Rosyth Royal Dockyard Limited

Financial statements for the year ended 31 March 2002

together with directors' and auditors' reports

Registered Number: SC101959

Directors and advisers

Directors

A A MacPherson
M N McKenna

Company secretary

J D T Greig

Registered office

Rosyth Business Park
Rosyth
Dunfermline
Fife
KY11 2YD

Auditors

Deloitte & Touche

Bankers

The Royal Bank of Scotland plc
Dunfermline Branch
52-54 East Port
Dunfermline
KY12 7HB

Directors' report

For the year ended 31 March 2002

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 31 March 2002.

Principal activities and review of business

The company continued to make its employees and assets available to other Babcock group companies. In addition it also purchased some of the materials and services required by Babcock Support Services Limited (formerly Babcock Rosyth Defence Limited) and its turnover reflects this.

Results and dividends

The audited financial statements for the year ended 31 March 2002 are set out on pages 7 to 22. The profit for the year after taxation was £1,000 (2001: £3,000).

The directors recommend that no final dividend is paid (2001: £nil).

Directors and their interests

The directors who served during the year and subsequent to the year end were as follows:

A A MacPherson
M N McKenna
M S Easton (resigned 31 May 2002)

The interests of M S Easton who was also a director of the ultimate parent company, Babcock International Group PLC, are shown in that company's accounts. According to the register of directors' interests maintained under the Companies Act, A A MacPherson and M N McKenna and their immediate families have the following shares, and options to subscribe for shares, in Babcock International Group PLC:

	31 March 2002	Movement in year	1 April 2001
	Executive share options over ordinary shares		
M N McKenna	167,944	38,794	129,150
A A MacPherson	140,097	31,947	108,150
	Ordinary shares held in trust under an employee share participation scheme		
M N McKenna	550	330	220
A A MacPherson	550	330	220

Directors' report (continued)

For the year ended 31 March 2002

Safety policy

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

The company 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 company 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 company'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 the company. If necessary, retraining is offered to such individuals to allow each of them to perform work suited to their aptitudes and abilities.

Employee involvement

The company communicates regularly with its employees in briefings and discussions, by written communications on specific topics and on more general issues through the bulletin "Newsweek". The company routinely discusses issues affecting its employees with the employees' trade unions' representatives.

Directors' responsibilities

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

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

Directors' report (continued)

For the year ended 31 March 2002

Directors' responsibilities (continued)

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

Auditors

In the UK an agreement for the partners and personnel of Arthur Andersen to join Deloitte & Touche has now been concluded. Arthur Andersen has resigned as auditors. The Board has therefore appointed Deloitte & Touche as auditors. It is the intention of the Board to review the appointment during the forthcoming year.

By order of the Board

M N McKenna

Director

16 October 2002

Rosyth Business Park
Rosyth
Dunfermline
Fife
KY11 2YD

Independent auditors' report

To the Shareholders of Rosyth Royal Dockyard Limited

We have audited the financial statements of Rosyth Royal Dockyard Limited for the year ended 31 March 2002 which comprise the Profit and loss account, the Balance sheet and the related notes numbered 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

Independent auditors' report (continued)

Basis of audit opinion (continued)

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 at 31 March 2002 and of the company's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche

Chartered Accountants and Registered Auditors

Edinburgh

16 October 2002

Profit and loss account

For the year ended 31 March 2002

	Notes	2002	2001
		£'000	£'000
Turnover	2	163,553	170,097
Cost of sales		(163,526)	(170,097)
Gross profit		27	-
Loss on disposal of fixed assets		(27)	-
Operating profit		-	-
Net interest	3	1	3
Profit on ordinary activities before taxation	4	1	3
Tax on profit on ordinary activities	7	-	-
Profit on ordinary activities after taxation	15	1	3
Retained profit at beginning of year		27	24
Retained profit at end of year		28	27

All the profit and loss items relate to continuing operations.

There are no recognised gains or losses in either year other than the profit for that year.

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

Balance sheet

31 March 2002

	Notes	2002	2001
		£'000	£'000
Fixed assets			
Intangible fixed assets	8	74	109
Tangible fixed assets	8	8,417	11,109
		8,491	11,218
Current assets			
Debtors	10	23,038	17,878
Cash at bank and in hand		70	118
Net current assets		23,108	17,996
Total assets		31,599	29,214
Provisions for liabilities and charges	11	(19,021)	(16,637)
Deferred taxation	12	-	-
Net assets		12,578	12,577
Capital and reserves			
Called-up equity share capital	13	250	250
Share premium account		12,300	12,300
Profit and loss account	14	28	27
Equity shareholders' funds	15	12,578	12,577

Signed on behalf of the Board

M N McKenna

Director

16 October 2002

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

Notes to the financial statements

For the year ended 31 March 2002

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and preceding year with the exception of the policy for deferred taxation which is explained in note e) below .

a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Tangible fixed assets

Fixed assets are stated at cost less depreciation and any provision for impairment. Depreciation is calculated on all fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset over the life of the allocated programme of work from the Ministry of Defence to the company's immediate parent company, Babcock Support Services Limited. The life of each asset is therefore based upon the period over which the work within that programme is to be performed.

c) Intangible fixed assets

Intangible fixed assets represent intellectual property rights acquired from the Ministry of Defence. Amortisation is provided on the same basis as tangible fixed assets (see note 1b).

d) Investments

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

e) Taxation

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

During the year, the Babcock International Group PLC group of companies has continued its policy of surrendering group relief for no consideration except where there is a minority interest.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

1 Accounting policies (continued)

e) Taxation (continued)

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

The adoption of the full provision method of accounting for deferred tax, as set out in FRS19, represents a change in accounting policy. The introduction of this new accounting policy has not resulted in any prior year adjustment or change in prior year comparatives being required. No restatement of the prior year comparative figures has been required as there is no impact on the profits or liabilities of the prior year resulting from implementation of this new policy.

f) Turnover

Turnover comprises the value of sales, excluding VAT, of goods and services supplied in the normal course of business.

g) Pensions

The company operates a defined benefit pension scheme for the benefit of all its employees, and for employees of other Babcock companies. The funds of the scheme are administered by Trustees and are held separately from the company. Independent qualified actuaries complete valuations periodically and, in accordance with their recommendations, annual contributions from employees and employer are paid to the scheme so as to secure the benefits set out in the rules. The cost of these contributions is charged against profits on a systematic basis over the service lives of the employees. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

The company has adopted the transitional disclosure requirements of Financial Reporting Standard 17: 'Retirement benefits'. FRS17 adopts a market value approach to the measurement of retirement benefits.

1 Accounting policies (continued)

h) Group financial statements

The company has not prepared group financial statements as it is exempted from the requirement to do so by section 228 of the Companies Act 1985, as the company is a subsidiary undertaking of Babcock International Group PLC, a company registered in England and Wales, and is included in the consolidated financial statements of that company.

i) Cash flow statement

The company has taken advantage of the exemption in Financial Reporting Standard 1 (Revised), to dispense with the requirement to prepare a cash flow statement in its financial statements, as a consolidated cash flow statement is included in the accounts of the ultimate parent company.

2 Turnover

Turnover is entirely attributable to the United Kingdom market and the sole activity described in the Directors' report.

3 Net interest

	2002	2001
	£'000	£'000
Bank interest receivable	1	3

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2002	2001
	£'000	£'000
Depreciation - owned fixed assets	3,975	4,594
Amortisation - intangible assets	35	45
Operating lease rentals		
- land and buildings	25	40

The auditors' remuneration in both the current and prior year was borne by the immediate parent company.

5 Staff costs

Employee costs during the year amounted to:

	2002	2001
	£'000	£'000
Wages and salaries	52,401	59,474
Social security costs	3,810	4,398
Other pension costs (note 17)	2,384	2,464
	58,595	66,336

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

	2002	2001
	Number	Number
Production	2,073	2,538
Administration	68	59
	2,141	2,597

6 Directors' remuneration

Directors' remuneration was as follows:

	2002	2001
	£'000	£'000
Emoluments (including benefits in-kind)	196	93

The remuneration of M S Easton was paid by Babcock International Group PLC. No part of his remuneration could be attributed to his services in respect of Rosyth Royal Dockyard Limited.

The number of directors who were members of a defined benefit pension scheme at 31 March 2002 was 3 (2001: 3).

7 Tax on profit on ordinary activities

	2002	2001
	£'000	£'000
UK corporation tax at 30% (2001-30%)	-	-

The differences between the total current year tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2002	2001
	£'000	£'000
Profit on ordinary activities before tax	1	3
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2001: 30%)	-	1
Effects of:		
Accelerated depreciation	463	519
Expenses not deductable for tax purposes	346	297
Group relief claimed for no consideration	(809)	(817)
	-	-

Notes to the financial statements (continued)

For the year ended 31 March 2002

8 Fixed assets

Tangible fixed assets

	Land & buildings	Plant & machinery	Total
Cost	£'000	£'000	£'000
At 1 April 2001	11,408	17,241	28,649
Additions	1,187	123	1,310
Disposals	(120)	-	(120)
At 31 March 2002	12,475	17,364	29,839
Depreciation			
At 1 April 2001	7,060	10,480	17,540
Charge for the year	1,459	2,516	3,975
Disposals	(93)	-	(93)
At 31 March 2002	8,426	12,996	21,422
Net book value			
At 31 March 2002	4,049	4,368	8,417
At 1 April 2001	4,348	6,761	11,109

Intangible fixed assets

	Intellectual property
Cost	£'000
At 1 April 2001 and March 2002	300
Amortisation	
At 1 April 2001	191
Charge for the year	35
At 31 March 2002	226
Net book value	
At 31 March 2002	74
At 1 April 2001	109

Notes to the financial statements (continued)

For the year ended 31 March 2002

9 Fixed asset investment

The company owns 100% of the allotted ordinary share capital of Rosyth Royal Dockyard Pension Trustees Limited, a company registered in Scotland. This subsidiary undertaking is the trustee of the Rosyth Royal Dockyard Pension Scheme. The carrying value of the investment is £100 (2001: £100).

10 Debtors

Amounts falling due within one year:

	2002	2001
	£'000	£'000
Amounts owed by other group undertakings	21,336	17,730
Other debtors	1,702	148
	23,038	17,878

11 Provisions for liabilities and charges

	Pensions
	£'000
At 1 April 2001	16,637
Charged to profit and loss account	2,384
At 31 March 2002	19,021

Details of pension benefits are set out in note 17.

Notes to the financial statements (continued)

For the year ended 31 March 2002

12 Deferred taxation

The potential deferred tax asset, which is made up from accelerated depreciation, is as follows:

	2002	2001
	Potential	Potential
	£'000	£'000
Accelerated depreciation	(1,322)	(859)

There is no unprovided deferred tax liability in the company. The directors have not recognised the potential deferred tax assets since, on the basis of all available evidence, it is not considered more likely than not that there will be suitable taxable profits against which the underlying timing differences can be deducted.

13 Called-up equity share capital

	Authorised		Allotted, called-up and fully paid	
	2002	2001	2002	2001
	Number	Number	£	£
£1 ordinary shares	200,002	200,002	200,002	200,002
£1 "A" ordinary shares	49,998	49,998	49,998	49,998
£1 special share	1	1	1	1
	250,001	250,001	250,001	250,001

Share capital consists entirely of equity shares.

The Secretary of State for Defence retains a special share in the company, which empowers him to take control of the company under certain circumstances, particularly to safeguard national security. The "A" ordinary shares are non-voting and have a deferred right to the return of capital.

Notes to the financial statements (continued)

For the year ended 31 March 2002

14 Reserves

	£'000
At 31 March 2001	27
Retained profit for the year	1
At 31 March 2002	28

15 Reconciliation of movements in shareholders' funds

	2002	2001
	£'000	£'000
Profit for the financial year	1	3
Net additions to shareholders' funds	1	3
Opening shareholders' funds	12,577	12,574
Closing shareholders' funds	12,578	12,577

16 Guarantees and financial commitments

a) Capital commitments

There were no capital commitments at the end of the year (2001: £nil).

b) Contingent liabilities

Pursuant to the agreement for the acquisition of Rosyth Royal Dockyard, the following charges and security interests have been granted in favour of the Ministry of Defence ("MoD"):

Notes to the financial statements (continued)

For the year ended 31 March 2002

16 Guarantees and financial commitments (continued)

b) Contingent liabilities (continued)

(i) Strategic assets

The company has undertaken certain obligations in respect of those fixed assets acquired at Rosyth Royal Dockyard considered by the MoD to be of strategic importance to HM Government (known as "Strategic Assets"), including an obligation not to dispose of or destroy such assets or their replacements. In addition, in the event of the insolvency of the company or of Babcock Support Services Limited (formerly Babcock Rosyth Defence Limited) the MoD will have the option to repurchase from the company any or all of a narrower class of Strategic Assets ("Relevant Strategic Assets") at market value or, in respect of certain assets, at the lower of market value and cost. The company's obligations in respect of the MoD's repurchase option are secured by:

a) fixed charges over those Relevant Strategic Assets consisting of interests in land and,
b) a floating charge over the Relevant Strategic Assets.

(ii) Development clawback

The MoD will share in the net proceeds of sale or development of the Dockyard following planning enhancement, on terms set out in the asset purchase agreement between the company and the MoD. By way of security for the MoD's rights to such share, the company has granted a fixed charge over the Dockyard in favour of the MoD.

c) Operating lease commitments

	Land and buildings	
	2002	2001
Annual commitments which expire:	£'000	£'000
- within one year	-	35
- between two and five years	-	5
- after five years	10	-
	10	40

Notes to the financial statements (continued)

For the year ended 31 March 2002

17 Pension arrangements

The company has continued to account for pension costs in accordance with SSAP 24. Full adoption of the requirements of FRS17, Retirement Benefits, will not be mandatory for the company until the year ending 31 March 2004. The transitional disclosures required by FRS17 are set out in part (b) of this note.

a) SSAP 24 disclosures

The pension cost calculated in accordance with SSAP 24 included as a charge in arriving at the company operating profit was £2,384,000 (2001: £2,464,000).

The company operates a pension scheme for the benefit of its employees and for employees of other Babcock group companies. The defined benefit scheme is funded in advance by contributions from the members at rates set out in the scheme 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 details of the latest formal actuarial valuation are as follows:

	Rosyth Royal Dockyard Pension Scheme
Date of last formal actuarial valuation	31 March 2000
Number of active members at 31 March 2002	2,065
Actuarial valuation method	Projected Unit
Results of last formal actuarial valuation:	
Market value of assets	£460 million
Level of funding	124%
Principal valuation assumptions:	
Excess of investment returns over earnings increases	1.5%
Excess of investment returns over pension increases	3.0%

As a result of the level of surplus, the company's contributions to the Scheme are currently suspended until at least the next formal valuation.

Notes to the financial statements (continued)

For the year ended 31 March 2002

17 Pension arrangements (continued)

b) FRS17 additional disclosures

Under the transitional provisions of FRS17 certain additional disclosures are required on the basis of the valuation methodology adopted by FRS17.

For defined benefit schemes the fair values of pension scheme assets at 31 March 2002 are compared with the pension liabilities calculated under the projected unit method. The latest full actuarial valuation of the Scheme has been updated to 31 March 2002 by qualified independent actuaries using the following assumptions:

Rate of increase of future earnings	3.9%
Discount rate	6.1%
Expected pension increases	2.9%
Inflation rate	2.9%

The fair value of the assets, the present value of the liabilities and the expected rates of return of the Scheme at 31 March 2002 were as follows:

	Expected rate of return	Fair value
	%	£000
Equities	7.9	273,000
Property	7.9	41,000
Bonds	6.1	65,000
Cash	4.0	-
Fair value of assets		379,000
Present value of scheme liabilities		(316,000)
Gross pension asset		63,000
Deferred tax liability		(18,900)
Net pension asset		44,100

Notes to the financial statements (continued)

For the year ended 31 March 2002

17 Pension arrangements (continued)

b) FRS17 additional disclosures (continued)

If the valuation basis above had been applied in the accounts instead of the SSAP 24 valuation basis, the effect on the company's net assets and profit and loss account reserve as at 31 March 2002, after taking into account deferred tax, would have been as follows:

	Net assets	Profit and loss account reserve
	£'000	£'000
As reported	12,578	28
Add back:		
Provision for pension costs under SSAP 24	19,021	19,021
Related deferred tax liability	(5,706)	(5,706)
Excluding pension assets	25,893	13,343
Net pension asset under FRS 17	44,100	44,100
Including pension asset	69,993	57,443

18 Related party disclosures

The company, as a wholly owned subsidiary, has taken advantage of the exemption, granted under Financial Reporting Standard 8, Related Party Disclosures, by not disclosing details of transactions with other members of the group headed up by Babcock International Group PLC.

Notes to the financial statements (continued)

For the year ended 31 March 2002

19 Ultimate parent undertaking

The company's immediate parent company is Babcock Support Services Limited (formerly Babcock Rosyth Defence Limited), a company registered in Scotland. The company's ultimate parent company is Babcock International Group PLC, a company registered in England and Wales. 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 financial statements are available to the public from the following address:

The Company Secretary
Babcock International Group PLC
2 Cavendish Square
London
W1G 0PX