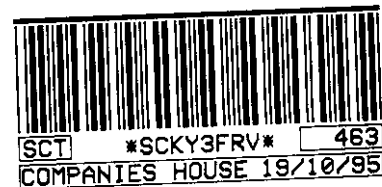


Rosyth Royal Dockyard plc

Accounts 31 March 1995
together with directors' and auditors' reports

Registered number: SC101959



Directors and advisors

Directors

Mr A K Smith (Chairman)

Mr D S Batty

Mr A R H Ferguson

Mr G D Hilton

Capt. D M Johnson, R N (Retired)

Mr A A MacPherson

Mr M N McKenna

Mr B Morse

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

Directors' report

For the year ended 31 March 1995

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 March 1995.

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

Principal activities and business review

The company continued to enjoy the use of land, buildings and equipment situated at Rosyth Royal Dockyard under licence from the Secretary of State for Defence, for the eighth year of an agreement which has been extended to run for up to nine years.

The services of the employees of the company were, by agreement, made available to the company's immediate parent undertaking, Babcock Rosyth Defence Limited (formerly Babcock Thorn Limited).

It is anticipated that this pattern of business will continue for at least the next year.

Directors' report (continued)

Dividends and results

No interim dividend was paid in the year ended 31 March 1995. The directors recommend that no final dividend is paid and that the profit for the year of £5,074 be transferred to reserves.

Directors and their interests

The directors who served during the year are shown below.

Mr A K Smith
Mr D S Batty
Mr A R Midgley (resigned 31 May 1994)
Mr G D Hilton
Capt. D M Johnson, R N (Retired)
Mr A A MacPherson
Mr M N McKenna
Mr B Morse
Mr W G McCollum (resigned 30 September 1994)

At the forthcoming annual general meeting, in accordance with the requirements of the articles of the company, Messrs Smith, Batty and MacPherson shall retire. All, being eligible, offer themselves for re-election. Mr A R H Ferguson was appointed as a director of the company subsequent to the year end, on 23 May 1995.

The directors who held office at 31 March 1995 had no interests other than those shown below in the shares of group companies.

Name of director	Name of company	31 March 1995	1 April 1994
		Number of Ordinary shares	Number of Ordinary shares
Mr A K Smith	Babcock International Group PLC	235,824	150,070
Mr D S Batty	Babcock International Group PLC	19,642	12,500
Mr G D Hilton	Babcock International Group PLC	-	-
Capt. D M Johnson	Babcock International Group PLC	-	-
Mr A A MacPherson	Babcock International Group PLC	6,331	6,331
Mr M N McKenna	Babcock International Group PLC	-	-
Mr B Morse	Babcock International Group PLC	-	-

Directors' report (continued)

Directors and their interests (continued)

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 1994	Granted during the year	Exercised during the year	Increase on rights issue	At 31 March 1995
Mr A K Smith	986,000	-	-	111,812	1,097,812
Mr D S Batty	160,000	250,000	-	18,144	428,144
Mr G D Hilton	120,000	110,000	-	13,608	243,608
Capt. D M Johnson	90,000	65,000	-	10,206	165,206
Mr A A MacPherson	90,000	90,000	-	10,206	190,206
Mr M N McKenna	90,000	95,000	-	10,206	195,206
Mr B Morse	50,000	150,000	-	5,670	205,670

As provided for in the rules of the executive option schemes, share options held prior to the 4 for 7 rights issue made by Babcock International Group PLC in April 1994 were subsequently adjusted during the year, in terms of the number of shares over which options were held and their exercise price, to restore the options to their pre-rights issue value.

There have been no changes in directors' interests in shares or options between 31 March 1995 and the date of this report.

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" and the company newspaper "RRD 2000". The company routinely discusses issues affecting its employees with the employees' trade unions' representatives.

Directors' report (continued)

Employee involvement (continued)

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

Auditors

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



By order of the Board,

Rosyth Royal Dockyard

Rosyth

Fife

KY11 2YD

A P Kennedy

Company Secretary

24 May 1995

Auditors' report

Edinburgh

To the Shareholders of Rosyth Royal Dockyard plc:

We have audited the accounts on pages 7 to 16 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on page 9.

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.

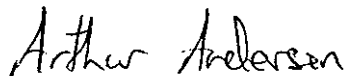
Basis of opinion

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, 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 at 31 March 1995 and of its profit 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
24 May 1995

Profit and loss account

For the year ended 31 March 1995

	Notes	1995 £	1994 £ (Note 16)
Turnover	2	84,732,579	84,436,178
Cost of sales		<u>(84,732,579)</u>	<u>(84,436,178)</u>
Gross profit		-	-
Other interest receivable and similar income	3	<u>3,062</u>	<u>2,531</u>
Profit on ordinary activities before taxation	4	<u>3,062</u>	<u>2,531</u>
Tax on profit on ordinary activities	6	<u>2,012</u>	<u>(835)</u>
Profit for the financial year		5,074	1,696
Dividends paid and proposed on equity shares	7	<u>-</u>	<u>(26,621)</u>
Retained profit (loss) for the year		5,074	(24,925)
Retained profit at beginning of year		<u>1,696</u>	<u>26,621</u>
Retained profit at end of year		<u>6,770</u>	<u>1,696</u>

The current year results have been derived wholly from continuing operations.

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

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

Balance sheet

31 March 1995

	Notes	1995 £	1994 £ (Note 16)
Fixed assets			
Investments	8	99	99
Current assets			
Debtors	9	367,302	604,574
Cash at bank and in hand		69,194	92,238
		<u>436,496</u>	<u>696,812</u>
Creditors: Amounts falling due within one year	10	<u>(379,824)</u>	<u>(645,214)</u>
Net current assets		<u>56,672</u>	<u>51,598</u>
Total assets less current liabilities		<u>56,771</u>	<u>51,697</u>
Net assets		<u>56,771</u>	<u>51,697</u>
Capital and reserves			
Called-up equity share capital	11	50,001	50,001
Profit and loss account		6,770	1,696
Total capital employed	12	<u>56,771</u>	<u>51,697</u>

Signed on behalf of the Board

A K Smith



Director

24 May 1995

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

Notes to accounts

For the year ended 31 March 1995

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) Investments

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

c) Taxation

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

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 tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

At 31 March 1994 and 31 March 1995, there were no significant timing differences.

d) Pensions

The company operates pension schemes for the benefit of all its employees. The funds of the schemes are administered by Trustees and are separate from the company. Independent qualified actuaries complete valuations at least every three years 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.

e) Group accounts

The company has not prepared group accounts as it is exempt 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 incorporated in England and Wales, and is included in the consolidated accounts of that company.

2 Turnover

Turnover, all of which was generated in the United Kingdom, represents the sales value, excluding value added tax, of services provided to the immediate parent company.

Notes to accounts (continued)

3 Other interest receivable and similar income

	1995 £	1994 £
Bank interest receivable	<u>3,062</u>	<u>2,531</u>

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1995 £	1994 £
Licence for use of:		
- land and buildings	1,855,128	2,394,022
- plant and machinery	1,025,116	1,388,388
Staff costs (see note 5)	<u>81,852,335</u>	<u>80,653,768</u>

The auditors' remuneration in both the current and prior year was borne by a fellow group undertaking.

There is no material difference between the profit on ordinary activities before taxation and the retained profit (loss) for the year for both years and their respective historical cost equivalents.

5 Staff costs

Particulars of employees (including executive directors) are as shown below:

Employee costs during the year amounted to:

	1995 £	1994 £
Wages and salaries	69,593,871	68,191,692
Social security costs	5,549,945	5,517,448
Other pension costs	6,708,519	6,944,628
	<u>81,852,335</u>	<u>80,653,768</u>

Notes to accounts (continued)

5 Staff costs (continued)

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

	1995 Number	1994 Number
Production	3,451	3,617
Administration	27	25
Distribution	-	2
	<u>3,478</u>	<u>3,644</u>

Directors' remuneration:

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

	1995 £	1994 £
Emoluments (including pension contributions and benefits-in-kind)	485,217	528,661
Compensation for loss of office	29,000	404,736
	<u>514,217</u>	<u>933,397</u>

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

	1995 £	1994 £
Chairman	-	-
Highest paid director	<u>91,234</u>	<u>301,482</u>

Notes to accounts (continued)

5 Staff costs (continued)

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

	1995 Number	1994 Number
Up to £5,000	3	3
£35,001 to £40,000	1	1
£50,001 to £55,000	1	1
£55,001 to £60,000	-	3
£65,001 to £70,000	-	1
£80,001 to £85,000	3	-
£90,001 to £95,000	1	-
£215,001 to £220,000	-	1

Since all payroll costs are recharged to the immediate parent company, the directors' remuneration shown above is in respect of directors who are directors of Rosyth Royal Dockyard plc only. The remuneration in respect of the company's directors who are also directors of the immediate parent company are shown in the accounts of that company.

6 Tax on profit on ordinary activities

The tax (credit) charge is based on the profit for the year and comprises:

	1995 £	1994 £
Corporation tax at 33% (1994 - 33%)	-	835
Adjustment to group relief relating to prior years	(2,012)	-
	<u>(2,012)</u>	<u>835</u>

The adjustment to group relief relating to prior years arises due to a change in group policy for accounting for group relief, whereby the tax benefits arising from group relief are now recognised in the accounts of the recipient company, as opposed to the surrendering company as in prior years.

7 Dividends paid and proposed on equity shares

	1995 £	1994 £
Interim paid of £nil (1994 - £0.53) per Ordinary share	-	26,621

Notes to accounts (continued)

8 Fixed asset investments

	1995 £	1994 £
Subsidiary undertakings	99	99

The company owns 99% 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.

9 Debtors

Amounts falling due within one year:

	1995 £	1994 £
Other debtors	367,302	604,574

10 Creditors: Amounts falling due within one year

	1995 £	1994 £
Bank overdraft	148,300	21,676
Amounts owed to parent undertaking	230,415	620,617
Group relief payable	-	2,012
Other taxes and social security costs	626	158
Accruals and deferred income	483	751
	<u>379,824</u>	<u>645,214</u>

11 Called-up equity share capital

	Authorised		Allotted, called-up and fully paid	
	1995 Number	1994 Number	1995 £'000	1994 £'000
£1 Ordinary shares	50,000	50,000	50,000	50,000
£1 Special share	1	1	1	1
	<u>50,001</u>	<u>50,001</u>	<u>50,001</u>	<u>50,001</u>

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.

Notes to accounts (continued)

12 Reconciliation of movements in shareholders' funds

	1995 £	1994 £
Profit for the financial year	5,074	1,696
Dividends paid and proposed on equity shares	-	(26,621)
Net addition to (reduction in) shareholders' funds	5,074	(24,925)
Opening shareholders' funds	51,697	76,622
Closing shareholders' funds	56,771	51,697

13 Guarantees and financial commitments

a) Capital commitments

There were no capital commitments at the end of the year (1994 - £nil).

b) Licence fee commitments

	1995 £	1994 £
Land and buildings		
Annual commitment which expires:		
- within two to five years	1,374,000	1,933,000
Plant and machinery		
Annual commitment which expires:		
- within two to five years	932,000	1,067,000

The licence fee commitment is undertaken for the benefit of the company's immediate parent undertaking, Babcock Rosyth Defence Limited.

Notes to accounts (continued)

14 Pension costs

The company operates pension schemes for the benefit of its employees. These defined benefits 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. 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	£667,000
- level of funding	102%	100%
Principal valuation assumptions:		
- excess of investment returns over earnings increases	1.5%	1.5%
- excess of investment returns over pension increases	3.0%	3.0%
- annual rate of dividend growth	4.5%	N/A

The net pension cost of the schemes in the year was equal to the contributions payable of £6,708,519 (1994 - £6,944,628).

15 Cash flow statement

The company has taken advantage of the exemption in Financial Reporting Standard 1 to dispense with the requirement to publish a cash flow statement in its accounts, as a consolidated cash flow statement is included in the accounts of the immediate parent company.

16 Prior year comparatives

The accounts for the year ended 31 March 1994, which are shown for comparative purposes, were audited by a firm of accountants other than Arthur Andersen.

Notes to accounts (continued)

17 Ultimate parent company

The company's ultimate parent company is Babcock International Group PLC, a company registered in England and Wales. The largest group in which the results of the company are consolidated is that headed by Babcock International Group PLC. The smallest group in which the results of the company are consolidated is that headed by the company's immediate parent undertaking, Babcock Rosyth Defence Limited.

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

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