

Rosyth Royal Dockyard Limited

Accounts for the year ended 31 March 2000

Together with directors' and auditors' reports

Registered Number: SC101959

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Directors and Advisers

Directors and Advisers

Mr A A MacPherson

Mr M N McKenna

Mr M S Easton

Company Secretary

Mr J D T Greig

Registered Office

Rosyth Dockyard

Rosyth

Dunfermline

Fife

KY11 2YD

Auditors

Arthur Andersen

18 Charlotte Square

Edinburgh

EH2 4DF

Bankers

The Royal Bank of Scotland plc

Dunfermline Branch

52-54 East Port

Dunfermline

KY12 7HB

Directors' Report

For the year ended 31 March 2000

The directors present their annual report on the affairs of the company, together with the accounts, for the year ended 31 March 2000.

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 the profit or loss of the company for that year. In preparing those accounts, the directors are required to:

- select suitable accounting policies and apply them consistently, making judgements and estimates that are prudent and reasonable;
- 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 this is inappropriate.

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 review of business

The company continued to make its employees and assets available to other Babcock group companies. In addition it also purchased all materials and services required by Babcock Rosyth Defence Limited and its turnover reflects this.

Results and dividends

The audited accounts for the year ended 31 March 2000 are set out on pages 6 to 16. The profit for the year after taxation was £3,000 (1999: £4000).

The directors recommend that no final dividend is paid and that the retained profit for the year of £3,000 (1999 - £4,000) be transferred to reserves.

Supplier payment policy

The company's policy is to settle terms of payment with suppliers by mutual agreement and to abide by the terms of payment.

Directors' Report (continued)

Directors and their interests

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

Mr D S Batty (resigned 18 June 1999)

Mr D M Johnson (resigned 1 March 2000)

Mr A A MacPherson

Mr M N McKenna

Mr M S Easton

The interests of Mr M S Easton who is also a director of the ultimate parent company, Babcock International Group PLC, are shown in that company's accounts. The interests of Mr. M N McKenna are shown in the accounts of Babcock Rosyth Defence Limited, the company's immediate parent undertaking. According to the register of directors' interests maintained under the Companies Act, the remaining directors who held office at 31 March 2000 and their immediate families have the following shares in and options to subscribe for shares in Babcock International Group PLC:

	31 March 2000	Granted in year	1 April 1999
	<u>Executive Share Options Over 50p Ordinary Shares</u>		
Mr A A MacPherson	93,150	38,150	55,000
	<u>50p Ordinary Shares Held In Trust Under An</u>		
	<u>Employee Share Participation Scheme</u>		
Mr A A MacPherson	264	-	-

The above holding is based on the Babcock International Group PLC share structure that prevailed at 31 March 2000.

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.

Year 2000

After a thorough assessment of the potential impact of the year 2000 on the company, a plan was developed to ensure that all significant risks were addressed well in advance of critical dates and with minimum disruption to the business.

The Board can confirm that the company achieved Year 2000 compliance in all areas that could have a potential impact on the business and that the cost of doing so did not have a material impact on the company. Based on experience since the start of the year 2000, no significant issues have arisen and the directors are confident that no further matters will arise.

Directors' Report (continued)

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 newspaper continues to address the need for productivity improvements and cost savings. The company routinely discusses issues affecting its employees with the employees' trade unions' representatives.

Auditors

The company has elected pursuant to s386 of the Companies Act 1985, to dispense with the obligation to appoint auditors annually.

By order of the Board



M S Easton

Director

25 January 2001

Auditors' report

To the Shareholders of Rosyth Royal Dockyard Limited

We have audited the accounts on pages 6 to 16 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 2000 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

25 January 2001

Profit and Loss Account

For the year ended 31 March 2000

	Notes	2000 £'000	1999 £'000
Turnover	2	160,595	201,782
Cost of sales		(160,287)	(201,125)
Gross profit		308	657
Loss on disposal of fixed assets		(308)	(8)
Operating profit		-	649
Net interest	3	3	(645)
Profit on ordinary activities before taxation	4	3	4
Tax on profit on ordinary activities	6	-	-
Profit for the financial year		3	4
Retained profit at beginning of year		21	17
Retained profit at end of year		24	21

All the profit and loss items relate to continuing operations.

There are no recognised gains or losses other than the retained profit for the period.

The notes on pages 8 to 16 are an integral part of this profit and loss account.

Balance Sheet

As at 31 March 2000

	Notes	2000 £'000	1999 £'000
Fixed assets			
Intangible fixed assets	7	154	205
Tangible fixed assets	7	<u>14,897</u>	<u>17,322</u>
		<u>15,051</u>	<u>17,527</u>
Current assets			
Debtors	9	11,609	5,028
Cash at bank and in hand		<u>87</u>	<u>84</u>
		<u>11,696</u>	<u>5,112</u>
Creditors			
Amounts falling due within one year	10	<u>-</u>	<u>(105)</u>
Net current assets		<u>11,696</u>	<u>5,007</u>
Total assets less current liabilities		<u>26,747</u>	<u>22,534</u>
Provisions for liabilities and charges	11	<u>(14,173)</u>	<u>(9,963)</u>
Net assets		<u>12,574</u>	<u>12,571</u>
Capital and reserves			
Called-up equity share capital	12	250	250
Share premium account		12,300	12,300
Profit and loss account		<u>24</u>	<u>21</u>
Equity Shareholders Funds	13	<u>12,574</u>	<u>12,571</u>

Signed on behalf of the Board



M S Easton

Director

25 January 2001

The notes on pages 8 to 16 are an integral part of this balance sheet.

Notes to the accounts

For the year ended 31 March 2000

1 Accounting Policies

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

a) *Basis of accounting*

The accounts are 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. 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 Rosyth Defence Limited, weighted according to the levels of work within that programme.

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*

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

Provision is made for deferred taxation, using the liability method, on all timing differences, including those arising in relation to pension costs, to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

f) *Pensions*

The company operates a defined benefit pension scheme for the benefit of all its employees. The funds of the scheme are administered by Trustees and are separate 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.

g) *Group accounts*

The company has not prepared group accounts 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 is included in the consolidated accounts of that company.

Notes to the accounts (continued)

For the year ended 31 March 2000

1 Accounting policies (continued)

h) Cash Flow Statement

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

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 almost entirely attributable to the United Kingdom market.

Due to the nature of the company's operations in repairing and refitting naval vessels it is reliant upon the Ministry of Defence for the majority of its turnover and a substantial proportion of its material purchases.

3 Net interest

	2000 £'000	1999 £'000
Bank interest receivable	3	4
Interest on amounts owed to other group undertakings	-	(649)
	<u>3</u>	<u>(645)</u>

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2000 £'000	1999 £'000
Depreciation - owned fixed assets	4,255	4,014
Amortisation - intangible assets	51	47
Operating lease rentals		
land and buildings	76	34
Employee share ownership plan costs	<u>855</u>	<u>-</u>

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

There is no material difference between the profit on ordinary activities before taxation and the retained profit

Notes to the accounts (continued)

For the year ended 31 March 2000

4 Profit on ordinary activities before taxation (continued)

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:

	2000	1999
	£'000	£'000
Wages and salaries	68,080	70,196
Social security costs	5,141	5,433
Other pension costs (note 15)	4,210	5,048
	<u>77,431</u>	<u>80,677</u>

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

	2000	1999
	Number	Number
Production	3,110	3,343
Administration	17	20
	<u>3,127</u>	<u>3,363</u>

Directors' remuneration was as follows:

	2000	1999
	£'000	£'000
Emoluments (including benefits-in-kind)	<u>273</u>	<u>404</u>

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

	2000	1999
	£'000	£'000
Highest paid director	<u>185</u>	<u>150</u>

The accrued pension entitlement under the company's defined benefit scheme in respect of the highest paid director at the date of resignation was £14,445 (1999- £62,521).

Notes to the accounts (continued)

For the year ended 31 March 2000

5 Staff costs (continued)

The services of Mr M S Easton were 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 emoluments of Mr M N McKenna have been disclosed within the accounts of Babcock Rosyth Defence Limited.

The number of directors who were members of the defined benefit pension scheme at 31 March 2000 was 1 (1999 – 3).

6 Taxation on profit on ordinary activities

	2000	1999
	£'000	£'000
UK corporation tax at 30% (1999-31%)	675	559
Group relief received	(675)	(559)
	<u>-</u>	<u>-</u>

7 Fixed Assets

Tangible fixed assets

	Land & Buildings	Plant & Machinery	Total
	£'000	£'000	£'000
Beginning of year	11,137	15,161	26,298
Additions	-	2,138	2,138
Disposals	(339)	(254)	(593)
End of year	<u>10,798</u>	<u>17,045</u>	<u>27,843</u>

Depreciation

Beginning of year	3,753	5,223	8,976
Charge for the year	1,822	2,433	4,255
Disposals	(162)	(123)	(285)
End of year	<u>5,413</u>	<u>7,533</u>	<u>12,946</u>

Net Book Value

End of year	<u>5,385</u>	<u>9,512</u>	<u>14,897</u>
Beginning of year	<u>7,384</u>	<u>9,938</u>	<u>17,322</u>

Notes to the accounts (continued)

For the year ended 31 March 2000

7 Fixed assets (continued)

Intangible fixed assets

	Intellectual property £'000
Cost	
Beginning of year	300
End of year	300
Depreciation	
Beginning of year	95
Charge for the year	51
End of year	146
Net Book Value	
End of year	154
Beginning of year	205

8 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 (1999: £100).

9 Debtors

Amounts falling due within one year:

	2000 £'000	1999 £'000
Amounts owed by parent undertaking	11,306	4,451
Other debtors	303	577
	11,609	5,028

10 Creditors: Amounts falling due within one year

	£'000	£'000
Bank overdrafts	-	105

Notes to the accounts (continued)

For the year ended 31 March 2000

11 Provisions for liabilities and charges

	Pensions £'000
Beginning of year	9,963
Charged to profit and loss account	4,210
End of year	<u>14,173</u>

Details of pension benefits are set out in note 15.

As at 31 March 2000 a potential deferred tax asset of £777,000 (1999 - £620,000) exists due to fixed asset timing differences, none of which has been recognised.

12 Called-up equity share capital

	Authorised		Allotted, called-up and fully paid	
	2000	1999	2000	1999
	Number	Number	£'000	£'000
£1 Ordinary Shares	200,002	200,002	200	200
£1 'A' Ordinary Shares	49,998	49,998	50	50
£1 Special share	1	1	-	-
	<u>250,001</u>	<u>250,001</u>	<u>250</u>	<u>250</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. The "A" Ordinary Shares are non-voting and have a deferred right to the return of capital.

13 Reconciliation of movements in shareholders' funds

	2000 £'000	1999 £'000
Profit for the financial year	3	4
Net additions to shareholders' funds	<u>3</u>	<u>4</u>
Opening shareholders' funds	12,571	12,567
Closing shareholders' funds	<u>12,574</u>	<u>12,571</u>

Notes to the accounts (continued)

For the year ended 31 March 2000

14 Guarantees and financial commitments

a) Capital commitments

There were no capital commitments at the end of the year (1998 - £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"):

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 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

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

	2000	1999
	£'000	£'000
Annual commitments which expire :		
- within one year	-	51
- after 5 years	40	40
	<u>40</u>	<u>91</u>

Notes to the accounts (continued)

For the year ended 31 March 2000

15 Pension costs

The company operates a pension scheme for the benefit of its employees. The defined benefit scheme is funded in advance by contributions from the members at rates set out 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. On the recommendation of the most recent actuarial valuation there is currently an employer's contributions holiday.

The pension cost is assessed in accordance with the advice of independent qualified actuaries, and the most recent actuarial valuation for the Rosyth Royal Dockyard Pension Scheme was carried out at 31 December 1998. Details of the valuation assumptions are shown below:

Method of valuation	Projected unit
Results of last valuation :	
- market value of assets	£363 million
- level of funding	114%
Principal valuation assumptions :	
- rate of return on investments	8.0%
- rate of earnings increase	4% - 6.4%
- rate of pensions increase	3% - 4.8%
- rate of dividend growth	<u>see below</u>

The dividend growth assumes a notional re-investment in the FT Actuaries All-Share index.

The pension cost in the year was £4,210,000 (1999 - £5,048,000).

16 Related party transactions

The company, as a wholly owned subsidiary, has taken advantage of the exemption, granted under Financial Reporting Standard 8, Related Parties, by not disclosing details of sales and purchases with other members of the group headed up by Babcock International Group PLC. Details of balances owed by other group companies are disclosed in note 9.

Notes to the accounts (continued)

For the year ended 31 March 2000

17 Ultimate parent undertaking

The company's immediate parent company is 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 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