has been made, are as follows:

	2003 £	2002 £
Accelerated capital allowances	98,358	144,993
Short term timing differences	(1,004)	(10,396)
	97,354	134,597

13. CALLED UP SHARE CAPITAL

	2003 £	2002 £
Authorised		
10,000 ordinary shares of £1.00 each	10,000	10,000
Called up, allotted and fully paid		
1,105 ordinary shares of £1.00 each	1,105	1,105

14. ULTIMATE PARENT COMPANY

The company is a 95% subsidiary of Herrenknecht AG, a company registered in Germany. The financial statements of that company are the only accounts in which the results of the company are consolidated. Copies of the group financial statements of Herrenknecht AG can be obtained from Schlehenweg 2, Schwanau 2, Germany D77961.

15. PENSION CONTRIBUTIONS

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in independently administered funds. The pension cost represents contributions paid by the company to the funds and these amounted to £12,564 (2002: £13,276).

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

16. RELATED PARTY TRANSACTIONS AND CONTROLLING RELATED PARTY

The company has taken advantage of the exemption available to subsidiary undertakings in FRS 8 'Related Party Disclosures' which allows it not to disclose transactions with other group entities or investees of the group qualifying as related parties.

No other related party transactions exist.

The company is controlled by M Herrenknecht, a director, by virtue of his controlling interest in Herrenknecht AG, the parent company.

17. STATEMENT OF MOVEMENT ON RESERVES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Ordinary share capital £	Capital redemption reserve £	Profit and loss account £	Total £
1 January 2003	1,105	395	2,146,315	2,147,815
Profit for year	-	-	207,815	207,815
31 December 2003	<u>1,105</u>	<u>395</u>	<u>2,354,130</u>	<u>2,355,630</u>