JOHN WOOD GROUP PLC

Report and Financial Statements 1985

JOHN WOOD GROUP PLC

Contents of Report and Financial Statements 1985

JOHN WOOD GROUP PLC

Directors and Officers

Chairman and Managing Director	Ian C. Wood, C.B.E., LL.D.
Directors	Edwin C. Garrett (Vice Chairman) William H. Carr (Engineering) Hugh D. Duncan (Oilfield Logistics and Supplies) J. Ramsay Spence, O.B.E. (Drilling and Production Services) Ewan Brown (non-executive)
Secretary and Registered Office	C. Nicholas Brown John Wood House Greenwell Road East Tullos Aberdeen AB1 4AX Telephone: 0224 875464 Telex: 739977
Auditors	Hodgson Impey Chartered Accountants 4 Carden Place Aberdeen AB1 1UT
Bankers	Clydesdale Bank PLC

JOHN WOOD GROUP PLC

Chairman's Statement 1985

It is with deep regret that I record the death in January of this year of my Father, John Wood, who founded the Company in 1955 and who led the Company so successfully through its early years of expansion and growth. His dedication and leadership in the 1960s and his continuing encouragement and guidance in the 1970s were major factors behind our successful growth in the last 20 years.

The year under review has seen a continuing good performance from Oilfield Logistics and Supplies, a mixed performance by Engineering and "learning curve" costs adversely affecting the performance of Drilling & Production Services. With the significant downturn in the oil industry since the end of the year, we have taken a conservative view in finalising our 1985 trading results and although sales have increased from £65.7m to £71.2m, profit on ordinary activities before tax is down at £4.63m against £4.91m in 1984. We have additionally made some provisions to reflect the general market weakness and these are referred to later in my statement.

The following is my review of Division activities:

Wood Group Oilfield Logistics and Supplies

Sales £23,825,000 Profit £4,211,000

Our principal supply base and logistics company, Wood Group Offshore, continued to make good progress. Our supply bases in Aberdeen and Yarmouth have had good utilisation and further developments are under way - in Aberdeen to enable us to enlarge our base to accomodate platform hook-up and major construction projects and in Yarmouth to maximise our participation in the southern North Sea gas exploration and production activities. Our entry to the southern North Sea market has been well timed and we see significant growth here with gas exploration and production little affected by the lower oil price. The acquisition of Salvesen Offshore Services early in 1986 expanded our base capacity in Aberdeen and added new fields of pollution control, marine management, gas oil recovery and toxic waste disposal to our activities.

Moray Firth Service Company (60% owned) had a quieter year in Cromarty but plans are under way for the construction of a wet dock financed largely by European and UK Government funds and this will significantly enhance the facilities at Invergordon.

Wood Group Fire Protection and Fireater performed poorly in a very competitive North Sea market. Restructuring carried out since the year end together with a new Fireater product should improve performance in a market sector where we continue to believe there is considerable potential.

Our marine and inland fuel sales, and electrical wholesale activities all made satisfactory contributions.

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Chairman's Statement 1985

Wood Group Engineering

Sales £41,306,000 Profit £995,000

1985 has been a mixed year with Offshore Services, and Workshops and Onshore Services both making somewhat improved contributions but with the performance of the Enterprise Division significantly affected by the large ventilation ductwork contract at Torness where we have maintained a prudent work in progress valuation but are confidently pursuing a number of significant claims against our main contractor.

Generally, Engineering has benefited from increased concentration in our areas of strength and we are making progress towards our objective of increased participation in the conceptual design studies for new field and enhanced oil recovery projects, and the platform hook-up and major modifications related thereto. There will be a significant number of such projects over the next few years. In addition, new management introduced into the Division during the year have settled in well and the Division has signicant unfulfilled potential.

Wood Group Drilling and Production Services

Sales £6,082,000 Loss £574,000

This Division continued to expand but is still learning its way in a new sector and new technology. Valstar, with a growing reputation worldwide, had a good year and made good progress with its surface and downhole instrumentation and computer systems. Oilfield Rentals made a good start but Wood Group Industrial Controls had a difficult year with significant development costs related to their new products and with a poor demand from CEGB for their traditional products.

In the USA, Geolograph Pioneer expanded with the acquisition of 3 small complementary companies, but had a disappointing performance in a stagnant US domestic market. Our November 1985 acquisition, Houston based Petroleum Measurement Corporation (PMC), manufactures production and cased hole logging equipment and traded well in 1985.

This Division's concentration is increasingly in the area of well services and equipment, particularly downhole instrumentation and logging equipment. The potential in combining the technology of Valstar and PMC is considerable and both companies are now working on complementary developments which should greatly enhance our international market penetration in this sector. In addition, the Division has just commenced a significant new project in the area of cost effective reservoir management largely financed by a major oil company and the UK's Offshore Supplies Office. A second project is now under discussion which would significantly reduce production logging costs to operators very much in line with the industry's requirements. Success in either of these projects will increase our participation in the international market.

We have appointed Derek Jones as President of our US interests and his significant experience in the US oil servicing sector greatly strengthens our management capability and growing expertise in the drilling and production sector.

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Prospects

1986 will undoubtly be a difficult year. North Sea exploration effort will effectively be halved and this will reduce the activity of companies involved in this market. The ongoing production platform maintenance and support market has clearly downturned as customers try hard to reduce their costs and this is adversely affecting our companies in the lower technology maintenance activities. In the new field development market, our participation tends to be in the installation and platform hook-up stage and we will benefit in the current year from new projects commenced two or three years ago. We are, however, beginning to feel the effect of new projects being shelved.

Our worst hit companies are those in the US where the number of working drilling rigs has reduced from 1970 rigs at the beginning of the year to 686 rigs in mid June. This previously unparallelled reduction has had a very adverse effect on Geolograph Pioneer where it has been difficult to keep reducing costs in line with the severity of the downturn. It is not easy to assess prospects with the rig count still falling, the company is not currently able to pay interest and repay principal on our loan and we have decided as a prudent measure to make a provision of £1.04m against our outstanding equity and loan investment of £2.4m at the end of the year.

Our other US investment, Petroleum Measurement Corporation, is incurring modest losses in a very difficult market. However, we are maintaining PMC's significant programme of research and development to produce production logging, cased hole maintenance and surface read out computer equipment and we are satisfied that our continuing investment here will provide good returns in the medium term and benefit other parts of our business in the UK.

In the last three months all Group companies have carried out a substantial cost restructuring programme in line with revised revenue forecasts arising from the downturn and are agressively seeking to increase their market share. On the positive side, a number of opportunities are emerging as customers reduce their direct payroll and require additional support in some areas, and with reducing competition from less committed competitors and the financially weak.

However, our market place has deteriorated significantly since the end of last year and this will undoubtedly affect our performance in the current year. I wish I could make some confident prediction on the price of oil. A popular view is that it will return to $18 to $22 per barrel by the end of this year, but your Board has taken the view that we must adjust our trading cost structure to a market based on $15 per barrel and ensure we trade satisfactorily at that level. If the price increases then clearly we will build up our resources and facilities accordingly.

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With the market downturn, we have valued our holding in Pict Petroleum at the latest available market value which is very significantly less than the value at the accounts year end. We have also made provision against further re-organisation costs principally in our Engineering companies in line with the market downturn and our increasing concentration on core areas of strength.

The good news is that the Group generally has never been in better shape. Some promising new management has integrated well, our international activities grow steadily and we are satisfied we are spending our development capital wisely and in areas of high potential. We continue to be in no doubt that the offshore oil servicing sector has very good long term prospects. We intend to use our strong balance sheet to take advantage of the weakness of others in the downturn, and to continue our medium term developments to ensure we are in a strong position to take advantage of the market recovery when it comes.

Our staff

It is with great regret that I record the untimely death last September of David Lefevre, our Director and General Manager of Wood Group Offshore. He made an immense contribution to the successful growth of our supply base and logistics activities and will be sadly missed by his colleagues.

I would like to extend once again your Board's grateful thanks to all our management, staff and employees. The last few months have not been easy and some hard cost restructuring decisions are being taken. Staff at all levels are facing the challenge with the essential realism and flexibility and this confirms your Board's confidence that we will come through the downturn strongly and be in good shape to take advantage of the undoubted major market opportunities, both in this country and overseas, in the next 5 to 10 years.

Chairman

JOHN WOOD GROUP PLC

Report of the Directors

The directors submit their report together with the audited financial statements of the Company for the year ended 31st December, 1985.

1. Results and dividends

   The profit for the financial year amounted to £1,286,000 out of which was paid a dividend of £199,000 on the Cumulative Convertible Preference Shares with the balance of £1,087,000 being transferred to Profit and Loss Account as set out at Note 18 on page 28. The directors recommend that no dividend be paid on the ordinary shares out of the profit of the year.

2. Principal Activities

   The principal activities of the Company, its subsidiary and related companies are set out on page 32.

3. Review of business activity and future developments

   A review of the year's trading and an indication of likely future developments is contained within the Chairman's Statement.

4. Fixed Assets

   Details of changes in fixed assets during the year are set out at notes 10 and 11 to the financial statements.

   Expenditure incurred on tangible fixed assets is directed mainly towards enhancement of the range of services offered by the Group, improving communications and increasing emphasis upon health and safety in the workplace.

   The directors consider that the market value of land and buildings does not significantly differ from the net book value stated at note 10 to the financial statements.

5. Acquisitions

   During the year certain interests were acquired by the company's subsidiaries.

   Wood Group Engineering Limited (1) acquired in February, 1985 the remaining 50% of the shareholding in Sella Ness Service Company Limited, and (2) in April, 1985 subscribed for 45,000 ordinary shares of £1 each fully paid in Scottish Rig Repairers Limited, representing 45% of the equity of that company.

   Wood Group Drilling and Production Services Limited acquired in July, 1985 a further 5% of the issued share capital of Valstar Technical Systems Limited increasing its holding in that company to 80%.

   In November, 1985, Wood Group International N.V. acquired 66% of the common stock of P roleum Measurement Corporation, Houston, U.S.A., a company engaged n the manufacture of production and cased hole logging equipment.

6. Research and Development

Research and development activity which takes place within the individual companies concentrates upon improving the quality of the company's products and services in recognition or anticipation of customer demands.

7. Directors and Directors' Interests

The names of persons presently in office are set out on page 2.

Mr. John Wood, the President of the Company died in January, 1986.

The Directors of the Company had the following interests, including family interests, as defined in the Companies Act, 1985, in the shares of the Company at 31st December, 1984 and 31st December, 1985:

Ordinary shares of £1 each	At 31st December, 1985 Beneficial	At 31st December, 1985 As Trustee	At 31st December, 1984 Beneficial	At 31st December, 1984 As Trustee
John Wood	134,190	-	134,190	-
Ian C. Wood	*5,219,985	988,812	*5,198,985	984,312
Edwin C. Garrett	114,948	-	114,948	-
Hugh D. Duncan	*1,683,792	-	*1,683,792	-
William H. Carr	81,000	-	81,000	-
J. Ramsay Spence	45,000	-	45,000	-
Ewan Brown	-	-	-	-

(* including children's interests under trusts).

In addition to the above holdings the undermentioned options were granted to Directors during 1985 under the Company's Share Option Scheme.

	Ordinary shares of £1 each
E.C. Garrett	10,052
W.H. Carr	6,000
J.R. Spence	35,000

None of the Directors had interests in the cumulative convertible preference shares of the company at 31st December, 1984 or at 31st December, 1985.

8. Employment policy and employee communications

It is the policy of the Company and its subsidiaries to afford disabled persons full and fair consideration for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities. Where the disability occurs during the period of employment every effort is made to continue to provide suitable employment with the provision of appropriate training.

The Company's in-house newspaper entitled "Woodnews" is used to communicate developments in the Group's business to each employee and provides as a regular feature a description of the operations carried on by the Group's various member companies.

9. Donations

During the year the Group made charitable donations amounting to £15,000. It is the company's policy to support modestly in this way charitable organisations with which employees or close relatives of employees are directly involved.

No donations of a political nature were made.

10. Auditors

Messrs Hodgson Impey have expressed their willingness to continue as auditors and a resolution proposing their re-appointment in accordance with Section 384 of the Companies Act 1985 will be placed before the Annual General Meeting.

By Order of the Board

Director
27th June, 1986

Auditors' Report to the members of
JOHN WOOD GROUP PLC

We have audited the financial statements on pages 11 to 32 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st December, 1985 and of the profit and source and application of funds of the Group for the year then ended and comply with the Companies Act 1985.

Hodgson Impey

Chartered Accountants

Aberdeen

27th June, 1986

Accounting Policies

1. Basis of Accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets.

2. Basis of consolidation

The Group financial statements are the result of the consolidation of the financial statements of the Company and its subsidiaries from the date of acquisition or up until the date of disposal as appropriate. The Company's own profit and loss account is not shown by virtue of the exemption provisions contained within the Companies Act 1985.

Goodwill representing the excess of cost of shares in subsidiaries over the fair value of net assets acquired is deducted from Revaluation Reserve in the year of acquisition.

3. Related Companies

Related companies are those in which the Group has an equity interest of not less than 20% nor more than 50%. The share of profits or losses after tax attributable to the Group on a time-apportioned basis from the date of acquisition, included within the consolidated financial statements, is derived from the audited accounts or from management accounts, for periods coterminous with the consolidated balance sheet date.

4. Tangible fixed assets

Land and buildings are stated at cost or at valuation in 1982 with subsequent additions at cost. Other tangible fixed assets are stated at cost.

Depreciation is calculated by reference to cost or valuation at rates estimated to write off the relevant assets over their expected useful lives, which are -

Freehold buildings	25-50 years	Plant and Equipment	5-10 years
Leasehold buildings	20-50 years	Vehicles	4 years

Grants received and receivable in respect of capital expenditure are credited to profit and loss account over the expected useful life of the relevant fixed asset.

The surplus arising on revaluation of buildings included in the revaluation reserve is amortised over the expected useful lives of these buildings by transfer to the accumulated profit and loss account.

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Accounting Policies

5. Investments

Unlisted Investments dealt with on the UK Unlisted Securities Market were previously included within current asset investments on the basis of market value at the balance sheet date. Surpluses or deficits arising from movement in market value were treated as part of the profit of the year and provision made in respect of the full potential liability to Corporation Tax on chargeable gains based on disposal at market value. The surplus or deficit after taxation was appropriated to Revaluation Reserve. With effect from 1st January, 1985 such investments have been treated as fixed asset investments and are stated at cost less amounts written off. Comparative figures have been amended accordingly.

6. Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost comprises direct materials and direct labour plus attributable production overheads based on a normal level of activity. Net realisable value is based on estimated selling price less anticipated costs to disposal. Provision is made for all foreseeable losses and in the case of stocks due allowance is made for obsolete and slow moving items.

A long term contract is defined as the supply of a single substantial entity where the period of execution will extend for a period exceeding one year. Where such contracts have reached the stage where a profitable outcome can prudently be foreseen an appropriate proportion of profit is included in the value of long term contract work in progress.

7. Deferred taxation

Provision is made on the liability method to recognise the deferment of taxation due to timing differences between the treatment of certain items for accounts purposes and their treatment for tax purposes except to the extent that such tax is not expected to become payable or recoverable in the foreseeable future.

8. Research and development expenditure

Research and development expenditure is written off in the year in which it is incurred.

9. Foreign currencies

Transactions denominated in foreign currencies are converted at the rate ruling at the date of the transaction. Current assets and current liabilities denominated in foreign currencies are converted at the rate ruling at the balance sheet date, and differences on exchange arising thereon are dealt with through operating profit. Net assets of overseas subsidiaries are translated at the closing rate, and differences on exchange are taken directly to reserves.

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Consolidated Profit and Loss Account for the year to 31st December, 1985

	Note	1985 £000	1984 £000
Turnover	1	71,213	65,732
Cost of sales		59,429	54,829
Gross Profit		11,784	10,903
Distribution costs and administrative expenses	2	6,320	5,943
Trading Profit		5,464	4,960
Other operating income		107	137
Share of profits/(losses) of related companies		(218)	166
Operating Profit	2	5,353	5,263
Interest receivable	5	313	157
		5,666	5,420
Interest payable	6	1,034	510
Profit on ordinary activities before taxation		4,632	4,910
Tax on profit on ordinary activities	7	1,392	2,298
Profit on ordinary activities after taxation		3,240	2,612
Minority interests		133	96
		3,107	2,516
Extraordinary items after taxation	8	(1,821)	(41)
		1,286	2,475
Dividends paid on preference shares	9	199	199
Retained profit for the financial year	18	1,087	2,276
Retained by:			
John Wood Group PLC		(869)	679
Subsidiary companies		2,021	1,508
Related companies		(65)	89
		1,087	2,276

The accounting policies on pages 11 and 12 and the notes on pages 17 to 32 form part of these financial statements.

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Analysis of turnover and profit on ordinary activities before tax for the year to 31st December, 1985

	1985 £000	1984 £000
Divisional contribution to turnover:		
Engineering	41,306	37,767
Oilfield Logistics and Supplies	23,825	23,785
Drilling and Production Services	6,082	4,180
	71,213	65,732
Geographical analysis of turnover:		
United Kingdom	68,451	61,397
Other European Economic Community	1,417	1,458
Other Europe	256	254
North America	713	1,094
Rest of the World	376	1,529
	71,213	65,732
Divisional contribution to profit on ordinary activities before tax:		
Engineering	995	1,337
Oilfield Logistics and Supplies	4,211	3,533
Drilling and Production Services	(574)	40
	4,632	4,910

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Balance Sheets as at 31st December, 1985

		Group		Company	
		1985	1984	1985	1984
	Note	£000	£000	£000	£000
Fixed assets					
Tangible assets	10	16,141	14,992	3,712	3,826
Investment in subsidiaries	11	-	-	8,353	6,971
Investments	11	2,134	4,390	105	105
Total Fixed Assets		18,275	19,382	12,170	10,902
Current assets					
Stocks and work in progress	12	9,163	7,113	-	-
Debtors	13	17,606	18,020	2,735	1,965
Cash at bank and in hand		1,147	83	5,797	5,165
		27,916	25,216	8,532	7,130
Creditors: amounts falling due within one year	14	19,312	15,659	5,815	1,966
Net current assets		8,604	9,557	2,717	5,164
Total assets less current liabilities		26,879	28,939	14,887	16,066
Creditors: amounts falling due after one year	15	(3,370)	(5,099)	(901)	(1,200)
Provision for liabilities and charges	16	(1,007)	(1,827)	(387)	(398)
Accruals and deferred income: capital grants deferred credit	21	(314)	(339)	-	-
Minority interests		(908)	(514)	-	-
Net assets		21,280	21,160	13,599	14,468
Capital and reserves					
Called up share capital	17	10,133	10,133	10,133	10,133
Revaluation reserve	18	1,032	2,026	1,742	1,782
Profit and loss account	18	10,091	8,912	1,724	2,553
Related companies' retained earnings	18	24	89	-	-
Total shareholders' funds		21,280	21,160	13,599	14,468

Director

Director

27th June, 1986

The accounting policies on pages 11 and 12 and the notes on pages 17 to 32 form part of these financial statements.

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Statement of source and application of funds
for the year ended 31st December, 1985

	Note	Group 1985 £000	Group 1984 £000
Source of funds			
Funds from operations	25	5,947	5,829
Loans received		194	3,492
Sale of tangible fixed assets		220	228
Sale of subsidiary		-	1,342
Sale of investments		-	1,563
Government grants		-	61
Repayment of loans made		171	-
Minority interests in new subsidiaries	26	261	214
Transfer from fixed assets to current assets		827	-
Total source of funds		7,620	12,729
Application of funds			
Loans repaid		1,159	118
Tangible fixed assets acquired		3,995	4,376
Purchase of investments		222	3,680
Tax paid		1,248	2,159
Dividends paid		199	199
Goodwill on acquisition of subsidiaries	26	929	148
Total application of funds		7,752	10,680
Net source/(application) of funds		(132)	2,049
(Increase) in working capital		(1,872)	(5,171)
Movement in net liquid funds		(2,004)	(3,122)
Comprises:			
Increase (reduction) in cash and bank balances		1,064	(501)
(Increase) in balances due to bankers		(3,068)	(2,621)
		(2,004)	(3,122)
(Increase) decrease in working capital comprises:			
(Increase) in stocks and work in progress		(2,050)	(2,646)
(Increase) decrease in debtors		414	(5,390)
Increase (decrease) in creditors		(236)	2,865
		(1,872)	(5,171)

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Notes to the financial statements for the year to 31st December, 1985

1. Turnover

Turnover represents amounts invoiced to third parties in respect of goods sold and services provided, excluding value added tax, adjusted to reflect the movement in long term work in progress during the year, plus sales by Group companies in respect of amounts capitalised by other Group companies.

	Group 1985 £000	Group 1984 £000
Turnover comprises:		
Invoiced Sales	68,110	62,091
Long term contract work in progress movement	2,741	3,221
Sales to Group companies: amounts capitalised	362	420
	71,213	65,732

2. Operating profit

	Group 1985 £000	Group 1984 £000
Operating profit is stated after crediting:		
(a) Profit on sale of development land	801	188
(b) Exchange gains	51	40
And after charging:		
(c) Distribution costs	1,296	1,256
Administrative expenses	5,024	4,687
Distribution costs and administrative expenses	6,320	5,943
(d) Depreciation	1,722	1,713
(e) Auditors' remuneration	125	110
(f) Contract termination costs and redundancy	105	58
(g) Hire and operating lease payments:		
Plant and machinery	607	396
Other	817	616

3. Directors emoluments

	Company 1985 £000	Company 1984 £000
Staff costs include amounts payable to directors as follows:		
Fees	3	3
Other emoluments	216	190
	219	193
Directors emoluments fall into the following scales:		
Nil - £5,000	2	2
£25,001 - £30,000	-	1
£30,001 - £35,000	1	-
£35,001 - £40,000	1	4
£40,001 - £45,000	3	-

Emoluments of the chairman, excluding pension contributions, amounted to £34,996 (1984 £28,775) and of the highest paid director, excluding pension contributions, £43,496 (1984 £37,360).

4. Employees and staff costs

	Group 1985	Group 1984
The average number of persons employed during the year was:		
Direct production	1,936	1,720
Management and staff	434	449
Total	2,370	2,169
Total staff costs in respect of these persons amounted to:	£000	£000
Wages and salaries	29,017	25,229
Social security costs	2,382	2,110
Other pension costs	366	310
	31,765	27,649

Notes to the financial statements for the year to 31st December, 1985 (continued)

5. Interest receivable

	Group 1985 £000	1984 £000
On short term deposits and investments	49	77
On loans not receivable within one year	264	80
Total interest receivable	313	157

6. Interest payable

	Group 1985 £000	1984 £000
On bank overdrafts and short term loans	711	281
On loans wholly repayable within five years	44	142
On loans not wholly repayable within five years	279	87
Total interest payable	1,034	510

7. Tax on profit on ordinary activities

	Group 1985 £000	1984 £000
Based on the results of the year:		
Corporation tax at 41.25% (1984:46.25%)	2,163	1,543
Development land tax	-	61
Share of related companies	(42)	77
Deferred tax	(753)	617
Overseas tax	24	-
	1,392	2,298

8. Extraordinary items

	Group 1985 £000	Group 1984 £000
Reorganisation costs	(622)	(485)
Amounts written off investments	(1,423)	-
Surplus arising on disposal of subsidiary company	-	139
Extraordinary items before tax	(2,045)	(346)
Less tax thereon	224	305
Extraordinary items after taxation	(1,821)	(41)

Reorganisation costs arise from the need to rationalise the Group's interests in trades carried on by certain of its subsidiaries and include provision for further costs to be incurred.

9. Dividends

The dividends paid on the cumulative convertible preference shares were at the rate of 19.6% per annum.

10. Tangible fixed assets

The Group	Land and buildings Free hold £000	Leasehold Long £000	Leasehold Short £000	Plant & Equipment £000	Total £000
Cost and valuation					
At 31st December, 1984					
Cost	265	572	2,753	9,299	12,889
Valuation	280	5,690	545	-	6,515
Companies acquired	-	-	133	264	397
Additions	271	446	355	2,588	3,660
Disposals	-	-	(11)	(596)	(607)
Transfers to current assets	(140)	-	(106)	(657)	(903)
At 31st December, 1985	676	6,708	3,669	10,898	21,951
Whereof:					
Cost	536	1,018	3,124	10,898	15,576
Valuation 1982	140	5,690	545	-	6,375
	676	6,708	3,669	10,898	21,951
Aggregate depreciation					
At 31st December, 1984	27	310	308	3,767	4,412
Companies acquired	-	-	2	60	62
Charge for year	8	143	193	1,484	1,828
Disposals	-	-	(6)	(410)	(416)
Transfers to current assets	(8)	-	(28)	(40)	(76)
At 31st December, 1985	27	453	469	4,861	5,810
Net book value:					
At 31st December, 1985	649	6,255	3,200	6,037	16,141
At 31st December, 1984	518	5,952	2,990	5,532	14,992

The element of freehold land included in freehold land and buildings at 31st December, 1985 stated at cost amounts to £295,000 (1984 £30,000) and the element stated at valuation amounts to £15,000 (1984 £32,000). Freehold and leasehold properties included at valuation would be stated on the historical cost basis at a cost of £3,937,000 (1984 £3,985,000) less a cumulative provision for depreciation of £664,000 (1984 £587,000).

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Notes to the financial statements for the year to 31st December, 1985 (continued)

10. Tangible fixed assets (continued)

The Company	Land and buildings Leasehold Long £000	Land and buildings Leasehold Short £000	Plant & Equipment £000	Total £000
Cost and valuation				
At 31st December, 1984				
Cost	104	21	962	1,087
Valuation	3,400	-	-	3,400
Additions	-	-	47	47
Disposals	-	-	(20)	(20)
At 31st December, 1985	3,504	21	989	4,514
Whereof:				
Cost	104	21	989	1,114
Valuation 1982	3,400	-	-	3,400
	3,504	21	989	4,514
Aggregate depreciation				
At 31st December, 1984	190	5	466	661
Charge for year	80	2	77	159
Disposals	-	-	(18)	(18)
At 31st December, 1985	270	7	525	802
Net book value:				
At 31st December, 1985	3,234	14	464	3,712
At 31st December, 1984	3,314	16	496	3,826

Leasehold properties included at valuation would be stated on the historical cost basis at a cost of £1,750,000 (1984 £1,750,000) less a cumulative provision for depreciation of £331,000 (1984 £295,000).

JOHN WOOD GROUP PLC

Notes to the financial statements for the year to 31st December, 1985 (continued)

11. Fixed asset investments

The Group	Equity Interests In Related Companies £000	Loans to Related Companies £000	Unlisted Investments £000	Total £000
At 31st December, 1984 as originally stated	486	3,223	218	3,927
Transfer from current asset investments at valuation	-	-	614	614
Release of valuation surplus	-	-	(151)	(151)
At 31st December, 1984 as restated	486	3,223	681	4,390
Exchange adjustment	(69)	(635)	(4)	(708)
Additions	66	-	156	222
Repaid	-	(171)	-	(171)
Share of losses	(65)	-	-	(65)
	418	2,417	833	3,668
Provisions made in year				
Against cost of investment	150	928	345	1,423
For anticipated losses	111	-	-	111
	261	928	345	1,534
At 31st December, 1985	157	1,489	488	2,134

Details of principal related companies are set out on page 32.

The auditors of the major related company Geolograph Pioneer Inc., who are not the group auditors, have stated in their report that the success of future operations of that company is dependent on the stability of economic conditions within the petroleum industry and that realisation of recorded asset amounts are subject to such success. The directors have considered it appropriate to make provision against the equity investment in and loans to that company and the parent company has made provision against its investment in the subsidiary which owns the investment in Geolograph Pioneer.

Provision has been made to reduce the book value of unlisted investments dealt with on the U.K. Unlisted Securities Market to the latest available market value.

The exchange adjustment shown above has been taken to reserves.

Included within loans to related companies is an amount of £104,000 where the right to repayment has been deferred until creditors of the company concerned have been paid.

11. Fixed asset investments (continued)

The Company	Shares £000	Loans £000	Total £000
Investments in subsidiaries			
Cost or valuation			
At 31st December, 1984	6,971	-	6,971
Additions	1,038	1,385	2,423
	8,009	1,385	9,394
Whereof:			
Cost	1,041	1,385	2,426
Valuation 1982	6,968	-	6,968
	8,009	1,385	9,394
Provision made in year	1,041	-	1,041
At 31st December, 1985	6,968	1,385	8,353

Investments included at valuation would be stated at cost to the company of £285,000 (1984 £285,000).

Details of the principal subsidiary and related companies are shown on page 32. The financial statements of trading subsidiaries with net assets amounting in total to £5,038,000 have been audited by firms other than the auditors of the Company.

In 1982 the Company's investment in subsidiaries was revalued by the directors by reference to the shareholders' funds disclosed in the financial statements of the subsidiary companies at 31st December, 1981. No provision has been made for the corporation tax which would arise if the Company's investments were to be sold at the revalued amount.

Other Investments	Loans to Related Companies £000	Unlisted Investments £000	Total £000
Cost			
At 31st December 1984 and 1985	104	1	105

Included within loans to related companies is an amount of £104,000 where the right to repayment has been deferred until creditors of the company concerned have been paid.

Notes to the financial statements for the year to 31st December, 1985 (continued)

12. Stocks and work in progress

	Group 1985 £000	Group 1984 £000
Raw materials and consumables	1,421	1,318
Work in progress	4,271	3,078
Finished goods and goods for resale	3,471	2,717
Total stocks and work in progress	9,163	7,113
Work in progress comprises:		
Long term contract work in progress	8,091	5,702
Less: payments to account	7,254	4,792
Net long term contract work in progress	837	910
Net other work in progress	3,434	2,168
Work in progress	4,271	3,078

In the opinion of the directors the replacement cost of stocks and work in progress does not differ materially from amounts stated on the historical cost basis.

13. Debtors

	Group 1985 £000	Group 1984 £000	Company 1985 £000	Company 1984 £000
Due within one year:				
Trade debtors	15,500	16,537	17	14
Prepayments and accrued income	457	422	38	11
Loans to employees	94	76	54	-
Other debtors	579	631	19	15
Amounts due by subsidiaries	-	-	2,544	1,868
Amounts due by related companies	584	101	5	5
	17,214	17,767	2,677	1,913
Due later than one year:				
Loans to employees	120	116	58	52
Other debtors	272	137	-	-
	17,606	18,020	2,735	1,965

JOHN WOOD GROUP PLC

Notes to the financial statements for the year to 31st December, 1985 (continued)

14. Creditors: amounts falling due within one year

	Group 1985 £000	Group 1984 £000	Company 1985 £000	Company 1984 £000
Trade creditors	6,203	6,560	-	-
Accruals and deferred income	2,046	1,675	196	267
Other taxation and social security payable	1,596	1,826	302	210
Other creditors	568	502	68	59
Amounts due to subsidiaries	-	-	1,047	6
Amounts due to related companies	93	10	-	-
Excess of payments received on account over work done	35	38	-	-
	10,541	10,611	1,613	542
Corporation tax	2,407	1,952	421	536
Bank loans and advances	5,895	2,827	3,781	750
Current portion of loan capital (Note 15)	469	269	-	138
	19,312	15,659	5,815	1,966

15. Creditors: amounts falling due after one year

	Group 1985 £000	Group 1984 £000	Company 1985 £000	Company 1984 £000
Loan capital	2,739	4,629	388	999
Corporation tax due 1st January, 1987	592	265	513	201
Other	39	205	-	-
	3,370	5,099	901	1,200
Loan capital comprises				
Repayable between one and two years	778	1,069	388	192
Repayable between two and five years	1,381	1,945	-	807
Repayable after five years	580	1,615	-	-
As above	2,739	4,629	388	999
Amount included in creditors due within one year (Note 14)	469	269	-	138
Total loans	3,208	4,898	388	1,137
Whereof:				
Not wholly repayable within 5 years:				
Bank loan	2,961	3,492	-	-
Other	-	253	-	-
	2,961	3,745	-	-
Wholly repayable within 5 years	247	1,153	388	1,137
	3,208	4,898	388	1,137

15. Creditors: amounts falling due after one year (continued)

Notes

(a) Loans of £247,000 (1984 £267,000) are secured by way of fixed charges over the properties to which the loans relate.

(b) Loans not wholly repayable within five years are repayable and bear interest as follows:

(i) The Bank loan amounting to £2,961,000 (US $4,280,000) advanced to a subsidiary is repayable in twenty-four escalating quarterly instalments commencing in November 1985 and bears interest at 0.5% over eurodollar London Inter Bank Offered Rate ("LIBOR") for the years 1985-87 and 0.625% above eurodollar LIBOR for the remainder.

(ii) A loan amounting to £200,000 advanced to a subsidiary is repayable in annual instalments and bears interest at a fixed rate of 12%.

(iii) Local Authority loans advanced to a subsidiary amounting to £47,000 are repayable in semi annual instalments and bear interest at fixed rates between 5.68% and 10.75%.

(c) The exchange adjustment of £725,000 arising on translating opening balances on borrowings in foreign currencies at closing rate has been taken to reserves.

(d) Loan capital of the company consists entirely of loans from subsidiaries.

16. Provision for liabilities and charges

Deferred taxation provided in these financial statements comprises corporation tax deferred by:

	Group		Company	
	1985	1984	1985	1984
	£000	£000	£000	£000
Accelerated capital allowances	1,284	2,011	387	398
Other timing differences	(277)	(184)	-	-
	1,007	1,827	387	398
The full potential liability to corporation tax comprises:				
Accelerated capital allowances	2,586	2,565	387	398
Other timing differences	(285)	(205)	-	-
	2,301	2,360	387	398

In the event of disposal of revalued properties at the amounts included in these financial statements, the potential liability to corporation tax on chargeable gains would be £350,000 (1984 £500,000).

The movement in the provision for deferred taxation comprises;

	£000
Provision at 31st December, 1984 as originally stated	1,873
Transfer to Revaluation Reserve (Note 18)	(46)
As restated	1,827
Credit for year (Note 7)	(753)
Extraordinary items (Note 8)	(67)
At 31st December, 1985	1,007

Notes to the financial statements for the year to 31st December, 1985 (continued)

17. Share capital

	Authorised 1985 £000	Authorised 1984 £000
13,986,705 Ordinary shares of £1 each	13,987	13,987
1,013,295 Cumulative convertible preference shares of £1 each	1,013	1,013
	15,000	15,000

	Allotted and called up 1985 £000	Allotted and called up 1984 £000
9,119,655 Ordinary shares of £1 each	9,120	9,120
1,013,295 Cumulative convertible preference shares of £1 each	1,013	1,013
	10,133	10,133

The holders of the cumulative convertible preference shares are entitled to a net cash dividend at the rate of not less than 19.6% per annum.

Under the Company's share option scheme options were granted during 1985 in respect of 440,504 ordinary shares. The options are exercisable between five and ten years from date of grant at a price of £1 per share.

18. Reserves

The Group	Revaluation Reserve £000	Profit and Loss Account £000	Related Companies Retained Earnings £000	TOTAL £000
At 31st December, 1984 as originally stated	2,131	8,912	89	11,132
Release of surplus on market valuation of investments	(151)	-	-	(151)
Deferred taxation thereon	46	-	-	46
As restated	2,026	8,912	89	11,027
Exchange adjustments	-	(38)	-	(38)
Amortisation of property revaluation surplus	(65)	65	-	-
Profit retained in the year	-	1,152	(65)	1,087
Goodwill written off:				
Arising on acquisition of subsidiaries in year	(929)	-	-	(929)
At 31st December 1985	1,032	10,091	24	11,147

Notes to the financial statements for the year to 31st December, 1985 (continued)

18. Reserves (continued)

The Company	Revaluation Reserve £000	Profit and Loss Account £000	Total £000
At 31st December, 1984	1,782	2,553	4,335
Amortisation of property revaluation surplus	(40)	40	-
Loss in year	-	(869)	(869)
At 31st December 1985	1,742	1,724	3,466

19. Capital commitments

	1985 £000	1984 £000
At the balance sheet date the following capital commitments existed -		
The company	Nil	Nil
Subsidiaries -		
Tangible fixed assets (before deduction of government grants)		
Contracted for	406	287
Authorised but not contracted for	218	1,088
Investments in subsidiary and related companies	230	Nil

Commitments to acquire shares from minority shareholders in subsidiaries at prices yet to be determined.

20. Leasing commitments

	1985		1984	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Payments fall due in 1986 in respect of operating leases which expire				
Within one year	61	10	11	8
Within two to five years	354	29	110	15
Later than five years	869	4	765	1
	1,284	43	886	24

21. Capital grants deferred credit

	Group		Company	
	1985	1984	1985	1984
	£000	£000	£000	£000
Regional Development Grants	314	339	-	-

22. Contingent liabilities

At the balance sheet date contingent liabilities were in respect of:

(a) Guarantees in the normal course of business for contract performance.

(b) Cross guarantees without limit extended to the Group's principal bankers in respect of sums advanced to the Company and to certain subsidiaries which at 31st December, 1985 amounted to £Nil (1984 £Nil).

(c) Under the terms of an agreement for the sale of a subsidiary the company has certain contingent liabilities which if they matured are, in the opinion of the Directors, unlikely to be material.

(d) The Company has guaranteed repayments of capital and interest in respect of a bank loan advanced to a subsidiary amounting to £2,961,000 (US $4,280,000) (1984 £3,492,000 US $4,000,000)

(e) The Company has guaranteed bank borrowings of a related company not exceeding £360,000 (1984 £Nil).

23. Loan to director

The undermentioned loan which subsisted during the year was made by the Company in previous years when Mr W.H. Carr was not a director of the Company.

	Company	
	1985	1984
	£	£
Balance at 31st December, 1985	5,755	6,755
Maximum in the year	6,755	7,755

The loan bears interest at 4% per annum and is repayable by annual instalments of £1,000.

Notes to the financial statements for the year to 31st December, 1985 (continued)

24. Post balance sheet events

On 31st January, 1986 Wood Group Offshore Limited acquired all of the issued share capital of Salvesen Offshore Services Limited for a consideration of £218,000. Additionally, funds were made available to Salvesen Offshore Services Limited to enable it to clear its indebtedness to the Salvesen Group.

25. Funds from operations

	Group 1985 £000	Group 1984 £000
Profit before tax	4,632	4,910
Extraordinary items before tax	(2,045)	(346)
	2,587	4,564
Adjustments for items not involving working capital or net liquid funds:		
Depreciation	1,828	1,713
Transfer from capital grants deferred credit	(25)	(27)
Share of (profits)/losses before tax of related companies	218	(166)
Surplus on disposal of subsidiary	-	(139)
Provisions against investments	1,423	-
Loss (gain) on disposal:		
Tangible fixed assets	(29)	8
Investments	-	(63)
Exchange adjustment	(55)	(61)
Funds from operations	5,947	5,829

26. Acquisition of subsidiaries

The effect of acquisition of subsidiaries is summarised as follows:

	1985	1984
Fixed assets	335	352
Net current assets	494	428
Goodwill	929	148
	1,758	928
Consideration	1,497	714
Minority interests	261	214
	1,758	928

JOHN WOOD GROUP PLC
Principal Companies of the Group

PRINCIPAL SUBSIDIARY COMPANIES	Percentage of Issued Ordinary Shares held by The Company	Percentage of Issued Ordinary Shares held by Subsidiaries of the Company
Engineering Division		
Wood Group Engineering Limited	100%	
Wood Group Electrical Engineering Limited		100%
Wood Group Valve and Engineering Services Limited		100%
Wood Group Haven Engineering Limited		100%
Wood Group Engineering Design Limited		100%
Offshore Platform Maintenance Limited		100%
Wood Group Structural Coatings Limited		100%
Enterprise Engineering Services Limited		100%
Structural Surveys Limited		100%
Prime Mover Maintenance Limited		75%
Wood Way Engineering Services Limited		100%
Sullom Voe Engineering Limited		100%
Sella Ness Service Company Limited		100%
Oilfield Logistics and Supplies Division		
Wood Group Oilfield Logistics and Supplies Limited	100%	
Wood Group Offshore Limited		100%
Moray Firth Service Company Limited		60%
Woodacon Oils Limited		100%
Wood Group Fire Protection Limited		100%
Fireater Systems Limited		100%
Alexander McKay Limited		100%
Wood Group Development Company Limited		100%
Wood Group Plant Limited		100%
Drilling and Production Services Division		
Wood Group Drilling and Production Services Limited	100%	
Valstar Technical Systems Limited		80%
Petroleum Measurement Corporation		66%
Wood Group Industrial Controls Limited		100%
Haven Automation Limited		100%
Wood Group Process Systems Limited		100%
Completion Assemblies Limited		67%
Wood Group Oilfield Rentals Limited		85%
Wood Group International NV	100%	
Wood Group (USA) Limited (formerly Wood Group Engineering International Limited)		100%

PRINCIPAL RELATED COMPANIES	Percentage of Issued Ordinary Shares held by Group companies
Geolograph Pioneer Inc.	50%
East of Scotland Resources Limited	21%
Scottish Rig Repairers Limited	45%

All the companies listed above are registered in Scotland with the exception of Haven Automation Limited, Prime Mover Maintenance Limited and Fireater Systems Limited which are registered in England, Wood Group (USA) Limited which is registered in the Republic of Ireland, Wood Group International NV which is registered in the Netherlands Antilles, Geolograph Pioneer Inc. and Petroleum Measurement Corporation which are registered in the USA.