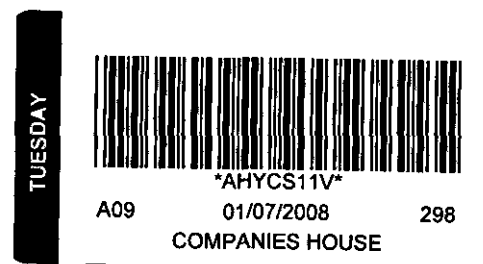


SC101959

Rosyth Royal Dockyard Limited

**Financial statements for the year ended 31 March 2008
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

W Tame (appointed 18 December 2007)

P L Rogers (appointed 18 December 2007)

J W Howie (appointed 21 January 2008)

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 2008

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 2008

Principal activities, review of business, future developments

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

Principle Risks & Uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks and uncertainties. These are managed through the operational review process supplemented at Group level by independent challenge and review by the Group risk manager and the Audit & Risk Committee

The key business risks and uncertainties affecting the company are considered to relate to contractual performance, the political and regulatory environment and exposure to defined benefit pension schemes. Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on pages 26 & 27 of the annual report of Babcock International Group PLC, which does not form part of this report

Regular reviews of contractual performance are undertaken by each of the businesses and these are independently challenged by a system of reviews undertaken by Babcock International Group Finance and a regime of internal audit conducted by Ernst and Young which reports to the Group Audit and Risk Committee

Key Performance Indicators

The marine activities of the group are managed on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the company. The growth and performance of Babcock Marine, the Marine division of Babcock International Group PLC, which includes the company, is discussed on pages 12 and 13 of the Group's report, which does not form part of this report

Non financial key performance indicators that have been monitored at a company level are related to our continued effort to improve our good record in Health & Safety. For the 12 months to March 2008 there has been a 30% reduction in all accidents and a 76% reduction in reportable accidents. The accident frequency rate per 100,000 hours stands at 2.3 for 2007/08, which reduced from 3.3 for 2006/07

Rosyth Royal Dockyard Limited

Directors' report for the year ended 31 March 2008 (continued)

Financial Risk Management

Financial Risk is managed in accordance with Group policies and procedures which are discussed on pages 27 and 32 of the annual report of Babcock International Group PLC, which does not form part of this report

Financial Review

The audited Financial Statements for the year ended 31 March 2008 are set out on pages 7 to 26 The profit for the year after taxation was £5,705,000 (2007 £2,489,000)

The Directors recommend that no final dividend is paid (2007 £nil)

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

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

Environment

The company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations We aim to achieve the highest standards in environmental management and seek accreditation to applicable standards where appropriate

Qualifying third party indemnity provisions

Under the Articles of Association of the Company and subject to the provisions of the Companies Act 2006, each director and officer of the Company is, and was during the period to 31 March 2008, entitled to be indemnified by the Company against any loss or liability incurred by him in defending any proceedings in which judgment is given in his favour or in

Rosyth Royal Dockyard Limited

Directors' report for the year ended 31 March 2008 (continued)

which he is acquitted or in connection with any application in which relief is granted to him by the court from any liability

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 2008 were made by the company's immediate parent and therefore there were no amounts due to suppliers at 31 March 2008.

Charitable and political donations

There were no political or charitable contributions during the period.

Financial Risk

All treasury transactions are carried out only with prime rated counter parties as are investments of cash and cash equivalents.

Directors and their interests

The Directors who served during the year were as follows

A A Bethel

I S Urquhart

S A R Billiald

F Martinelli

W Tame (appointed 18 December 2007)

P L Rogers (appointed 18 December 2007)

J W Howie (appointed 21 January 2008)

It is the company's policy to abide by terms of payment agreed with suppliers. All purchases in the year to 31 March 2008 were made by the company's immediate parent and therefore there were no amounts due to suppliers at 31 March 2008.

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,

Rosyth Royal Dockyard Limited

Directors' report for the year ended 31 March 2008 (continued)

- 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

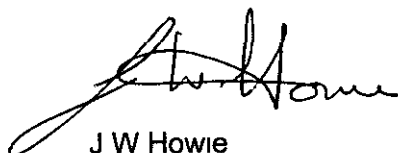
The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the 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 appointment be terminated PricewaterhouseCoopers LLP will be deemed to be re-appointed for the next financial year.

By order of the Board



J W Howie
Director

24 June 2008

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 2008 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 2008 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

24 June 2008

Rosyth Royal Dockyard Limited

Profit and loss account

For the year ended 31 March 2008

	Notes	2008 £'000	2007 £'000
Turnover	2	45,015	40,163
Cost of sales		(40,885)	(40,161)
Operating profit		4,130	2
Net interest receivable and similar income	3	1,726	1,015
Profit on ordinary activities before tax	4	5,856	1,017
Tax on profit on ordinary activities	7	(151)	1,472
Retained profit for the year	15	5,705	2,489

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 2008

	Notes	2008	2007
		£'000	£'000
Profit for the year		5,705	2,489
Net actuarial gains in respect of pensions	18	5,200	18,130
Movement on deferred tax relating to pension liability		-	(1,487)
Total gains and losses recognised since the last annual report		10,905	19,132

Rosyth Royal Dockyard Limited

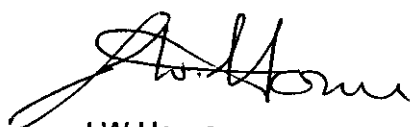
Balance Sheet

As at 31 March 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Intangible fixed assets	8	13	16
Tangible fixed assets	9	2,859	1,874
		<u>2,872</u>	<u>1,890</u>
Current assets			
Debtors	11	34,904	38,131
Cash at bank		20,150	
		<u>55,054</u>	<u>38,131</u>
Net current assets		<u>55,054</u>	<u>38,131</u>
Net assets excluding pension asset / (liability)		<u>57,926</u>	<u>40,021</u>
Defined benefit pension asset / (liability)	13	4,261	(8,739)
Net assets including pension asset / (liability)		<u>62,187</u>	<u>31,282</u>
Capital and reserves			
Called up equity share capital	14	250	250
Share premium account	15	32,300	12,300
Profit and loss account	15	29,637	18,732
Equity shareholders' funds	16	<u>62,187</u>	<u>31,282</u>

The accompanying notes are an integral part of this balance sheet

The financial statements on pages 8 to 28 were approved by the board of directors on 24 June 2008 and were signed on its behalf by



J W Howie
Director

Rosyth Royal Dockyard Limited

Notes to the financial statements

For the year ended 31 March 2008

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 Marine (Rosyth) 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 2008

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 2008

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 2008

3 Net interest receivable and similar income

	2008	2007
	£'000	£'000
FRS17 pension scheme interest income	6,200	6,161
FRS17 pension scheme interest charge	(4,641)	(5,146)
Bank interest receivable	167	
	<u>1,726</u>	<u>1,015</u>

The FRS 17 Pension Scheme interest charge represents a proportion of the FRS 17 pension scheme interest income that is passed to other group companies. This proportion is in respect of employees of the company whose services are provided to other group companies.

4 Profit on ordinary activities before taxation

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

	2008	2007
	£'000	£'000
Depreciation – owned fixed assets	444	415
Amortisation – intangible assets	3	3
Operating lease rentals		
land and buildings	17	17
Rents received in relation to operating leases	(2,233)	(1,743)

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

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2008

5 Staff costs

Employee costs during the year amounted to

	2008	2007
	£'000	£'000
Wages and salaries	29,073	28,399
Social security costs	2,235	2,219
Other pension costs (note 18)	(2,073)	(595)
	<u>29,235</u>	<u>30,023</u>

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

	2008	2007
	Number	Number
Production	829	858
Administration	115	113
	<u>944</u>	<u>971</u>

6 Directors' remuneration

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 7 directors (2007: 4) under defined benefit pension schemes.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2008

7 Tax on profit on ordinary activities

	2008	2007
	£'000	£'000
Current		
Tax charge for the year	-	
Deferred tax		
Current	66	111
Adjustment in respect of prior years	(9)	(1,583)
Impact of change in UK tax rate	94	
Tax charge / (credit)	<u>151</u>	<u>(1,472)</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

	2008	2007
	£'000	£'000
Profit on ordinary activities before tax	5,856	1,017
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2007 30%)	1,757	305
Effects of		
Timing differences	(66)	(111)
Deferred tax unprovided	(2,340)	(998)
Expenses not deductible for tax purposes	36	27
Group relief surrendered / (claimed) for no consideration	613	777
	<u>-</u>	<u>-</u>

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2008

8 Intangible fixed assets

	Intellectual property
Cost	£'000
At 1 April 2007 and 31 March 2008	300
	<hr/>
Amortisation	
At 1 April 2007	284
Charge for the year	3
At 31 March 2008	287
	<hr/>
Net book value	
At 31 March 2008	13
	<hr/>
At 1 April 2007	16
	<hr/>

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2008

9 Tangible Fixed Assets

	Buildings related to operating leases	Land & Other Buildings	Plant & machinery	Total
Cost	£'000	£'000	£'000	£'000
At 1 April 2007	3,000	8,679	17,242	28,921
Additions		1,429		1,429
Disposals		(8)		(8)
31 March 2008	<u>3,000</u>	<u>10,100</u>	<u>17,242</u>	<u>30,342</u>
Depreciation				
At 1 April 2007	2,120	8,258	16,669	27,047
Charge for the year	154	116	174	444
Disposals		(8)		(8)
At 31 March 2008	<u>2,274</u>	<u>8,366</u>	<u>16,843</u>	<u>27,483</u>
Net book value				
At 31 March 2008	<u>726</u>	<u>1,734</u>	<u>399</u>	<u>2,859</u>
At 1 April 2007	<u>880</u>	<u>421</u>	<u>573</u>	<u>1,874</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 (2007 £100).

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2008

11 Debtors

Amounts falling due within one year

		2008	2007
	Notes	£'000	£'000
Amounts owed by other group undertakings		33,583	36,659
Deferred Tax	12	1,321	1,472
		34,904	38,131

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

	2008	2007	2008	2007
	Provided	Provided	Potential	Potential
	£'000	£'000	£'000	£'000
Accelerated capital allowances	1,321	1,472	1,321	1,472
Defined benefit pension (asset) / liability	-		(1,193)	2,622
	1,321	1,472	128	4,094
Less defined benefit pension asset / (liability)	-		1,193	(2,622)
Excluding defined benefit pension asset / liability	1,321	1,472	1,321	1,472

The potential deferred tax liability of £1,193,000 on the defined benefit pension asset 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 2008

12 Deferred tax (continued)

The movement on the deferred tax asset is as follows

	£'000
At 1 April 2007	1,472
Current year charge	(66)
Credit in respect of accelerated capital allowances for prior years	9
Impact of change in UK tax rate	(94)
At 31 March 2008	<u>1,321</u>

13 Defined benefit pension asset / (liability)

	Defined benefit pension asset £'000
Liability at 1 April 2007	(8,739)
Credited to profit and loss account	2,700
Recognised gains	5,200
Payments made during the year	5,100
Movement in deferred tax	
Asset at 31 March 2008	<u>4,261</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 2008

14 Called-up equity share capital

	Authorised		Allotted, called-up and fully paid	
	2008	2007	2008	2007
	Number	Number	£	£
£1 ordinary shares	200,101	200,002	200,022	200,002
£1 "A" ordinary shares	49,998	49,998	49,998	49,998
£1 special share	1	1	1	1
	250,100	250,001	250,021	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.

During the year the authorised share capital of the company was increased through the creation of 99 ordinary shares of £1 each. Also, during the year 20 ordinary shares of £1 each were allotted to the company's parent for a consideration of £20,000,000, by way of capitalisation of a loan of this amount which was made to the company during the year. Accordingly an amount of £19,999,980 has been taken to the share premium account.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2008

15 Reserves

		Share Premium	Profit and Loss Reserve
	Notes	£'000	£'000
At 1 April 2007		12,300	18,732
Retained profit for the year			5,705
Actuarial gain on pension scheme			5,200
Share issue	14	20,000	
At 31 March 2008		32,300	29,637
Defined benefit pension asset			(4,261)
Profit and loss reserve excluding defined benefit pension asset			25,376

16 Reconciliation of movements in shareholders' funds

	Notes	2008	2007
		£'000	£'000
Profit for the financial year		5,705	2,489
Actuarial gain on pension scheme	18	5,200	18,130
Movement on deferred tax relating to the pension scheme	12	-	(1,487)
Share capital / premium issued during the period	14	20,000	
Net additions to shareholders' funds		30,905	19,132
Opening shareholders' funds		31,282	12,150
Closing shareholders' funds		62,187	31,282

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2008

17 Guarantees and financial commitments

a) Capital commitments

There were no capital commitments at the end of the year (2007 £nil)

b) Contingent liabilities

- i The company at the year end had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £375m provided to certain group companies
- 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.

c) Operating lease commitments

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

	Land and buildings	
	2008	2007
	£'000	£'000
after five years	17	17

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2008

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. A number of changes to scheme benefits and to contribution rates were made during the year. Since October 2007 contributions have been made at 22.4% of pensionable pay, including the employer and employee elements. Since November 2007 a salary sacrifice scheme has been in place under which the employee element of contributions is classified as an employer contribution. Contribution rates are expected to remain at current levels for the foreseeable future.

For defined benefit schemes the fair values of pension scheme assets at 31 March 2008 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 2008 by qualified independent actuaries using the following assumptions:

	2008	2007	2006
Rate of increase of future earnings	4.0%	3.035%	3.035%
Discount rate	6.9%	5.43%	5.05%
Expected pension increases	3.5%	3.0%	3.0%
Inflation rate	3.5%	3.0%	3.0%

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2008

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 2008, 2007 and 2006 were as follows

	2008		2007		2006	
	Expected rate of return	Fair value	Expected rate of return	Fair value	Expected rate of return	Fair value
	%	£'000	%	£'000	%	£'000
Equities	8.0	211,000	8.0	237,898	8.0	229,794
Property	7.5	61,200	7.5	78,395	7.5	68,718
Bonds	5.1	139,600	5.1	141,393	5.1	139,701
Cash	5.25	10,400	4.5	3,182	4.5	5,125
Fair value of assets		<u>422,200</u>		<u>460,868</u>		<u>443,338</u>
Present value of scheme liabilities		<u>(417,939)</u>		<u>(469,607)</u>		<u>(473,532)</u>
Recognised pension asset / (liability)		<u>4,261</u>		<u>(8,739)</u>		<u>(30,194)</u>
Deferred tax (liability) / asset, see note 12		<u>(1,193)</u>		<u>2,622</u>		<u>9,058</u>
Net pension asset / (liability)		<u>3,068</u>		<u>(6,117)</u>		<u>(21,136)</u>

Analysis of the amount (charged) / credited to operating profit :

	2008	2007
	£'000	£'000
Current service cost	(5,000)	(5,414)
Curtailments	1,500	
Total Operating Charge	<u>(3,500)</u>	<u>(5,414)</u>

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2008

18 Pension Commitments (continued)

Analysis of the amount credited to other finance income :

	2008	2007
	£'000	£'000
Expected return on pension scheme assets	31,100	29,802
Interest on pension scheme liabilities	(24,900)	(23,641)
Net Return	6,200	6,161

Analysis of amount recognised in Statement of Recognised Gains and Losses

	2008	2007
	£'000	£'000
Actual return less expected return on pension scheme assets	(49,000)	2,109
Experience losses arising on scheme liabilities	(5,100)	(2,239)
Changes in assumptions underlying the present value of the scheme liabilities	59,300	18,260
Actuarial gain recognised in the statement of recognised gains and losses	5,200	18,130

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

For the year ended 31 March 2008

18 Pension Commitments (continued)

Movements in deficit during the year :	2008	2007
	£'000	£'000
Deficit at the beginning of the year	(8,739)	(30,194)
Movement in the year		
Current service cost	(5,000)	(5,414)
Other finance income	6,200	6,161
Actuarial gain	5,200	18,130
Contributions	5,100	2,578
Curtailments	1,500	
Surplus / (deficit) at the end of the year	4,261	(8,739)

History of experience gains and losses :

	2008	2007
	£'000	£'000
Difference between the expected and actual return on scheme assets		
Amount	(49,000)	2,109
Percentage of scheme assets	(11.6)%	0.5%
Experience gains and losses on scheme liabilities		
Amount	(5,100)	(2,239)
Percentage of the present value	(1.2)%	(0.5)%
Total amount recognised in the statement of total recognised gains and losses		
Amount	59,300	18,260
Percentage of the present value of scheme liabilities	14%	4%



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Notes to the financial statements (continued)

For the year ended 31 March 2008

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 Marine (Rosyth) 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