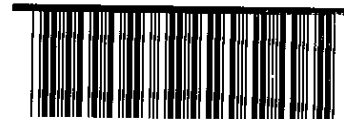


Rosyth Royal Dockyard Limited

**Accounts for the year ended 31 March 2001
together with directors' and auditors' reports**

Registered Number: SC101959



SCT SRP7N5Z6 1102
COMPANIES HOUSE 22/11/01

Directors and advisers

Directors

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

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2DB

Bankers

The Royal Bank of Scotland plc

Dunfermline Branch

52-54 East Port

Dunfermline

KY12 7HB

Directors' report

For the year ended 31 March 2001

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 March 2001.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that 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 that 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 2001 are set out on pages 6 to 16. The profit for the year after taxation was £3,000 (2000: £3,000).

The directors recommend that no final dividend is paid (2000: £nil).

Directors' report (continued)

Directors and their interests

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

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, Mr A A MacPherson and his immediate family have the following shares in and options to subscribe for shares in Babcock International Group PLC:

	31 March 2001	Granted in year	1 April 2000
	<u>Executive share options over ordinary shares</u>		
Mr A A MacPherson	108,150	15,000	93,150
	<u>Ordinary shares held in trust under an employee share participation scheme</u>		
Mr A A MacPherson	220 (b)		264 (a)

(a) Ordinary shares of 50p each

(b) Ordinary shares of 60p each

On 23 October 2000, there was a 5 for 6 consolidation of the share capital of Babcock International Group plc.

Safety policy

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

The company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

Employment of disabled persons

The policy and practice of the company is to seek to encourage and assist the employment of disabled persons who are able to perform their duties without exposing themselves or others to abnormal risks.

The training, career development and promotion opportunities of the company's disabled employees are equal to those of their able-bodied colleagues.

Arrangements are made, wherever possible, for the continued employment of employees becoming disabled whilst working for the company. If necessary, retraining is offered to such individuals to allow each of them to perform work suited to their aptitudes and abilities.

Directors' report (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 "Newsweek. The company routinely discusses issues affecting its employees with the employees' trade unions' representatives.

Auditors

Arthur Andersen are willing to continue in office and Resolutions will be proposed at the Annual General Meeting to reappoint them as auditors.

By order of the Board



M S Easton

Director

27 September 2001

Rosyth Dockyard
Rosyth
Dunfermline
Fife
KY11 2YD

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 2001 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

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2DB

27 September 2001

Profit and loss account

For the year ended 31 March 2001

	Notes	2001 £'000	2000 £'000
Turnover	2	170,097	160,595
Cost of sales		(170,097)	(160,287)
Gross profit		-	308
Loss on disposal of fixed assets		-	(308)
Operating profit		-	-
Net interest	3	3	3
Profit on ordinary activities before taxation	4	3	3
Tax on profit on ordinary activities	6	-	-
Profit on ordinary activities after taxation		3	3
Retained profit at beginning of year		24	21
Retained profit at end of year		27	24

All the profit and loss items relate to continuing operations.

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

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

Balance sheet

As at 31 March 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Intangible fixed assets	7	109	154
Tangible fixed assets	7	11,109	14,897
		<u>11,218</u>	<u>15,051</u>
Current assets			
Debtors	9	17,878	11,609
Cash at bank and in hand		118	87
Net current assets		<u>17,996</u>	<u>11,696</u>
Total assets		<u>29,214</u>	<u>26,747</u>
Provisions for liabilities and charges	10	(16,637)	(14,173)
Net assets		<u>12,577</u>	<u>12,574</u>
Capital and reserves			
Called-up equity share capital	11	250	250
Share premium account		12,300	12,300
Profit and loss account		27	24
Equity shareholders' funds	12	<u>12,577</u>	<u>12,574</u>

Signed on behalf of the Board



M S Easton

Director

27 September 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 2001

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 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, and for employees of other Babcock companies. 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 2001

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

Turnover is almost entirely attributable to the United Kingdom market.

3 Net interest

	2001	2000
	£'000	£'000
Bank interest receivable	3	3

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2001	2000
	£'000	£'000
Depreciation - owned fixed assets	4,594	4,255
Amortisation - intangible assets	45	51
Operating lease rentals		
land and buildings	40	76
Employee share ownership plan costs	-	855

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 for both years and their respective historical cost equivalents.

Notes to the accounts (continued)

For the year ended 31 March 2001

5 Staff Costs

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

Employee costs during the year amounted to:

	2001 £'000	2000 £'000
Wages and salaries	59,474	68,080
Social security costs	4,398	5,141
Other pension costs (note 14)	2,464	4,210
	<u>66,336</u>	<u>77,431</u>

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

	2001 Number	2000 Number
Production	2,538	3,110
Administration	59	17
	<u>2,597</u>	<u>3,127</u>

Directors' remuneration was as follows:

	2001 £'000	2000 £'000
Emoluments (including benefits-in-kind)	<u>93</u>	<u>273</u>

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 2001 was 3 (2000 – 1).

6 Taxation on profit on ordinary activities

	2001 £'000	2000 £'000
UK corporation tax at 30% (2000-30%)	817	675
Group relief received	<u>(817)</u>	<u>(675)</u>
	<u>-</u>	<u>-</u>

Notes to the accounts (continued)

For the year ended 31 March 2001

7 Fixed Assets

Tangible fixed assets

	Land & buildings £'000	Plant & machinery £'000	Total £'000
Cost			
At 1 April 2000	10,798	17,045	27,843
Additions	610	196	806
At 31 March 2001	<u>11,408</u>	<u>17,241</u>	<u>28,649</u>
Depreciation			
At 1 April 2000	5,413	7,533	12,946
Charge for the year	1,647	2,947	4,594
At 31 March 2001	<u>7,060</u>	<u>10,480</u>	<u>17,540</u>
Net book value			
At 31 March 2001	<u>4,348</u>	<u>6,761</u>	<u>11,109</u>
At 1 April 2000	<u>5,385</u>	<u>9,512</u>	<u>14,897</u>

Notes to the accounts (continued)

For the year ended 31 March 2001

7 Fixed assets (continued)

Intangible fixed assets

	Intellectual property £'000
Cost	
At 1 April 2000	300
Additions	-
At 31 March 2001	<u>300</u>
 Amortisation	
At 1 April 2000	146
Charge for the year	45
At 31 March 2001	<u>191</u>
 Net book value	
At 31 March 2001	<u>109</u>
At 1 April 2000	<u>154</u>

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 (2000: £100).

9 Debtors

Amounts falling due within one year:

	2001 £'000	2000 £'000
Amounts owed by other group undertakings	17,730	11,306
Other debtors	148	303
	<u>17,878</u>	<u>11,609</u>

Notes to the accounts (continued)

For the year ended 31 March 2001

10 Provisions for liabilities and charges

	Pensions £'000
Beginning of year	14,173
Charged to profit and loss account	2,464
End of year	<u>16,637</u>

Details of pension benefits are set out in note 14.

As at 31 March 2001 a potential deferred tax asset of £818,000 (2000 - £777,000) exists due to fixed asset timing differences, none of which has been recognised.

11 Called-up equity share capital

	Authorised		Allotted, called-up and fully paid	
	2001	2000	2001	2000
	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
	<u>250,001</u>	<u>250,001</u>	<u>250,001</u>	<u>250,001</u>

Share capital consists entirely of equity shares.

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

12 Reconciliation of movements in shareholders' funds

	2001 £'000	2000 £'000
Profit for the financial year	3	3
Net additions to shareholders' funds	3	3
Opening shareholders' funds	12,574	12,571
Closing shareholders' funds	<u>12,577</u>	<u>12,574</u>

Notes to the accounts (continued)

For the year ended 31 March 2001

13 Guarantees and financial commitments

a) Capital commitments

There were no capital commitments at the end of the year (2000 - £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

	2001 £'000	2000 £'000
Annual commitments which expire :		
- within one year	35	-
- between two and five years	5	-
- after five years	-	40
	<u>40</u>	<u>40</u>

Notes to the accounts (continued)

For the year ended 31 March 2001

14 Pension costs

The company operates a pension scheme for the benefit of its employees and for employees of other Babcock companies. 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 March 2000. Details of the valuation assumptions are shown below:

Rosyth Royal Dockyard Pension Scheme	
Method of valuation	Projected unit
Results of last valuation :	
- market value of assets	£460 million
- level of funding	124%
Principal valuation assumptions :	
- excess of investment returns over earnings increases	1.5%
- excess of investment returns over pension increases	3.0%
- 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 £2,464,000 (2000 - £4,210,000).

15 Related party disclosures

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 2001

16 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