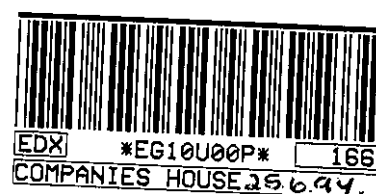


Railcare Limited

Accounts 31 March 1997
together with directors' and auditors' reports

Registered number: 3001044



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Directors and Advisors

For the year ended 31 March 1997

Directors

EM McDonnell

EAS Porter

AK Smith (Chairman)

PJ Tizzard

B Turnbull (Managing Director)

Secretary

AP Kennedy

Registered office

The Lodge

Badminton Court

Church Street

Amersham

Bucks

HP7 0DD

Auditors

Binder Hamlyn

20 Old Bailey

London

EC4M 7BH

Bankers

The Royal Bank of Scotland plc

PO Box 450

5-10 Great Tower Street

London

EC3P 3XH

Solicitors

Hammond Suddards

Trinity Court

16 John Dalton Street

Manchester

M60 8HS

Directors' report

For the year ended 31 March 1997

Financial Statements

The directors present their report and financial statements of the group covering the year ended to 31 March 1997.

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 the group and of the profit or loss of the group 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 the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Principal activities and business review

The principal activity of the group is that of the repair, maintenance and refurbishment of railway rolling stock. The company will continue to operate in this field for the foreseeable future.

Results and Dividends

The group's profit after taxation for the year was £2,911,000. The directors recommend a final ordinary dividend of £2,900,000, making the total of ordinary dividends £4,660,000 for the year which leaves a loss of £1,749,000 to be retained.

Directors and their interests

The directors who served during the year were as follows;

EM McDonnell

EAS Porter

AK Smith (Chairman)

PJ Tizzard

B Turnbull (Managing Director)

Directors' report (continued)

The directors who held office on 31 March 1997 had no interests other than those shown below in the shares of Babcock International Group PLC.

Name of Director	Name of Company	<u>At 1 April 1996</u>	<u>31 March 1997</u>
		Number of Ordinary 50p shares	Number Ordinary 50p shares
EAS Porter	Babcock International Group PLC	25,517	19,517
AK Smith	Babcock International Group PLC	47,164	47,164

The directors and their immediate families have the following options to subscribe for shares in group companies.

Number of options over Ordinary 50p shares in Babcock International Group

Name of Director	At 1 April 1996	Granted during the year	At 31 March 1997
EAS Porter	238,267	-	238,267
AK Smith	219,562	-	219,562
B Turnbull	80,000	50,000	130,000

Donations

Charitable donations made during the year amounted to £250 (1996:£Nil) and political donations £Nil (1996:£Nil).

Suppliers payment

Group policy on payment of trade creditors is to pay suppliers in accordance with contractual and other legal obligations. The group's trade creditors days at 31 March 1997 were on average 79.

Employment policy

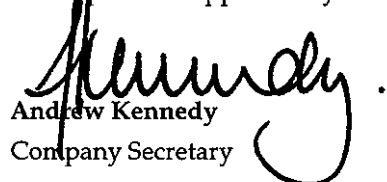
The company uses the consultative procedures agreed with its staff and elected representatives with a view to ensuring that employees are aware of the financial and economic factors which affect the company's performance and prospects.

In respect of disabled persons, the company's policy is to continue to employ those who become disabled in service, together with recruitment where circumstances permit. Training is adjusted to cater for an individual disability and the disabled share the same conditions of service as other staff in relation to career development and promotion.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Binder Hamlyn be reappointed as auditors of the company will be put to the Annual General Meeting.

This report was approved by the Board on 6th June 1997.


Andrew Kennedy
Company Secretary

Auditors' report

To the members of Railcare Limited.

We have audited the financial statements on pages 5 to 18 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

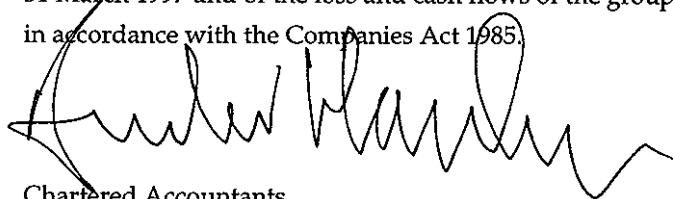
Basis of opinion

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 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 company's circumstances, 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 affairs of the company and group as at 31 March 1997 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants
Registered Auditors

6th June 1997

Consolidated Profit and Loss Account

For the year ended 31 March 1997

	Notes	1997 £'000	1996 £'000
Turnover	2	75,205	54,958
Cost of sales		<u>(60,159)</u>	<u>(39,788)</u>
Gross Profit		15,046	15,170
Distribution costs		(164)	(387)
Administrative expenses		<u>(10,917)</u>	<u>(12,593)</u>
Operating profit		3,965	2,190
Interest receivable and similar income	4	361	206
Interest payable and similar charges	4	<u>(583)</u>	<u>(2)</u>
Profit on ordinary activities before taxation	3	3,743	2,394
Tax on profit on ordinary activities	6	<u>(832)</u>	<u>(641)</u>
Profit on ordinary activities after taxation		2,911	1,753
Dividends	7	<u>(4,660)</u>	<u>-</u>
Retained (loss)/profit		<u><u>(1,749)</u></u>	<u><u>1,753</u></u>

All of the results above arose from continuing activities.

The group had no recognised gains or losses other than the loss for the year.

The movement on reserves is stated in note 17 to these accounts.

Consolidated Balance Sheet

As at 31 March 1997

	Notes	1997 £'000	1996 £'000
Fixed assets			
Tangible assets	8	<u>8,205</u>	<u>8,172</u>
Current assets			
Stocks	10	7,279	7,777
Debtors	11	30,659	19,621
Cash at bank and in hand		<u>3,709</u>	<u>5,787</u>
		41,647	33,185
Creditors: amounts falling due within one year	12	<u>(28,012)</u>	<u>(22,971)</u>
Net current assets		<u>13,635</u>	<u>10,214</u>
Total assets less current liabilities		<u>21,840</u>	<u>18,386</u>
Provisions for liabilities and charges	14	<u>(2,496)</u>	<u>(1,263)</u>
Net assets		<u><u>19,344</u></u>	<u><u>17,123</u></u>
Capital and reserves			
Called-up share capital	16	1,577	1,577
Goodwill reserve	18	18,970	15,000
Profit and loss account	17	<u>(1,203)</u>	<u>546</u>
Equity shareholders' funds		<u><u>19,344</u></u>	<u><u>17,123</u></u>

The financial statements on pages 5 to 18 were approved by the Board on 6th June 1997.

Company Balance Sheet

As at 31 March 1997

	Notes	1997 £'000	1996 £'000
Fixed assets			
Tangible assets	8	8,205	-
Investments	9	<u>5,700</u>	<u>5,700</u>
		13,905	5,700
Current assets			
Stocks	10	7,279	-
Debtors	11	20,359	51
Cash at bank and in hand		<u>3,709</u>	<u>315</u>
		31,347	366
Creditors: amounts falling due within one year	12	<u>(28,495)</u>	<u>(4,430)</u>
Net current assets (liabilities)		<u>2,852</u>	<u>(4,064)</u>
Total assets less current liabilities		16,757	1,636
Creditors: amounts falling due after more than one year	13	(12,230)	-
Provisions for liabilities and charges	14	<u>(1,496)</u>	<u>-</u>
Net assets		<u><u>3,031</u></u>	<u><u>1,636</u></u>
Capital and reserves			
Called up share capital	16	1,577	1,577
Profit and loss account	17	<u>1,454</u>	<u>59</u>
Equity shareholders' funds		<u><u>3,031</u></u>	<u><u>1,636</u></u>

The financial statements on pages 5 to 18 were approved by the Board on 6th June 1997.

B Turnbull
Director



Consolidated cash flow statement

For the year ended 31 March 1997

	Notes	1997 £'000	1996 £'000
Net cash inflow/(outflow) from operating activities	21	3,957	(2,689)
Returns on investments and servicing of finance			
Interest (paid)/received from group companies		(168)	51
Interest (paid) to third parties		(415)	(2)
Interest received from third parties		361	156
Net cash (outflow)/inflow from returns on investments and servicing of finance		(222)	205
Taxation			
UK corporation tax paid		(693)	(217)
Capital expenditure			
Payments to acquire tangible fixed assets		(694)	(457)
Receipts from the sale of tangible fixed assets		-	17
Net cash (outflow) from capital expenditure		(694)	(440)
Acquisitions and disposals			
Purchase of subsidiary undertakings		-	(200)
Equity dividends paid			
Dividends (paid) to group companies		(1,056)	-
Dividends (paid) to minority shareholders		(704)	-
		(1,760)	-
Net cash inflow/(outflow) before use of liquid resources and financing		588	(3,341)
Management of liquid resources and financing			
Movement in loans from group companies		-	(604)
Repayments of capital element of finance lease rentals		-	(7)
Cash purchased		-	3,726
Net cash inflow from financing		-	3,115
Increase/(decrease) in cash in the period	22	588	(226)

Notes to the Financial Statements

for the year ended 31 March 1997

1 Accounting policies

a) *Accounting convention*

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain freehold land and building and plant and machinery and in accordance with applicable accounting standards.

b) *Basis of consolidation*

The group financial statements consolidate the financial statements of Railcare Limited and all its subsidiary undertakings made up to 31 March 1997. A separate profit and loss account dealing with the results of Railcare Limited only has not been presented as permitted by section 230 of the Companies Act 1985. Negative goodwill arising from the acquisition of subsidiary companies is credited to a Goodwill Reserve.

c) *Tangible fixed assets*

Land is capitalised at valuation to the company and is not depreciated.

Other tangible fixed assets are stated at cost or valuation less depreciation. Depreciation is provided on these tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life. The directors have reassessed the expected useful lives since the last year end. The annual depreciation rates are as follows:

Freehold buildings	- 10% straight line
Plant and machinery	- 6.6% to 10% straight line
Fixtures and fittings	- 10% straight line
Motor vehicles	- 25% straight line

d) *Stocks and work in progress*

Stocks are valued at the lower cost and net realisable value. Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Long term contract balances are valued at costs incurred, less amounts transferred to cost of sales, less, provisions for foreseeable losses and applicable payments on account.

e) *Deferred taxation*

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax legislation) has been calculated on the liability method. Deferred taxation is provided on timing differences which will probably 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. Deferred tax assets are not taken up until realised. However, the amount of all deferred tax, including that which will probably not reverse, is shown in the notes to the accounts.

f) *Leases*

The company enters into operating and finance leases.

Assets held under finance leases are initially reported at the fair value of the asset, with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease terms and its useful economic life. Finance costs are allocated to accounting years over the year of the lease to produce a constant rate of charge on the outstanding balance. Rentals are apportioned between finance costs and reduction of the liability and allocated to cost of sales and other operating expenses as appropriate.

Notes to the Financial Statements (continued)

for the year ended 31 March 1997

g) Pension costs

The company operates defined benefit schemes for certain employees. The assets of the schemes are held separately from those of the company. The company makes contributions which are charged to the profit and loss account in the year in which they become payable. Details of this scheme are given in note 23 to these accounts.

For certain other employees, the company is a member of other Babcock International Group pensions schemes, which are defined benefit pension schemes. The company makes contributions which are based on periodic actuarial calculations and are charged to the profit and loss account so as to spread the cost of pensions over the expected service lives of the employees who are members of the schemes.

2 Turnover

Turnover represents the amount derived from the provision of goods and services during the year which fall within the group's ordinary activities, and is stated net of value added tax.

3 Operating profit is stated after charging	1997	1996
	£'000	£'000
Auditors' remuneration for audit services	38	42
Depreciation		
- owned assets	661	548
- assets held under leasing agreements	-	29
Operating lease charges - land and buildings	138	138
- plant and machinery	113	122
Short term plant hire	195	104

The company's profit after tax and dividend for the year was £1,395,000 (1996:£59,000)

4 Net interest	1997	1996
	£'000	£'000
Bank interest receivable	361	152
Bank interest payable on overdrafts repayable wholly within five years	(415)	(2)
Group interest (payable)/receivable	(168)	54
Net interest (payable)/receivable	(222)	204

5 Particulars of employees and information regarding directors

The average number of persons employed by the company, including directors, during the year was as follows:

	Number	Number
Production	967	787
Administrative staff	295	258
	1,262	1,045

Notes to the Financial Statements

for the year ended 31 March 1997

5 Particulars of employees and information regarding directors (continued)

	£'000	£'000
Their total remuneration was:		
Wages and salaries	21,566	17,024
Social security costs	1,715	1,350
Other costs	174	708
	<u>23,455</u>	<u>19,082</u>

	£'000	£'000
Directors' emoluments were as follows:		
Remuneration as executives	235	154
Pension contributions included in above	3	2

	1997 £'000	1996 £'000
Directors' remuneration excluding pension contributions, was as follows:		
Chairman	-	-
Highest paid director	127	77
Accrued pension of highest paid director under defined benefit scheme	6	4

6 Taxation

UK Corporation tax at 33% (1996: 33%)	<u>832</u>	<u>641</u>
---------------------------------------	------------	------------

7 Dividends

	1997 £'000	1996 £'000
Ordinary dividend paid	1,760	-
Ordinary dividend proposed	<u>2,900</u>	<u>-</u>
	<u>4,660</u>	<u>-</u>

Notes to the Financial Statements (continued)

for the year ended 31 March 1997

8 Tangible fixed assets

	Freehold land and buildings	Short leasehold property	Plant and equipment	Total
(a) Group	£'000	£'000	£'000	£'000
Cost				
1 April 1996	6,720	185	2125	9030
Additions	202	2	490	694
Disposals	-	-	(16)	(16)
31 March 1997	6,922	187	2,599	9,708
Depreciation				
1 April 1996	(324)	(42)	(492)	(858)
Charge for the year	(305)	(8)	(348)	(661)
Disposals	-	-	16	16
31 March 1997	(629)	(50)	(824)	(1,503)
Net book value				
31 March 1997	6,293	137	1,775	8,205
1 April 1996	6,396	143	1,633	8,172
(b) Company	£'000	£'000	£'000	£'000
Cost	-	-	-	-
Transfer from group companies	6,720	185	2,125	9,030
Additions	202	2	490	694
Disposals	-	-	(16)	(16)
31 March 1997	6,922	187	2,599	9,708
Depreciation				
1 April 1996				
Transfer from group companies	(324)	(42)	(492)	(858)
Charge for the year	(305)	(8)	(348)	(661)
Disposals	-	-	16	16
31 March 1997	(629)	(50)	(824)	(1,503)

Notes to the Financial Statements (continued)

for the year ended 31 March 1997

8 Tangible fixed assets (continued)

	Freehold land and buildings	Short leasehold property	Plant and equipment	Total
Net book value				
31 March 1997	<u>6,293</u>	<u>137</u>	<u>1,775</u>	<u>8,205</u>
1 April 1996	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Group

Freehold land and buildings at 31 March 1997 includes freehold land of £2,640,000 (1996 £2,640,000) which is not depreciated. Fixed assets with a net book value of £Nil (1996: £Nil) are held under leasing agreements. Depreciation of £Nil (1996: £29,000) was charged on these assets in the year.

Company

Freehold land and buildings at 31 March 1997 includes freehold land of £2,640,000 (1996 £Nil) which is not depreciated.

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
At March 1997 the group's and the company's capital commitments amounted to:				
Provided but not contracted for	<u>1,627</u>	<u>1,865</u>	<u>1,627</u>	<u>-</u>

9 Investments

Company only investments in subsidiary undertakings	£'000
1 April 1996 and 31 March 1997	<u>5,700</u>

The company's subsidiary undertakings at 31 March 1997 included in the consolidated accounts, we as follows:

Name	Country of incorporation	Holding of ordinary shares %	Nature of business
Glasgow Rail Maintenance Limited	UK	100%	Dormant
Tickford Rail Limited	UK	100%	Dormant

10 Stocks

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Raw materials	4,892	3,942	4,892	-
Work in progress	1,817	3,200	1,817	-
Long term contract balances	502	590	502	-
Finished goods and goods for resale	<u>68</u>	<u>45</u>	<u>68</u>	<u>-</u>
	<u>7,279</u>	<u>7,777</u>	<u>7,279</u>	<u>-</u>

Long term contract balances are net of payments on account of £283,000 (1996 : £438,000).

Notes to the Financial Statements (continued)

for the year ended 31 March 1997

11 Debtors

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Trade debtors	19,577	14,182	19,577	-
Amounts owed by group companies	29	-	29	-
Other debtors	481	199	481	32
Pension fund surplus	10,300	5,020	-	-
Prepayments and accrued income	272	220	272	19
	<u>30,659</u>	<u>19,621</u>	<u>20,359</u>	<u>51</u>

Amounts falling due after more than one year in debtors above are:

	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Pension fund surplus	<u>9,660</u>	<u>4,530</u>	<u>-</u>	<u>-</u>

12 Creditors: amounts falling due within one year

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Loan	1,569	1,569	1,569	1,569
Bank loans and overdrafts	-	2,666	-	28
Trade creditors	12,550	8,599	12,550	-
Amounts owed to group companies	2,773	2,434	2,773	2,434
Other creditors	1,766	1,977	1,766	-
Corporation tax payable	804	641	804	-
Other taxes and social security	3,384	2,664	3,384	-
Accruals and deferred income	2,266	2,421	2,749	399
Dividend payable	2,900	-	2,900	-
	<u>28,012</u>	<u>22,971</u>	<u>28,495</u>	<u>4,430</u>

13 Creditors: amounts falling due after more than one year

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Amount owed to group companies	<u>-</u>	<u>-</u>	<u>12,230</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>12,230</u>	<u>-</u>

Notes to the Financial Statements (continued)

for the year ended 31 March 1997

14 Provisions for liabilities and charges

	Group	Company
	£'000	£'000
Warranty Provision:		
1 April 1996	1,263	-
Transfer from group companies on acquisition of businesses	-	1,263
Provided in year	<u>233</u>	<u>233</u>
31 March 1997	<u>1,496</u>	<u>1,496</u>

	Group	Company
	£'000	£'000
Deferred Tax:		
1 April 1996	-	-
Provided in year	<u>1,000</u>	<u>-</u>
31 March 1997	<u>1,000</u>	<u>-</u>
Total 31 March 1997	<u>2,496</u>	<u>-</u>

15 Deferred Tax

a) Group

	Provided		Not provided	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
The full potential net deferred tax liability is analysed as follows:				
Accelerated capital allowances	844	-	-	2,106
Reversal of pension surplus	(3,399)	-	-	(1,657)
Short term timing differences	<u>1,555</u>	<u>-</u>	<u>-</u>	<u>1,209</u>
	<u>(1,000)</u>	<u>-</u>	<u>-</u>	<u>1,658</u>

b) Company

	Provided		Not provided	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
The full potential deferred tax asset is analysed as follows:				
Accelerated capital allowances	-	-	844	-
Short term timing differences	<u>-</u>	<u>-</u>	<u>1,555</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>2,399</u>	<u>-</u>

In accordance with the company's accounting policy the deferred tax asset has not been recognised in the financial statements.

Notes to the Financial Statements (continued)

for the year ended 31 March 1997

16 Called-up equity share capital

	Group and Company	
	Authorised 1997 and 1996 Number	Allotted, called-up and fully paid 1997 and 1996 Number
£1 Ordinary shares	<u>10,000,000</u>	<u>1,577,100</u>

17 Profit and loss account

	Group £'000	Company £'000
1 April 1996	546	59
Retained (loss)/profit for the year	<u>(1,749)</u>	<u>1,395</u>
31 March 1997	<u>(1,203)</u>	<u>1,454</u>

18 Goodwill Reserve

	Group £'000
1 April 1996	15,000
Additional pension surplus following actuarial valuation	4,970
Deferred tax provision relating to pension surplus	<u>(1,000)</u>
31 March 1997	<u>18,970</u>

Details on the additional surplus are given in note 23.

19 Reconciliation of movement in group shareholders' funds

	1997 £'000	1996 £'000
(Loss)/profit for the financial year	(1,749)	1,753
Goodwill reserve movement	<u>3,970</u>	<u>15,000</u>
Net addition to shareholders' funds	2,221	16,753
Opening shareholders' funds	<u>17,123</u>	<u>370</u>
Closing shareholders' funds	<u>19,344</u>	<u>17,123</u>

Notes to the Financial Statements (continued)

for the year ended 31 March 1997

20 Financial commitments and contingent liabilities

The group and company is committed to make the following payments under operating leases:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Payments in respect of plant and machinery leases expiring:				
Within one year	132	106	132	-
Within two to five years	54	59	54	-
	<u>186</u>	<u>165</u>	<u>186</u>	<u>-</u>
Payments in respect of land and building lease expiring:				
After 5 years	<u>138</u>	<u>138</u>	<u>138</u>	<u>-</u>

21 Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	1997	1996
	£'000	£'000
Operating profit	3,965	2,190
Depreciation	661	577
Decrease/(increase) in stocks	498	(318)
Decrease/(Increase) in connected companies	310	(2,157)
(Increase) in debtors	(6,015)	(6,313)
Increase in creditors	4,538	3,340
(Profit) on disposal of fixed assets	-	(8)
Net cash inflow/(outflow) from operating activities	<u>3,957</u>	<u>(2,689)</u>

22 Analysis of changes in net funds

	1997	1996
	£'000	£'000
Net cash at 1 April 1996	3,121	3,347
Net cash inflow/(outflow)	588	(226)
Net cash at 31 March 1997	<u>3,709</u>	<u>3,121</u>

Notes to the Financial Statements (continued)

for the year ended 31 March 1997

23 Pension Commitments

In May 1994, Parliament approved the Order which established the Railways Pension Scheme. All members of British Rail's main pension scheme (the BR Pension Scheme), including the substantial majority of the company's employees, were transferred to this new scheme on 1 October 1994. The new scheme consists of separate sections covering the employees of British Rail, the pensioners and deferred pensioners of the former BR Pension Scheme (for whom the Secretary of State for Transport is now the designated employer), and the employees of other companies in the industry. Each section in the new scheme has been allocated a portion of the assets to support the payment of benefits in that section.

A formal actuarial review of the BR Pension Scheme was carried out by independent qualified actuaries, R Watson & Sons as at 1 April 1996, using the projected unit method of valuation. The main assumptions used were that the rate of investment return net of price inflation would be 4% per annum (3.75% per annum for preserved benefits), that future pensionable pay awards would exceed price inflation by 2% per annum, and that dividend growth on UK equities would be 0.5% per annum less than the rate of price inflation.

On this basis, and after taking into account the expected allocation of assets to the various sections of the Railways Pension Scheme, the actuarial value of the assets attributable to the section covering BR employees was estimated to exceed the projected accrued liabilities by approximately £12.6m as at 1 April 1996, before allowing for agreed future contribution reductions.

The ongoing regular service cost of the scheme to be met by both the employees and the employer, was estimated by the actuary at 30.1% of scheme pay, defined as pensionable pay less 150% of the basic state pension. The scheme is currently receiving reduced contributions from employees at a rate of 5% of scheme pay and the employer's contribution remains at 7.5%.

During the year to 31 March 1997, the company's Profit and Loss Account has been charged with £140,000 (1996 £680,000) equivalent to net 7.5% of scheme pay less a SSAP24 interest credit adjustment of £310,000.

Following the actuarial review as at 1 April 1996 a further £4,970,000 was credited to the goodwill reserve, reflecting the discounted additional pension surplus as at 27 May 1995 when the company joined the scheme.

24 Ultimate parent undertaking

The company is owned 60% by Babcock Facilities Management Limited and 40% by Siemens Plc.

The directors consider Babcock International Group PLC, a company registered in England and Wales, to be the company's ultimate parent undertaking.