

SC101959

Rosyth Royal Dockyard Limited

**Financial statements for the year ended 31 March 2007
together with directors' and auditors' reports**

Registered Number: SC101959



Rosyth Royal Dockyard Limited

Directors and advisers

Directors

I S Urquhart

A A Bethel

S A R Billiald

F Martinelli

Company secretary

J D T Greig

Registered office

Rosyth Business Park

Rosyth

Dunfermline

Fife

KY11 2YD

Independent Auditors

PricewaterhouseCoopers LLP

Kintyre House

209 West George Street

Glasgow

G2 2LW

Bankers

The Royal Bank of Scotland plc

Dunfermline Branch

52 54 East Port

Dunfermline

Fife

KY12 7HB

Rosyth Royal Dockyard Limited

Directors' report for the year ended 31 March 2007

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 2007

Principal activities, review of business, future developments and risks

The company continued to make its employees and assets available to other Babcock group companies and is also engaged in leasing land and buildings to commercial tenants

The company plans to continue with the leasing of land and buildings to commercial tenants and to develop additional business opportunities related to the exploitation of the Rosyth site

The directors consider that the development of the additional business does not present any significant risks to the company

Results and dividends

The audited Financial Statements for the year ended 31 March 2007 are set out on pages 7 to 26 The profit for the year after taxation was £2,489,000 (2006 £2,859,000)

The Directors recommend that no final dividend is paid (2006 £nil)

Directors and their interests

The Directors who served during the year were as follows

A A Bethel

I S Urquhart

S A R Billiald (appointed 7 March 2007)

F Martinelli (appointed 7 March 2007)

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

We give full consideration to disabled applicants for employment, having regards to their particular aptitudes and abilities, and they share in the opportunities for training, career development and promotion If an employee becomes disabled, our objective is the continued provision of suitable employment either in the same or an alternative position, appropriate training being given if necessary

Rosyth Royal Dockyard Limited

Directors' report for the year ended 31 March 2007 (continued)

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 "Newslines". The company routinely discusses issues affecting its employees with the employees' trade unions' representatives.

Supplier Payment Policy

It is the company's policy to abide by terms of payment agreed with suppliers. All purchases in the year to 31 March 2007 were made by the company's immediate parent and therefore there were no amounts due to suppliers at 31 March 2007.

Statement of 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.

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 and disclosure of information to auditors

Each director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The company has elected, pursuant to s386 of the Companies Act 1985, to dispense with the obligation to appoint auditors annually. In the absence of a notice proposing that the

Rosyth Royal Dockyard Limited

Directors' report for the year ended 31 March 2007 (continued)

appointment be terminated PricewaterhouseCoopers LLP will be deemed to be re appointed for the next financial year

By order of the Board

A handwritten signature in black ink, appearing to be 'I S Urquhart', written over a horizontal line.

I S Urquhart
Director

7 September 2007

Rosyth Royal Dockyard Limited

Independent auditors' report

Independent auditors' report to the members of Rosyth Royal Dockyard Limited

We have audited the financial statements of Rosyth Royal Dockyard Limited for the year ended 31 March 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give

Rosyth Royal Dockyard Limited

Independent auditors' report (continued)

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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Glasgow

7 September 2007

Rosyth Royal Dockyard Limited

Profit and loss account

For the year ended 31 March 2007

| | Notes | 2007 £'000 | 2006 £'000 |
|--|-------|---------------|---------------|
| Turnover | 2 | 40,163 | 41,552 |
| Cost of sales | | (45,307) | (42,248) |
| Operating loss | | (5,144) | (696) |
| Other finance income | 3 | 6,161 | 3,555 |
| Profit on ordinary activities before tax | 4 | 1,017 | 2,859 |
| Tax on profit on ordinary activities | 7 | 1,472 | |
| Retained profit for the year | 15 | 2,489 | 2,859 |

All the profit and loss items relate to continuing operations

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

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalent

Rosyth Royal Dockyard Limited

Statement of Total Recognised Gains and Losses

For the year ended 31 March 2007

| | Notes | 2007 | 2006 |
|---|-------|---------------|---------------|
| | | £'000 | £'000 |
| Profit for the year | | 2,489 | 2,859 |
| Net actuarial gains in respect of pensions | 18 | 18,130 | 20,898 |
| Movement on deferred tax relating to pension liability | | (1,487) | 1,487 |
| Total gains and losses recognised since the last annual report | | 19,132 | 25,244 |

Rosyth Royal Dockyard Limited

Balance Sheet

As at 31 March 2007

| | Notes | 2007 £'000 | 2006 £'000 |
|---|-------|---------------|---------------|
| Fixed assets | | | |
| Intangible fixed assets | 8 | 16 | 19 |
| Tangible fixed assets | 9 | 1,874 | 2,289 |
| | | <u>1,890</u> | <u>2,308</u> |
| Current assets | | | |
| Debtors | 11 | 38,131 | 38,549 |
| Net current assets | | <u>38,131</u> | <u>38,549</u> |
| Net assets excluding pension liability | | <u>40,021</u> | <u>40,857</u> |
| Defined benefit pension liability | 13 | (8,739) | (28,707) |
| Net assets/(liabilities) including pension liability | | <u>31,282</u> | <u>12,150</u> |
| Capital and reserves | | | |
| Called up equity share capital | 14 | 250 | 250 |
| Share premium account | | 12,300 | 12,300 |
| Profit and loss account | 15 | 18,732 | (400) |
| Equity shareholders' funds / (deficit) | 16 | <u>31,282</u> | <u>12,150</u> |

The accompanying notes are an integral part of this balance sheet

The financial statements on pages 7 to 26 were approved by the board of directors on 7 September 2007 and were signed on its behalf by



I S Urquhart

Director

Rosyth Royal Dockyard Limited
Notes to the financial statements
For the year ended 31 March 2007

1 Accounting policies

The principal accounting policies are summarised below

a) Basis of accounting

The Financial Statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom

b) Tangible fixed assets

- (i) Tangible fixed assets used in the allocated programme of work from the Ministry of Defence are stated at cost less depreciation and any provision for impairment in value. Depreciation is calculated on these 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, weighted according to the levels of work within that programme
- (ii) All other tangible fixed assets are stated at cost less depreciation and any provision for impairment in value. This includes assets held and leased to third parties under operating lease arrangements. Depreciation is provided on a straight line basis to write off the cost of these tangible fixed assets over the course of their estimated useful lives, or for assets leased on operating leases over their contract period if shorter, to their estimated residual values as follows :

| | |
|-------------------|----------------|
| Land & buildings | 10 to 15 years |
| Plant & machinery | 3 to 8 years |

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable

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 the tangible fixed assets used as in the allocated programme of work from the Ministry of Defence (see note 1b part (i))

d) Investments

Fixed asset investments are stated at cost less provisions for impairment in value

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

1 Accounting policies (continued)

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. The taxation liabilities of certain group companies may be reduced, wholly or in part, by the surrender of losses by fellow group companies. The decision to charge group relief is made on a case by case basis.

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.

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 not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

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.

f) Turnover

Turnover comprises of operating lease income and the value of sales, excluding VAT, for the use of fixed assets and labour supplied in the normal course of business.

g) Pensions

The company operates a defined benefit pension scheme for the benefit of its employees and for employees of other Babcock companies. The scheme is funded through payments to a trustee administered fund, as determined by periodic actuarial calculations.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

1 Accounting Policies (continued)

The cost of providing benefits is determined using the projected unit credit actuarial method. The company's current and past service cost are charged to operating profit within the income statement. Interest on defined benefit scheme obligations and expected return on scheme assets are charged to net interest payable. Actuarial gains and losses are recognised directly in equity through the Statement of Total Recognised Gains and Losses so that the company's balance sheet reflects the fair value of the scheme's surplus or deficit at the balance sheet date.

h) Leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Rentals paid under operating leases are charged to the profit and loss account on a straight line basis. Where the company acts as a lessor, income received under operating leases is recognised in accordance with the terms of the lease agreements.

i) Group financial statements

The company has taken advantage of the exemption from preparing consolidated financial statements afforded by section 228 of the Companies Act 1985 because it is a wholly owned subsidiary of Babcock International Group PLC which prepares consolidated financial statements which are publicly available.

j) Cash flow statement and related party disclosures

The company is a wholly-owned subsidiary of Babcock International Group plc and is included in the consolidated financial statements of Babcock International Group plc, which are publicly available. Consequently, the company has taken advantage of the exemptions from preparing a cashflow statement under the terms of FRS 1. The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of Babcock International Group plc.

2 Turnover

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

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

3 Other finance income

| | 2007 | 2006 |
|-------------------------------|--------------|--------------|
| | £'000 | £'000 |
| FRS17 Pension Scheme Interest | <u>6,161</u> | <u>3,555</u> |

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging / (crediting)

| | 2007 | 2006 |
|--|---------|---------|
| | £'000 | £'000 |
| Depreciation owned fixed assets | 415 | 421 |
| Amortisation intangible assets | 3 | 2 |
| Operating lease rentals | | |
| land and buildings | 17 | 15 |
| Rents received in relation to operating leases | (1,743) | (1,688) |

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

| | 2007 | 2006 |
|-------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Wages and salaries | 28,399 | 32,469 |
| Social security costs | 2,219 | 2,531 |
| Other pension costs (note 18) | (595) | 1,914 |
| | <u>30,023</u> | <u>36,914</u> |

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

5 Staff costs (continued)

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

| | 2007 | 2006 |
|----------------|------------|--------------|
| | Number | Number |
| Production | 858 | 1,004 |
| Administration | 113 | 77 |
| | <u>971</u> | <u>1,081</u> |

6 Directors' remuneration

Directors' remuneration was as follows

| | 2007 | 2006 |
|---|----------|---------|
| | £'000 | £'000 |
| Emoluments (including benefits in kind) | <u>-</u> | <u></u> |

The directors' remuneration was incurred by other Babcock Group companies. No part of their remuneration could be attributed to services in respect of Rosyth Royal Dockyard Limited.

Retirement benefits are accruing to 4 directors (2006: 2) under defined benefit pension schemes.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

7 Tax on profit on ordinary activities

| | 2007 | 2006 |
|--------------------------------------|----------------|---------|
| | £'000 | £'000 |
| Current | | |
| Tax charge for the year | - | |
| Deferred tax | | |
| Current | 111 | |
| Adjustment in respect of prior years | (1,583) | |
| Tax charge / (credit) | <u>(1,472)</u> | <u></u> |

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

| | 2007 | 2006 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Profit on ordinary activities before tax | 1,017 | 2,859 |
| Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2006 30%) | 305 | 858 |
| Effects of | | |
| Timing differences | (111) | |
| Deferred tax unprovided | (998) | (561) |
| Expenses not deductible for tax purposes | 27 | 35 |
| Group relief surrendered / (claimed) for no consideration | 777 | (332) |
| | <u>-</u> | <u></u> |

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

8 Intangible fixed assets

| | Intellectual property |
|-----------------------------------|--------------------------|
| Cost | £'000 |
| At 1 April 2006 and 31 March 2007 | 300 |
| Amortisation | |
| At 1 April 2006 | 281 |
| Charge for the year | 3 |
| At 31 March 2007 | 284 |
| Net book value | |
| At 31 March 2007 | 16 |
| At 1 April 2006 | 19 |

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

9 Tangible Fixed Assets

| | Buildings related to operating leases | Land & Other Buildings | Plant & machinery | Total |
|-----------------------|--|---|----------------------------------|---------------|
| Cost | £'000 | £'000 | £'000 | £'000 |
| At 1 April 2006 | 3,000 | 8,781 | 17,242 | 29,023 |
| Disposals | | (102) | | (102) |
| 31 March 2007 | <u>3,000</u> | <u>8,679</u> | <u>17,242</u> | <u>28,921</u> |
| Depreciation | | | | |
| At 1 April 2006 | 1,967 | 8,273 | 16,494 | 26,734 |
| Charge for the year | 153 | 87 | 175 | 415 |
| Disposals | | (102) | | (102) |
| At 31 March 2007 | <u>2,120</u> | <u>8,258</u> | <u>16,669</u> | <u>27,047</u> |
| Net book value | | | | |
| At 31 March 2007 | <u>880</u> | <u>421</u> | <u>573</u> | <u>1,874</u> |
| At 1 April 2006 | <u>1,033</u> | <u>508</u> | <u>748</u> | <u>2,289</u> |

Land and buildings disclosed above relates to freehold land and buildings only

10 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 (2006 £100).

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

11 Debtors

Amounts falling due within one year

| | | 2007 | 2006 |
|--|-------|---------------|---------------|
| | Notes | £'000 | £'000 |
| Amounts owed by other group undertakings | | 36,659 | 37,183 |
| Deferred Tax | 12 | 1,472 | |
| Other debtors | | - | 1,366 |
| | | <u>38,131</u> | <u>38,549</u> |

Amounts owed by group undertakings are unsecured, interest free and repayable on demand

12 Deferred tax

The components of the deferred tax asset recorded and the potential deferred tax asset are as follows

| | 2007 | 2006 | 2007 | 2006 |
|---|--------------|--------------|--------------|---------------|
| | Provided | Provided | Potential | Potential |
| | £'000 | £'000 | £'000 | £'000 |
| Accelerated capital allowances | 1,472 | | 1,472 | 1,506 |
| Defined benefit pension liability | - | 1,487 | 2,622 | 9,058 |
| | <u>1,472</u> | <u>1,487</u> | <u>4,094</u> | <u>10,564</u> |
| Less defined benefit pension liability | - | (1,487) | (2,622) | (9,058) |
| Excluding defined benefit pension liability | <u>1,472</u> | <u></u> | <u>1,472</u> | <u>1,506</u> |

There is no deferred tax liability in the company. The potential deferred tax asset of £2,622,000 on the defined benefit pension liability has not been recognised by the company as it has been recognised by the company's immediate parent.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

12 Deferred tax (continued)

The movement on the deferred tax asset is as follows

| | £'000 |
|--|--------------|
| At 1 April 2006 | 1,487 |
| Current year charge | (111) |
| Credit in respect of accelerated capital allowances for prior years | 1,583 |
| Reduction in recognition of deferred tax asset on the pension scheme deficit | (1,487) |
| At 31 March 2007 | <u>1,472</u> |

13 Defined benefit pension liability

| | Defined benefit pension liability £'000 |
|------------------------------------|--|
| At 1 April 2006 | 28,707 |
| Charged to profit and loss account | (747) |
| Recognised gains and losses | (18,130) |
| Payments made during the year | (2,578) |
| Movement in deferred tax | 1,487 |
| At 31 March 2007 | <u>8,739</u> |

Details of pension benefits are set out in note 18

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

14 Called-up equity share capital

| | Authorised | | Allotted, called-up and fully paid | |
|------------------------|----------------|----------------|------------------------------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| | 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, have no dividend rights and have a deferred right to the return of capital.

15 Reserves

| | Notes | Profit and Loss Reserve £'000 |
|--|-------|----------------------------------|
| At 1 April 2006 | | (400) |
| Retained profit for the year | | 2,489 |
| Actuarial gain on pension scheme | | 18,130 |
| Movement on deferred tax relating to pension scheme | 12 | (1,487) |
| At 31 March 2007 | | 18,732 |
| Defined benefit pension liability | | 8,739 |
| Profit and loss reserve excluding defined benefit pension liability | | 27,471 |

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

16 Reconciliation of movements in shareholders' funds

| | Notes | 2007 £'000 | 2006 £'000 |
|---|-------|---------------|---------------|
| Profit for the financial year | | 2,489 | 2,859 |
| Actuarial gain / (loss) on pension scheme | 18 | 18,130 | 20,898 |
| Movement on deferred tax relating to the pension scheme | 12 | (1,487) | 1,487 |
| Net additions to shareholders' funds | | 19,132 | 25,244 |
| Opening shareholders' funds / (deficit) | | 12,150 | (13,094) |
| Closing shareholders' funds / (deficit) | | 31,282 | 12,150 |

17 Guarantees and financial commitments

a) Capital commitments

There were no capital commitments at the end of the year (2006 £nil)

b) Contingent liabilities

- i The company has guaranteed or has joint and several liability for bank facilities of £10 million provided to certain group companies (2006 £10 million)
- ii Pursuant to the agreement for the acquisition of Rosyth Royal Dockyard, the following charge and security interest has been granted in favour of the Ministry of Defence ("MoD")

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.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

17 Guarantees and financial commitments (continued)

c) Operating lease commitments

At 31 March the company had annual commitments under non cancellable operating leases expiring as follows

| | Land and buildings | |
|------------------|--------------------|-------|
| | 2007 | 2006 |
| | £'000 | £'000 |
| after five years | 17 | 17 |

18 Pension commitments

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 employer made contributions to the Scheme of 9% of pensionable pay in the year to 31 March 2007 and employees made contributions at 1.5% of pensionable pay. Contribution rates for future years are currently under consideration and are expected to increase.

For defined benefit schemes the fair values of pension scheme assets at 31 March 2007 are compared with the pension liabilities calculated under the projected unit method. A full actuarial valuation was carried out at 31 March 2006. The latest full actuarial valuation of the Scheme has been updated to 31 March 2007 by qualified independent actuaries using the following assumptions:

| | 2007 | 2006 | 2005 |
|-------------------------------------|----------|----------|----------|
| Rate of increase of future earnings | 3.0-3.5% | 3.0-3.5% | 3.0-3.5% |
| Discount rate | 5.43% | 5.05% | 5.43% |
| Expected pension increases | 3.0% | 3.0% | 3.0% |
| Inflation rate | 3.0% | 3.0% | 3.0% |

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

18 Pension Commitments (continued)

The fair value of the assets, the present value of the liabilities and the expected rates of return of the Scheme at 31 March 2007, 2006 and 2005 were as follows

| | 2007 | | 2006 | | 2005 | |
|-------------------------------------|-------------------------|------------|-------------------------|------------|-------------------------|------------|
| | Expected rate of return | Fair value | Expected rate of return | Fair value | Expected rate of return | Fair value |
| | % | £'000 | % | £'000 | % | £'000 |
| Equities | 8.0 | 237,898 | 8.0 | 229,794 | 8.0 | 224,784 |
| Property | 7.5 | 78,395 | 7.5 | 68,718 | 7.5 | 57,545 |
| Bonds | 5.1 | 141,393 | 5.1 | 139,701 | 5.5 | 89,609 |
| Cash | 4.5 | 3,182 | 4.5 | 5,125 | 4.75 | 3,708 |
| Fair value of assets | | 460,868 | | 443,338 | | 375,646 |
| Present value of scheme liabilities | | (469,607) | | (473,532) | | (428,230) |
| Recognised pension liability | | (8,739) | | (30,194) | | (52,584) |
| Deferred tax asset, see note 12 | | 2,622 | | 9,058 | | 15,775 |
| Net pension liability | | (6,117) | | (21,136) | | (36,809) |

Analysis of the amount charged to operating profit :

| | 2007 | 2006 |
|------------------------|---------|---------|
| | £'000 | £'000 |
| Current service cost | (5,414) | (5,882) |
| Curtailments | - | 1,258 |
| Total Operating Charge | (5,414) | (4,624) |

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

18 Pension Commitments (continued)

Analysis of the amount credited to other finance income :

| | 2007 | 2006 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Expected return on pension scheme assets | 29,802 | 26,538 |
| Interest on pension scheme liabilities | (23,641) | (22,983) |
| Net Return | <u>6,161</u> | <u>3,555</u> |

Analysis of amount recognised in Statement of Recognised Gains and Losses

| | 2007 | 2006 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Actual return less expected return on pension scheme assets | 2,109 | 54,899 |
| Experience losses arising on scheme liabilities | (2,239) | (13,198) |
| Changes in assumptions underlying the present value of the scheme liabilities | 18,260 | (20,803) |
| Actuarial gain recognised in the statement of recognised gains and losses | <u>18,130</u> | <u>20,898</u> |

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

18 Pension Commitments (continued)

| Movements in deficit during the year : | 2007 | 2006 |
|---|-----------------|-----------------|
| | £'000 | £'000 |
| Deficit at the beginning of the year | (30,194) | (52,584) |
| Movement in the year | | |
| Current service cost | (5,414) | (5,882) |
| Other finance income | 6,161 | 3,555 |
| Actuarial gain | 18,130 | 20,898 |
| Contributions | 2,578 | 2,561 |
| Curtailments | - | 1,258 |
| Deficit at the end of the year | (8,739) | (30,194) |

History of experience gains and losses :

| | 2007 | 2006 |
|---|----------------|-----------------|
| | £'000 | £'000 |
| Difference between the expected and actual return on scheme assets | | |
| Amount | 2,109 | 54,899 |
| Percentage of scheme assets | 0.5% | 12% |
| Experience gains and losses on scheme liabilities | | |
| Amount | (2,239) | (13,198) |
| Percentage of the present value | (0.5%) | 3% |
| Total amount recognised in the statement of total recognised gains and losses | | |
| Amount | 18,260 | 20,898 |
| Percentage of the present value of scheme liabilities | 4% | 5% |

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2007

19 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 sales and purchases with other members of the group headed up by Babcock International Group PLC

20 Ultimate parent undertaking

The company's immediate parent company is Babcock Support Services 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