

**HERRENKNECHT INTERNATIONAL  
LIMITED**

**Report and Financial Statements**

**31 December 2002**



**Deloitte & Touche LLP  
Newcastle upon Tyne**

REPORT AND FINANCIAL STATEMENTS 2002

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**REPORT AND FINANCIAL STATEMENTS 2002**

**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  
Newcastle upon Tyne

**DIRECTORS' REPORT**

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

**ACTIVITIES**

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

**REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS**

Trading has continued in a generally quiet market although the company has been successful in securing a good share of the market and this has contributed to the improved results for 2002.

**DIVIDENDS AND TRANSFER TO RESERVES**

The directors do not propose the payment of a final dividend (2001 - £nil). The retained profit of £221,087 (2001 - £175,610) has been transferred to/(withdrawn from) reserves.

**DIRECTORS AND THEIR INTERESTS**

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

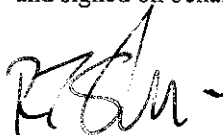
Ordinary £1 shares	31 December	1 January
	2002 No.	2002 No.
M Herrenknecht	-	-
R T Slocombe	-	-

At 31 December 2002, M Herrenknecht had a beneficial interest in 4,750,000 (2001 : 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

**DIRECTORS' REPORT (continued)****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;
- 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 2002 which comprise the profit and loss account, the balance sheet 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.

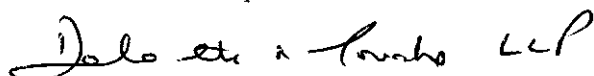
**Basis of opinion**

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 2002 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



**PROFIT AND LOSS ACCOUNT**  
**Year ended 31 December 2002**

	Note	2002 £	2001 £
<b>TURNOVER</b>	2	4,174,415	2,501,885
Cost of sales		<u>(3,111,398)</u>	<u>(1,484,668)</u>
<b>GROSS PROFIT</b>		1,063,017	1,017,217
Administrative expenses		<u>(772,352)</u>	<u>(769,977)</u>
<b>OPERATING PROFIT</b>	4	290,665	247,240
Interest receivable and similar income	5	29,956	7,678
Interest payable and similar charges	6	<u>(4,547)</u>	<u>(2,290)</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		316,074	252,628
Tax on profit on ordinary activities	7	<u>(94,987)</u>	<u>(77,018)</u>
<b>RETAINED PROFIT FOR THE YEAR</b>		221,087	175,610
Retained profit brought forward		<u>1,925,228</u>	<u>1,749,618</u>
<b>RETAINED PROFIT CARRIED FORWARD</b>	17	<u><u>2,146,315</u></u>	<u><u>1,925,228</u></u>

All activities derive from continuing operations.

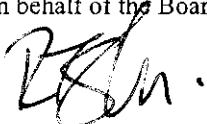
The company has no recognised gains and losses other than as stated in the profit and loss account.

**BALANCE SHEET**  
**31 December 2002**

	Note	£	2002 £	£	2001 £
<b>FIXED ASSETS</b>					
Tangible assets	8		1,181,850		1,263,325
<b>CURRENT ASSETS</b>					
Stocks	9	216,794		210,114	
Debtors	10	1,220,195		2,081,714	
Cash at bank and in hand		432,788		575,527	
			<u>1,869,777</u>	<u>2,867,355</u>	
<b>CREDITORS: amounts falling due within one year</b>	11	<u>(769,215)</u>		<u>(2,039,839)</u>	
<b>NET CURRENT ASSETS</b>			<u>1,100,562</u>		<u>827,516</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			2,282,412		2,090,841
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	12		<u>(134,597)</u>		<u>(164,113)</u>
			<u>2,147,815</u>		<u>1,926,728</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	13		1,105		1,105
Capital redemption reserve			395		395
Profit and loss account	17		<u>2,146,315</u>		<u>1,925,228</u>
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>	17		<u>2,147,815</u>		<u>1,926,728</u>

These financial statements were approved by the Board of Directors on 30.10.03

Signed on behalf of the Board of Directors





## NOTES TO THE ACCOUNTS

### Year ended 31 December 2002

#### 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.

##### 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.

##### Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. 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. There were no material differences on the change of accounting policy.

##### 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 2002****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:

	2002 £	2001 £
United Kingdom and Europe	4,112,277	2,212,415
Africa and Asia	-	59,167
United States of America	62,138	230,303
	<u>4,174,415</u>	<u>2,501,885</u>

**3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	2002 £	2001 £
Wages and salaries	782,056	582,132
Social security costs	81,053	62,901
Other pension costs	13,276	12,416
	<u>876,385</u>	<u>657,449</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	18	14
	<u>25</u>	<u>21</u>

**Directors' remuneration**

	£	£
Emoluments (excluding pension contributions) of the highest paid director	<u>52,645</u>	<u>47,000</u>
Pension contributions to director's money purchase schemes	<u>2,412</u>	<u>2,350</u>

One director was a member of the defined contribution pension scheme (2001 : One).

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2002****4. OPERATING PROFIT**

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

	2002	2001
	£	£
Hire of plant and machinery	29,813	6,279
Depreciation – owned assets	288,486	262,801
(Profit)/loss on disposal of fixed assets	(19,216)	13,868
Auditors' remuneration	8,300	8,150
Foreign exchange differences	(47,588)	1,144
Operating lease rentals:		
Land and buildings	1,490	1,565
	<u>29,956</u>	<u>7,678</u>

**5. INTEREST RECEIVABLE AND SIMILAR INCOME**

	2002	2001
	£	£
Bank interest receivable	22,027	7,553
Other interest receivable	7,929	125
	<u>29,956</u>	<u>7,678</u>

**6. INTEREST PAYABLE AND SIMILAR CHARGES**

	2002	2001
	£	£
Credit card interest	234	207
Interest on overdue tax	534	2,083
Bank guarantee charges	3,779	-
	<u>4,547</u>	<u>2,290</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2002****7. TAX ON PROFIT ON ORDINARY ACTIVITIES**

(a) Analysis of the tax charge for the year	2002 £	2001 £
UK corporation tax:		
Current income tax for the period	124,503	107,297
Deferred taxation	(29,516)	(30,279)
	<u>94,987</u>	<u>77,018</u>
 (b) Factors affecting the tax charge for the year:		
Profit before taxation	<u>316,074</u>	<u>252,628</u>
Tax charge on profit before taxation at the standard rate of corporation tax in the UK of 30% (2001 : 30%)	94,822	75,788
Net of non-taxable income and expenses not deductible for tax purposes	165	1,230
Deferred tax movement in the year	<u>29,516</u>	<u>30,279</u>
Current tax charge for the period (see (a))	<u>124,503</u>	<u>107,297</u>

**8. TANGIBLE FIXED ASSETS**

	Motor vehicles £	Furniture and equipment £	Freehold property £	Plant and machinery £	Tunnelling machinery £	Total £
<b>Cost</b>						
At 1 January 2002	130,105	161,945	585,496	44,330	844,807	1,766,683
Additions	65,896	3,223	-	-	180,926	250,045
Disposals	(33,208)	-	-	-	(54,769)	(87,977)
At 31 December 2002	<u>162,793</u>	<u>165,168</u>	<u>585,496</u>	<u>44,330</u>	<u>970,964</u>	<u>1,928,751</u>
<b>Depreciation</b>						
At 1 January 2002	69,733	122,484	26,736	30,721	253,684	503,358
Charge for the year	16,363	14,331	8,912	2,048	246,832	288,486
Disposals	(18,700)	-	-	-	(26,243)	(44,943)
At 31 December 2002	<u>67,396</u>	<u>136,815</u>	<u>35,648</u>	<u>32,769</u>	<u>474,273</u>	<u>746,901</u>
<b>Net book value</b>						
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>
At 31 December 2001	<u>60,372</u>	<u>39,461</u>	<u>558,760</u>	<u>13,609</u>	<u>591,123</u>	<u>1,263,325</u>

Included within furniture and equipment are assets with a cost of £82,323 (2001 - £70,486) which are fully depreciated.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2002****9. STOCKS**

	2002	2001
	£	£
Finished goods and raw materials	216,794	210,114

**10. DEBTORS**

	2002	2001
	£	£
Trade debtors	963,586	1,682,391
Amounts owed by parent undertaking	161,446	183,058
Amounts owed by associated undertaking	41,536	132,690
Other debtors	3,380	75,704
Prepayments and accrued income	50,247	7,871
	<u>1,220,195</u>	<u>2,081,714</u>

All amounts are due within one year.

**11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2002	2001
	£	£
Trade creditors	63,213	49,051
Amounts owed to parent undertaking	319,538	809,458
Amounts owed to associated undertaking	8,238	48,243
Corporation tax	75,809	108,618
Other taxation and social security	75,861	186,865
Other creditors	6,456	7,818
Accruals and deferred income	220,100	829,786
	<u>769,215</u>	<u>2,039,839</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2002****12. PROVISIONS FOR LIABILITIES AND CHARGES**

	2002 £	2001 £
Deferred taxation	134,597	164,113
		<b>Deferred taxation £</b>
Balance at 1 January 2002		164,113
Released during the year		(29,516)
Balance at 31 December 2002		134,597

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:

	<b>Provided</b>		<b>Not provided</b>	
	2002 £	2001 £	2002 £	2001 £
Accelerated capital allowances	144,993	167,003	-	-
Short term timing differences	(10,396)	(2,890)	-	-
	134,597	164,113	-	-

**13. CALLED UP SHARE CAPITAL**

	2002 £	2001 £
<b>Authorised</b>		
10,000 ordinary shares of £1.00 each	10,000	10,000
<b>Called up, allotted and fully paid</b>		
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 £13,276 (2001 : £12,416).

**NOTES TO THE ACCOUNTS****Year ended 31 December 2002****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 2001	1,105	395	1,749,618	1,751,118
Loss for year	-	-	175,610	175,610
31 December 2001	1,105	395	1,925,228	1,926,728
Profit for year	-	-	221,087	221,087
31 December 2002	1,105	395	2,146,315	2,147,815