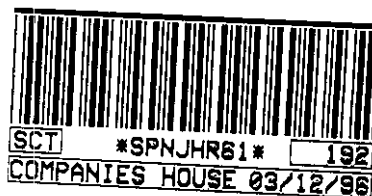


# Babcock Rosyth Defence Limited and subsidiary undertakings

Accounts 31 March 1996  
together with directors' and auditors' reports

Registered number: SC099884



## Directors and advisors

### **Directors**

Mr A K Smith (Chairman)

Mr D S Batty (Managing Director)

Rt Hon Lord Hesketh

Dr T J Parker

Mr E A S Porter

Mr N R Salmon

### **Secretary**

Mr A P Kennedy

### **Registered Office**

Rosyth Royal Dockyard

Rosyth

Fife

KY11 2YD

### **Auditors**

Arthur Andersen

18 Charlotte Square

Edinburgh

EH2 4DF

### **Bankers**

The Royal Bank of Scotland plc

52/54 East Port

Dunfermline

Fife

KY12 7HB

### **Solicitors**

McGrigor Donald

Pacific House

70 Wellington Street

Glasgow

G2 6SB

Hammond Suddards

Trinity Court

16 John Dalton Street

Manchester

M60 8HS

## Directors' report

For the year ended 31 March 1996

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report, for the year ended 31 March 1996.

### Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

### Principal activities

From 6 April 1987, Babcock Rosyth Defence Limited took over the management, operation and maintenance of Rosyth Royal Dockyard under a seven year contract with the Secretary of State for Defence, which has since been extended to run for up to nine and a half years. Further agreements made by the company provide that it has the right to the use of the buildings and machinery at the Dockyard and the services of the employees of Rosyth Royal Dockyard plc.

The company is engaged principally in the refit and repair of naval vessels and in heavy engineering and manufacture.

### Review of business

The Babcock group of companies, of which Babcock Rosyth Defence Limited forms a part, has been invited by the Secretary of State to submit, and has submitted, an offer to acquire Rosyth Royal Dockyard. Negotiation of issues arising from the offer are well advanced, and the company anticipates the transaction to acquire the Dockyard business and assets being completed in the coming year. This being the case, the company expects to continue in its present pattern of business for the foreseeable future.

A significant programme of nuclear submarine and surface warship activity has been undertaken throughout the year. On the submarine front, HMS SOVEREIGN is now nearing refit completion after a very busy year. Refit activity was dominated by HMS SUPERB, the second "S" class refit to be undertaken at Rosyth. After a delayed start, significant progress has been made on a wide front with completion scheduled for 1998. Decommissioning of a second Polaris submarine commenced towards the end of the year.

## Directors' report (continued)

### Review of business (continued)

Refitting activity on large surface ships attained its highest level ever with the triple streaming of destroyers and frigates. HMS EDINBURGH's refit was completed to its original contracted time and is the fastest Type 42 destroyer refit yet undertaken in the UK. HMS NEWCASTLE's refit was well under way at the end of the financial year and HMS CARDIFF's refit had just commenced. A notable success was the winning in competition of HMS COVENTRY, Rosyth's first TYPE 22 frigate refit, which was well in hand at the end of the financial year. The RFA SIR BEDIVERE Ship Life Extension Project proceeded throughout the year with a significantly increased work package.

Two notable events impacting on future business were the award of a further two nuclear submarine refits extending Rosyth's programme of work on this product up to the year 2001 and the commencement of engineering activity on HMS ARK ROYAL ahead of this aircraft carrier's refit at Rosyth from 1998.

On commercial activities, both Babcock Rosyth Fabricators and Babcock Rosyth Joinery Products have made significant penetration of their chosen markets. During the year Fabricators has substantially completed the second subsea drilling centre manifold for BP's West of Shetland Foinavon field, and has been working on hull sections for the new generation of high speed aluminium catamaran ferries for which there is growing demand worldwide. Joinery successfully entered the European market for bespoke joinery, and has been working on the launch of a range of high quality office furniture.

### Dividends and reserves

An interim dividend of £8,050,000 was paid on 28 July 1995. The directors recommend that no final dividend is paid and that the retained loss for the year of £4,450,000 be transferred to reserves.

### Fixed assets

The movements in tangible fixed assets are shown in note 8 to the accounts.

### Directors and their interests

The directors who served during the year are shown below.

Mr A K Smith

Mr D S Batty

Rt Hon Lord Hesketh

Dr T J Parker

Mr E A S Porter

Mr N R Salmon

Mr B Morse (resigned 1 June 1995)

## Directors' report (continued)

### Directors and their interests (continued)

The directors who held office at 31 March 1996 had no interests other than those shown below in the shares of group companies.

Name of director	Name of company	31 March 1996	1 April 1995
		Number of Ordinary shares	Number of Ordinary shares
Mr A K Smith	Babcock International Group PLC	47,164	47,164
Mr D S Batty	Babcock International Group PLC	3,928	3,928
Rt Hon Lord Hesketh	Babcock International Group PLC	7,000	2,000
Dr T J Parker	Babcock International Group PLC	7,857	7,857
Mr E A S Porter	Babcock International Group PLC	25,517	25,517
Mr N R Salmon	Babcock International Group PLC	3,300	-

According to the register of directors' interests maintained under the Companies Act, the directors and their immediate families have the following options to subscribe for shares in group companies.

Name of director	Number of options over Ordinary shares in Babcock International Group PLC		
	At 1 April 1995	Granted during the year	At 31 March 1996
Mr A K Smith	219,562	-	219,562
Mr D S Batty	85,627	50,000	135,627
Rt Hon Lord Hesketh	-	-	-
Dr T J Parker	1,012,971	-	1,012,971
Mr E A S Porter	238,267	-	238,267
Mr N R Salmon	886,344	-	886,344

For comparative purposes, the number of shares and share options at 1 April 1995 have been adjusted to reflect the 1 for 5 consolidation of the share capital of Babcock International Group PLC which took place on 27 July 1995.

There have been no changes in directors' interests in shares or options between 31 March 1996 and the date of this report.

## Directors' report (continued)

### **Safety policy**

The group recognises the promotion of health and safety at work as an important objective. It is group policy to take steps to ensure, as far as is reasonably practicable, the health, safety and welfare of the employees of the group.

The group has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

### **Employment of disabled persons**

The policy and practice of the group is to seek to encourage and assist the employment of disabled persons who are able to perform their duties without exposing themselves or others to abnormal risks.

The training, career development and promotion opportunities of the group's disabled employees are equal to those of their able-bodied colleagues.

Arrangements are made, wherever possible, for the continued employment of employees becoming disabled whilst working for group companies. If necessary, retraining is offered to such individuals to allow each of them to perform work suited to their aptitudes and abilities.

### **Employee involvement**

It is group policy for employing companies to communicate regularly with their employees in briefings and discussions, by written communications on specific topics and on more general issues through the bulletin "Newsweek" and the company newspaper "RRD 2000". The employing company routinely discusses issues affecting its employees with the employees' trade unions' representatives.

The company encourages the active involvement of all group employees in the company Change Programme which has, as its objective, continuous improvement of performance to the mutual advantage of both company and employees.

### **Charitable and political contributions**

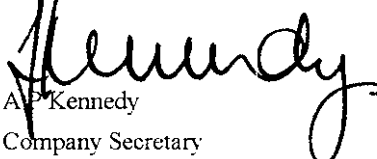
During the year the group made charitable donations of £6,000. There were no political contributions.

### **Auditors**

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

Rosyth Royal Dockyard  
Rosyth  
Fife  
KY11 2YD

By order of the Board,

  
A.P. Kennedy  
Company Secretary

6 June 1996

## Auditors' report

### To the Shareholders of Babcock Rosyth Defence Limited:

We have audited the accounts on pages 7 to 22 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on pages 11 and 12.

### Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

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

### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 31 March 1996 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

18 Charlotte Square  
Edinburgh  
EH2 4DF

6 June 1996

## Consolidated profit and loss account

For the year ended 31 March 1996

	Notes	1996 £'000	1995 £'000
<b>Turnover</b>	2	218,565	192,304
Cost of sales		(205,711)	(175,691)
<b>Gross profit</b>		12,854	16,613
Administrative expenses		(4,510)	(4,220)
<b>Operating profit</b>		8,344	12,393
Other interest receivable and similar income		350	422
Interest payable and similar charges	3	(94)	(559)
<b>Profit on ordinary activities before taxation</b>	4	8,600	12,256
Tax on profit on ordinary activities	6	(5,000)	2,877
<b>Profit for the financial year</b>		3,600	15,133
Dividends paid on equity shares	7	(8,050)	(9,858)
<b>Retained (loss) profit for the year*</b>		(4,450)	5,275
<b>Retained profit at beginning of year</b>		12,752	7,477
<b>Retained profit at end of year</b>		8,302	12,752
<b>* Retained (loss) profit for the year</b>			
The company		(4,453)	5,270
Group undertakings		3	5
		(4,450)	5,275

A statement of movements on reserves is given in note 15.

The results above have been derived wholly from continuing operations.

There are no recognised gains or losses in either year other than the (loss) profit for each year.

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



# Consolidated balance sheet

31 March 1996

	Notes	1996 £'000	1995 £'000
<b>Fixed assets</b>			
Tangible assets	8	925	892
<b>Current assets</b>			
Stocks	10	786	676
Debtors	11	25,587	27,913
Cash at bank and in hand		30,102	11,162
		<u>56,475</u>	<u>39,751</u>
<b>Creditors:</b> Amounts falling due within one year	12	(48,998)	(27,791)
<b>Net current assets</b>		<u>7,477</u>	<u>11,960</u>
<b>Total assets less current liabilities</b>		<u>8,402</u>	<u>12,852</u>
<b>Net assets</b>		<u>8,402</u>	<u>12,852</u>
<b>Capital and reserves</b>			
Called-up equity share capital	14	100	100
Profit and loss account	15	8,302	12,752
<b>Total capital employed</b>	16	<u>8,402</u>	<u>12,852</u>

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

# Company balance sheet

31 March 1996

	Notes	1996 £'000	1995 £'000
<b>Fixed assets</b>			
Tangible assets	8	925	892
Investments	9	50	50
		<u>975</u>	<u>942</u>
<b>Current assets</b>			
Stocks	10	786	676
Debtors	11	25,522	27,776
Cash at bank and in hand		30,029	11,093
		<u>56,337</u>	<u>39,545</u>
<b>Creditors:</b> Amounts falling due within one year	12	(48,920)	(27,642)
<b>Net current assets</b>		<u>7,417</u>	<u>11,903</u>
<b>Total assets less current liabilities</b>		<u>8,392</u>	<u>12,845</u>
<b>Net assets</b>		<u>8,392</u>	<u>12,845</u>
<b>Capital and reserves</b>			
Called-up equity share capital	14	100	100
Profit and loss account	15	8,292	12,745
<b>Total capital employed</b>		<u>8,392</u>	<u>12,845</u>

Signed on behalf of the Board

A K Smith

 Director

6 June 1996

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

# Consolidated cash flow statement

For the year ended 31 March 1996

	Notes	1996 £'000	1995 £'000
<b>Net cash inflow from operating activities</b>	17 a)	<u>33,077</u>	<u>7,421</u>
<b>Returns on investments and servicing of finance</b>			
Interest received		350	422
Interest paid		(94)	(559)
Dividends paid		<u>(8,050)</u>	<u>(9,858)</u>
<b>Net cash outflow from returns on investments and servicing of finance</b>		<u>(7,794)</u>	<u>(9,995)</u>
<b>Taxation</b>			
UK Corporation tax and group relief paid		<u>(4,099)</u>	<u>(1,174)</u>
<b>Tax paid</b>		<u>(4,099)</u>	<u>(1,174)</u>
<b>Investing activities</b>			
Purchase of tangible fixed assets		<u>(738)</u>	<u>(635)</u>
<b>Net cash outflow from investing activities</b>		<u>(738)</u>	<u>(635)</u>
<b>Net cash inflow (outflow) before financing</b>		20,446	(4,383)
<b>Financing</b>			
Repayment of finance lease creditors		<u>-</u>	<u>(267)</u>
<b>Net cash outflow from financing</b>		<u>-</u>	<u>(267)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	17 b)	<u>20,446</u>	<u>(4,650)</u>

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

# Notes to accounts

For the year ended 31 March 1996

## 1 Accounting policies

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

### a) Basis of accounting

The accounts are prepared under the historical cost convention, and in accordance with applicable accounting standards.

### b) Basis of consolidation

The group accounts consolidate the accounts of the company and its subsidiary undertakings for the year ended 31 March 1996, by means of the acquisition method of accounting.

In accordance with the concession granted under Section 230 of the Companies Act 1985, the profit and loss account of Babcock Rosyth Defence Limited is not presented. The company's profit for the financial year, determined in accordance with the Act, was £3,597,000 (1995 - £15,128,000).

### c) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Plant and machinery - 2 to 10 years (10% to 50% per annum)

### d) Investments

Investments held as fixed assets are stated at cost less amounts written off. Provisions are made for permanent reductions in value.

### e) Stocks

Stocks are valued at the lower of cost and net realisable value.

Cost is based on:

Raw materials and consumables	-	purchase cost
Work-in-progress	-	cost of direct materials and labour, plus a reasonable proportion of manufacturing overheads based on normal levels of activity.

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 stated at costs incurred less amounts transferred to cost of sales, less provisions for foreseeable losses and applicable payments on account.

## Notes to accounts (continued)

### 1 Accounting policies (continued)

#### f) *Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

The taxation liabilities of certain Babcock group companies are reduced wholly or in part by the surrender of losses and ACT by fellow Babcock group companies. The taxation benefits arising from group relief and the surrender of ACT are recognised in the accounts of the recipient companies.

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 the reversal. Deferred taxation is not provided on timing differences which, in the opinion of the directors, will probably not reverse. However, the amount of all deferred tax, including that which will probably not reverse, is shown in the notes to the accounts.

#### g) *Leases*

The group enters into finance and operating leases.

Assets acquired under finance lease are capitalised and the outstanding capital element of instalments is included in creditors. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where these are shorter.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

#### h) *Pensions*

The subsidiary undertaking, Rosyth Royal Dockyard plc, operates pension schemes for the benefit of all its employees. The funds of the schemes are administered by Trustees and are separate from the group. Independent qualified actuaries complete valuations periodically and, in accordance with their recommendations, annual contributions from employees and employer are paid to the schemes so as to secure the benefits set out in the rules. The cost of these is charged against profits on a systematic basis over the service lives of the employees.

### 2 Turnover

Turnover, which excludes value added and similar taxes, comprises:

- (i) Contract work - cost of sales plus profit taken; and
- (ii) Sales (other than contract sales) of goods and services - at invoiced value.

Turnover is wholly attributable to the United Kingdom market.

## Notes to accounts (continued)

### 3 Interest payable and similar charges

	1996 £'000	1995 £'000
Interest payable to Babcock group companies	20	505
Bank loans, overdrafts and other loans		
- repayable within five years, not by instalments	74	53
Finance lease interest	-	1
	<u>94</u>	<u>559</u>

### 4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1996 £'000	1995 £'000
Depreciation - owned fixed assets	705	669
Depreciation - assets held under finance leases	-	1,064
Auditors' remuneration		
- audit fees	50	54
- other services	43	106
Operating lease rentals		
- plant and machinery	394	408
- short-term plant hire	621	371
Licence for use of:		
- land and buildings	1,379	1,855
- plant and machinery	936	1,025
Staff costs (note 5)	<u>81,282</u>	<u>81,852</u>

## Notes to accounts (continued)

### 5 Staff costs

Particulars of employees (including directors) are as shown below.

Employee costs during the year amounted to:

	1996 £'000	1995 £'000
Wages and salaries	69,033	69,593
Social security costs	5,463	5,550
Other pension costs (note 19)	6,786	6,709
	<u>81,282</u>	<u>81,852</u>

The average weekly number of persons (including directors) employed by Rosyth Royal Dockyard plc, which employs the workforce of the group, during the year was as follows:

	1996 Number	1995 Number
Production	3,408	3,451
Administration	23	27
	<u>3,431</u>	<u>3,478</u>

Directors' remuneration

Directors' remuneration in respect of directors of the company was as follows:

	1996 £'000	1995 £'000
Emoluments (including pension contributions and benefits-in-kind)	<u>332</u>	<u>451</u>

The directors' emoluments shown above (excluding pensions and pension contributions) included:

	1996 £'000	1995 £'000
Chairman (and highest paid director)	<u>165</u>	<u>155</u>

## Notes to accounts (continued)

### 5 Staff costs (continued)

Directors received emoluments (excluding pensions and pension contributions) in the following ranges:

	1996 Number	1995 Number
Up to £5,000	4	5
£25,001 to £30,000	1	-
£110,001 to £115,000	1	-
£115,001 to £120,000	-	1
£140,001 to £145,000	-	1
£155,001 to £160,000	-	1
£165,001 to £170,000	1	-

### 6 Tax on profit on ordinary activities

	1996 £'000	1995 £'000
Corporation tax at 33% (1995 - 33%)	-	155
Group relief relating to current year	1,400	-
Adjustment to group relief relating to prior years	3,600	(3,032)
	<u>5,000</u>	<u>(2,877)</u>

The Babcock group adopts a policy of not paying for group relief, however, as a result of the sale of Babcock Energy Division the company was required to pay for the tax losses surrendered to it from that division for the period from 1 April 1994 to 30 September 1995.

### 7 Dividends paid on equity shares

	1996 £'000	1995 £'000
Interim paid of £80.50 (1995 - £98.58) per Ordinary share	<u>8,050</u>	<u>9,858</u>



## Notes to accounts (continued)

### 8 Tangible fixed assets

#### Group and company

	Plant and machinery £'000
<b>Cost</b>	
Beginning of year	8,444
Additions	738
<b>End of year</b>	<u>9,182</u>
<b>Depreciation</b>	
Beginning of year	7,552
Charge for year	705
<b>End of year</b>	<u>8,257</u>
<b>Net book value</b>	
End of year	<u>925</u>
Beginning of year	<u>892</u>

### 9 Fixed asset investments

	Company	
	1996 £'000	1995 £'000
Subsidiary undertakings	<u>50</u>	<u>50</u>

The company holds the entire allotted ordinary share capital of Rosyth Royal Dockyard plc, a company registered in Scotland. Rosyth Royal Dockyard plc employs the labour force and holds the licence to operate the buildings and plant of the dockyard. Rosyth Royal Dockyard plc owns 99% of the allotted ordinary share capital of Rosyth Royal Dockyard Pension Trustees Limited, a company registered in Scotland. This company is the trustee of the Rosyth Royal Dockyard Pension Scheme. The consolidated accounts include the subsidiary undertakings.

The company has a 50% joint venture interest in Babcock OGL, whose principal place of business is located at Rosyth Royal Dockyard, Rosyth. This interest has not been included in the consolidated accounts on the grounds that its impact on these accounts would not be material. Sales to Babcock OGL during the year amounted to £5,989,750 (1995 - £217,806), and trade debtors outstanding from Babcock OGL at 31 March 1996 were £1,884,463 (1995 - £236,237).

## Notes to accounts (continued)

### 10 Stocks

	Group and Company	
	1996 £'000	1995 £'000
Raw materials and consumables	<u>786</u>	<u>676</u>

In the opinion of the directors there is no material difference between the balance sheet value of stocks and their replacement cost.

### 11 Debtors

Amounts falling due within one year:

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Trade debtors	5,363	4,128	5,363	4,128
Amounts recoverable on contracts	18,180	20,281	18,180	20,281
Amounts owed by subsidiary undertakings	-	-	58	230
Amounts owed by other group undertakings	80	2,340	80	2,340
VAT	744	385	744	385
Other debtors	128	367	5	-
Prepayments and other accrued income	1,092	412	1,092	412
	<u>25,587</u>	<u>27,913</u>	<u>25,522</u>	<u>27,776</u>

### 12 Creditors: Amounts falling due within one year

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Bank overdrafts	3,661	5,167	3,599	5,019
Payments on account of long-term contracts	11,401	899	11,401	899
Contract accruals and provisions	8,374	6,049	8,374	6,049
Trade creditors	15,578	7,479	15,578	7,479
Amounts owed to other group undertakings	1,082	5	1,082	5
UK corporation tax payable	-	147	-	147
Other taxes and social security costs	2,308	2,547	2,308	2,547
Accruals and deferred income	6,594	5,498	6,578	5,497
	<u>48,998</u>	<u>27,791</u>	<u>48,920</u>	<u>27,642</u>

The classification of certain balances at 31 March 1995 has been altered in order to provide more detailed information regarding trade creditors and accruals.

## Notes to accounts (continued)

### 13 Provisions for liabilities and charges

#### Group and company

No deferred taxation was provided in the accounts. The potential tax asset was as follows:

	Potential	
	1996 £'000	1995 £'000
Fixed asset timing differences	(263)	(125)
Short term timing differences	(31)	(24)
	<u>(294)</u>	<u>(149)</u>

### 14 Called-up equity share capital

	Authorised		Allotted, called-up and fully paid	
	1996 Number	1995 Number	1996 £'000	1995 £'000
£1 "A" Ordinary shares	650,000	650,000	65	65
£1 "B" Ordinary shares	350,000	350,000	35	35
	<u>1,000,000</u>	<u>1,000,000</u>	<u>100</u>	<u>100</u>

Share capital consists entirely of equity shares.

## Notes to accounts (continued)

### 15 Reserves

#### Group

	Profit and loss account £'000
<b>Beginning of year</b>	12,752
Retained loss for the year	(4,450)
<b>End of year</b>	<u>8,302</u>

#### Company

	Profit and loss account £'000
<b>Beginning of year</b>	12,745
Retained loss for the year	(4,453)
<b>End of year</b>	<u>8,292</u>

### 16 Reconciliation of movements in shareholders' funds

	1996 £'000	1995 £'000
Profit for the financial year	3,600	15,133
Dividends paid on equity shares	(8,050)	(9,858)
Net (decrease) increase to shareholders' funds	(4,450)	5,275
Opening shareholders' funds	12,852	7,577
Closing shareholders' funds	<u>8,402</u>	<u>12,852</u>

# Notes to accounts (continued)

## 17 Cash flow information

### a) Reconciliation of operating profit to net cash inflow from operating activities

	1996 £'000	1995 £'000
Operating profit	8,344	12,393
Depreciation charges	705	1,733
(Increase) decrease in stocks	(110)	408
Decrease (increase) in debtors	2,326	(8,174)
Increase in creditors	21,812	1,061
<b>Net cash inflow from operating activities</b>	<b>33,077</b>	<b>7,421</b>

### b) Analysis of changes in cash and cash equivalents during the year

	1996 £'000	1995 £'000
<b>Balance at beginning of year</b>	<b>5,995</b>	<b>10,645</b>
Net cash inflow (outflow)	20,446	(4,650)
<b>Balance at end of year</b>	<b>26,441</b>	<b>5,995</b>

### c) Analysis of the balances of cash and cash equivalents as shown in the balance sheet

	1996 £'000	1995 £'000
Cash at bank and in hand	30,102	11,162
Bank overdrafts	(3,661)	(5,167)
	<b>26,441</b>	<b>5,995</b>

## Notes to accounts (continued)

### 18 Guarantees and financial commitments

#### a) Capital commitments

	1996 £'000	1995 £'000
Contracted for but not provided for	<u>57</u>	<u>125</u>

#### b) Contingent liabilities

Contingent liabilities exist in respect of guarantees given in the ordinary course of business for £788,000 (1995 - £710,000) for which no losses are anticipated.

#### c) Operating lease commitments

Land and buildings

	Group and Company	
	1996 £'000	1995 £'000
Annual commitments which expire:		
- within one year	343	-
- between two and five years	-	1,374
	<u>343</u>	<u>1,374</u>

Plant and machinery

	Group and Company	
	1996 £'000	1995 £'000
Annual commitments which expire:		
- within one year	552	215
- between two and five years	390	1,144
	<u>942</u>	<u>1,359</u>

## Notes to accounts (continued)

### 19 Pension costs

The subsidiary undertaking, Rosyth Royal Dockyard plc, operates pension schemes for the benefit of its employees. These defined benefit schemes are funded in advance by contributions, from the members at rates set in the schemes' rules, and from the employer to meet the balance of the costs, at a rate assessed by the actuaries of the scheme in regular funding reviews.

The pension cost is assessed in accordance with the advice of independent qualified actuaries, and the most recent actuarial valuations for the Rosyth Royal Dockyard Pension Scheme and the Rosyth Royal Dockyard Superannuation Scheme for Senior Executives were carried out at 31 March 1992 and 31 March 1994 respectively. Details of the valuations are as follows:

	Rosyth Royal Dockyard Pension Scheme	Rosyth Royal Dockyard Superannuation Scheme for Senior Executives
Method of valuation	Projected unit	Attained age
Results of last valuation:		
- market value of assets	£137 million	£1,065,000
- level of funding	102%	94%
Principal valuation assumptions:		
- rate of return on investments	9.0%	9.0%
- rate of earnings increase	7.5%	7.5%
- rate of pensions increase	3% - 6%	3.0%
- rate of dividend growth	4.5%	N/A

The pension cost in the year was equal to the contributions payable of £6,786,000 (1995 - £6,709,000).

Outstanding contributions of £nil (1995 - £26,000) are included in creditors.

### 20 Ultimate parent company

The company's ultimate parent company is Babcock International Group PLC, a company registered in England. The only group in which the results of the company are consolidated is that headed by Babcock International Group PLC.

Copies of Babcock International Group PLC accounts are available to the public from the following address:

The Company Secretary  
Babcock International Group PLC  
Badminton Court  
Church Street  
Amersham  
Bucks HP7 0DD