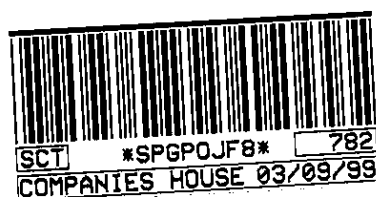


# Rosyth Royal Dockyard Limited

Accounts for the year ended 31 March 1999  
together with directors' and auditors' reports

Registered number: SC101959

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## Directors and advisors

### Directors

Mr D S Batty

Mr G D Hilton (resigned 3 June 1998)

Mr D M Johnson

Mr A A MacPherson

Mr M N McKenna

Mr M S Easton

### Secretary

Mr G T Lyon

### Registered Office

Rosyth Royal Dockyard

Rosyth

Fife

KY11 2YD

### Auditors

Arthur Andersen

18 Charlotte Square

Edinburgh

EH2 4DF

### Bankers

The Royal Bank of Scotland plc

52/54 East Port

Dunfermline

Fife

KY12 7HB

### Solicitors

McGrigor Donald

Pacific House

70 Wellington Street

Glasgow

G2 6SB

## Directors' report

For the year ended 31 March 1999

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 1999.

### 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 then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Principal activities and business review

The company continued to 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.

### Dividends and reserves

No dividends were paid or proposed during the year (1998 - £nil). The directors recommend that the profit for the year of £4,000 (1998 - £434,000) be transferred to reserves.

### Supplier payment policy

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

## Directors' report (continued)

### Directors and their interests

The directors who served during the year and subsequent to the year end are shown below.

Mr D S Batty  
Mr G D Hilton (resigned 3 June 1998)  
Mr D M Johnson  
Mr A A MacPherson  
Mr M N McKenna  
Mr M S Easton

At the forthcoming annual general meeting, in accordance with the requirements of the articles of the company, Mr Johnson shall retire but will offer himself for re-election.

Interests of directors who are not directors of the ultimate parent company, Babcock International Group PLC are shown in that company's accounts. Directors, who are not directors of the ultimate parent company, Babcock International Group PLC and their immediate families have the following shares and options to subscribe for shares in group companies.

Name of director	Number of Ordinary shares in Babcock International Group PLC	
	31 March 1999	31 March 1998
Mr D S Batty	<u>3,928</u>	<u>3,928</u>

### Executive share options

Name of director	Number of options over Ordinary shares in Babcock International Group PLC			
	31 March 1999	Waived during the year	Granted during the year	31 March 1998
Mr D S Batty	110,000	(135,627)	60,000	185,627
Mr D M Johnson	55,000	(48,039)	40,000	63,039
Mr A A McPherson	55,000	(48,039)	40,000	63,039
Mr M N McKenna	<u>60,000</u>	<u>(64,039)</u>	<u>40,000</u>	<u>84,039</u>

## Directors' report (continued)

### Directors and their interests (continued)

#### SAYE share options

	Number of options over Ordinary shares in Babcock International Group PLC		
	31 March 1999	Granted during the year	31 March 1998
Mr D S Batty	5,571	-	5,571
Mr D M Johnson	2,754	-	2,754
Mr M N McKenna	14,022	-	14,022

#### Year 2000

The company has a well advanced programme that addresses the risk to the business of the year 2000 date change. The majority of the actions necessary have been completed and there is an ongoing programme to clear outstanding issues. Review continues on a regular basis and there is adequate funding to reach year 2000 compliance. The cost associated with reaching year 2000 compliance will not have a material effect on the company.

#### 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)

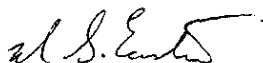
### Employee involvement

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

### Auditors

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

By order of the Board



M S Easton

Director

16 June 1999

# Auditors' report

## To the Shareholders of Rosyth Royal Dockyard Limited:

We have audited the accounts on pages 7 to 17 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on pages 9 and 10.

## Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

## Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

## Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 March 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen  
Chartered Accountants and Registered Auditors  
18 Charlotte Square  
Edinburgh  
EH2 4DF

16 June 1999

## Profit and loss account

For the year ended 31 March 1999

	Notes	1999 £'000	1998 £'000
Turnover	2	201,782	225,884
Cost of sales		(201,125)	(224,799)
Gross profit		657	1,085
Loss on disposal of fixed assets		(8)	-
Profit before interest		649	1,085
Net interest	3	(645)	(1,081)
Profit on ordinary activities before taxation	4	4	4
Tax on profit on ordinary activities	6	-	430
Profit for the financial year		4	434
Retained profit/(loss) at beginning of year		17	(417)
Retained profit at end of year		21	17

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

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

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

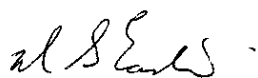


# Balance sheet

31 March 1999

	Notes	1999 £'000	1998 £'000
<b>Fixed assets</b>			
Tangible fixed assets	7	17,322	21,441
Intangible fixed assets	7	205	252
Investments	8	-	-
		<u>17,527</u>	<u>21,693</u>
<b>Current assets</b>			
Debtors	9	5,028	8,873
Cash at bank and in hand		84	80
		<u>5,112</u>	<u>8,953</u>
Creditors: Amounts falling due within one year	10	(105)	(1)
<b>Net current assets</b>		<u>5,007</u>	<u>8,952</u>
<b>Total assets less current liabilities</b>		<u>22,534</u>	<u>30,645</u>
Creditors: Amounts falling due after more than one year	11	-	(13,163)
Provisions for liabilities and charges	12	(9,963)	(4,915)
<b>Net assets</b>		<u>12,571</u>	<u>12,567</u>
<b>Capital and reserves</b>			
Called-up equity share capital	13	250	250
Share premium account		12,300	12,300
Profit and loss account		21	17
<b>Total capital employed</b>	14	<u>12,571</u>	<u>12,567</u>

Signed on behalf of the Board



M S Easton

Director

16 June 1999

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

## Notes to accounts

For the year ended 31 March 1999

### 1 Accounting policies

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

#### a) *Basis of accounting*

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

#### b) *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. Depreciation is calculated in line with 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 reductions in value.

#### e) *Taxation*

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

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

#### f) *Pensions*

The company operates a defined benefit pension scheme for the benefit of all its employees. The funds of the scheme are administered by Trustees and are separate from the company. Independent qualified actuaries complete valuations periodically and, in accordance with their recommendations, annual contributions from employees and employer are paid to the scheme so as to secure the benefits set out in the rules. The cost of these contributions is charged against profits on a systematic basis over the service lives of the employees. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

## Notes to accounts (continued)

### 1 Accounting policies (continued)

#### 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.

#### h) Cash flow statements

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

### 3 Net interest

	1999 £'000	1998 £'000
Bank interest receivable	4	4
Interest on amounts owed to other group undertakings (note 11)	(649)	(1,085)
	<u>(645)</u>	<u>(1,081)</u>

### 4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1999 £'000	1998 £'000
Depreciation of tangible fixed assets	4,014	3,986
Staff costs (note 5)	80,677	84,309
Operating lease rentals		
- land and buildings	<u>34</u>	<u>162</u>

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

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

## Notes to accounts (continued)

### 5 Staff costs

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

Employee costs during the year amounted to:

	1999 £'000	1998 £'000
Wages and salaries	70,196	73,714
Social security costs	5,433	5,680
Other pension costs (note 16)	5,048	4,915
	<u>80,677</u>	<u>84,309</u>

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

	1999 Number	1998 Number
Production	3,343	3,470
Administration	20	21
	<u>3,363</u>	<u>3,491</u>

Directors' remuneration was as follows:

	1999 £'000	1998 £'000
Emoluments (including benefits-in-kind)	<u>404</u>	<u>420</u>

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

	1999 £'000	1998 £'000
Highest paid director	<u>150</u>	<u>129</u>

The accrued pension entitlement under the company's defined benefit scheme in respect of the highest paid director at 31 March 1999 was £62,521 (1998- £58,333).

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 number of directors who were members of the defined benefit scheme at 31 March 1999 was 5 (1998 - 6).

## Notes to accounts (continued)

### 6 Tax on profit on ordinary activities

	1999 £'000	1998 £'000
Corporation tax @ 31% (1998-31%)	559	-
Group relief received	(559)	-
Deferred taxation	-	(430)
	<u>-</u>	<u>(430)</u>

### 7 Fixed assets

#### Tangible fixed assets

	Land and buildings £'000	Plant and Machinery £'000	Total £'000
<b>Cost</b>			
Beginning of year	11,263	15,165	26,428
Disposals	(126)	(4)	(130)
End of year	<u>11,137</u>	<u>15,161</u>	<u>26,298</u>
<b>Depreciation</b>			
Beginning of year	2,092	2,895	4,987
Charge for year	1,686	2,328	4,014
On disposals	(25)	-	(25)
End of year	<u>3,753</u>	<u>5,223</u>	<u>8,976</u>
<b>Net book value</b>			
End of year	<u>7,384</u>	<u>9,938</u>	<u>17,322</u>
Beginning of year	<u>9,171</u>	<u>12,270</u>	<u>21,441</u>

## Notes to accounts (continued)

### 7 Fixed assets (continued)

#### Intangible fixed assets

	Intellectual Property £'000
<b>Cost</b>	
Beginning of year	300
End of year	300
<b>Depreciation</b>	
Beginning of year	48
Charge for year	47
End of year	95
<b>Net book value</b>	
End of year	205
Beginning of year	252

### 8 Fixed asset investments

The company owns 99% of the allotted Ordinary share capital of Rosyth Royal Dockyard Pension Trustees Limited, a company registered in Scotland. This subsidiary undertaking is the trustee of the Rosyth Royal Dockyard Pension Scheme.

### 9 Debtors

Amounts falling due within one year:

	1999 £'000	1998 £'000
Amounts owed by parent undertaking	4,451	8,873
Other debtors	577	-
	<u>5,028</u>	<u>8,873</u>

### 10 Creditors: Amounts falling due within one year

	1999 £'000	1998 £'000
Bank overdraft	105	-
Accruals and deferred income	-	1
	<u>105</u>	<u>1</u>

## Notes to accounts (continued)

### 11 Creditors: Amounts falling due after more than one year

	1999 £'000	1998 £'000
Amounts owed to other group undertakings	-	13,163

Amounts owed to other group undertakings bear interest at a commercial rate.

### 12 Provision for liabilities and charges

	Deferred taxation £'000	Pensions £'000	Total £'000
Beginning of year	-	4,915	4,915
Charged to profit and loss account	-	5,048	5,048
End of year	-	9,963	9,963

As at 31 March 1999 a potential deferred tax asset of £620,000 (1998 - £Nil) exists due to fixed asset timing differences, none of which has been recognised.

Details of pension benefits are set out in note 16.

### 13 Called-up equity share capital

	Authorised		Allotted, called-up and fully paid	
	1999 Number	1998 Number	1999 £'000	1998 £'000
£1 Ordinary shares	200,002	200,002	200	200
£1 'A' Ordinary shares	49,998	49,998	50	50
£1 Special share	1	1	-	-
	<u>250,001</u>	<u>250,001</u>	<u>250</u>	<u>250</u>

Share capital consists entirely of equity shares.

The Secretary of State for Defence retains a Special share in the company which empowers him to take control of the company under certain circumstances, particularly to safeguard national security.

## Notes to accounts (continued)

### 14 Reconciliation of movements in shareholders' funds

	1999 £'000	1998 £'000
Profit for the financial year	4	434
Net additions to shareholders' funds	4	434
Opening shareholders' funds	12,567	12,133
Closing shareholders' funds	12,571	12,567

### 15 Guarantees and financial commitments

#### a) Capital commitments

There were no capital commitments at the end of the year (1998 - £nil).

#### b) Contingent liabilities

Pursuant to the agreement for the acquisition of Rosyth Royal Dockyard, the following charges and security interests have been granted in favour of the Ministry of Defence ("MoD"):

#### i) Strategic assets

The company has undertaken certain obligations in respect of those fixed assets acquired at Rosyth Royal Dockyard considered by the MoD to be of strategic importance to HM Government (known as "Strategic Assets"), including an obligation not to dispose of or destroy such assets or their replacements. In addition, in the event of the insolvency of the company or of Babcock Rosyth Defence Limited the MoD will have the option to repurchase from the company any or all of a narrower class of Strategic Assets ("Relevant Strategic Assets") at market value or, in respect of certain assets, at the lower of market value and cost. The company's obligations in respect of the MoD's repurchase option are secured by:

- a) fixed charges over those Relevant Strategic Assets consisting of interests in land; and
- b) a floating charge over the Relevant Strategic Assets.

#### ii) Development clawback

MoD will share in the net proceeds of sale or development of the Dockyard following planning enhancement, on terms set out in the asset purchase agreement between the company and the MoD. By way of security for the MoD's rights to such share, the company has granted a fixed charge over the Dockyard in favour of the MoD.



## Notes to accounts (continued)

### 15 Guarantees and financial commitments (continued)

#### c) Operating lease commitments

	1999 £'000	1998 £'000
Land and buildings		
Annual commitment which expire:		
- within one year	51	-
- in two to five years	-	72
- thereafter	40	40
	<u>91</u>	<u>112</u>

### 16 Pension costs

The company operates a pension scheme for the benefit of its employees. The defined benefit scheme is funded in advance by contributions from the members at rates set out in the schemes rules, and from the employer to meet the balance of the costs, at a rate assessed by the actuaries of the scheme in regular funding reviews. On the recommendation of the most recent actuarial valuation there is currently an employer's contributions holiday.

The pension cost is assessed in accordance with the advice of independent qualified actuaries, and the most recent actuarial valuation for the Rosyth Royal Dockyard Pension Scheme was carried out at 31 December 1995. Details of the valuation are as follows:

	Rosyth Royal Dockyard Pension Scheme
Method of valuation	Projected unit
Results of last valuation:	
- market value of assets	£252 million
- level of funding	120%
Principal valuation assumptions:	
- rate of return on investment	9.0%
- rate of earnings increase	7.5%
- rate of pensions increase	3% - 6%
- rate of dividend growth	<u>4.5%</u>

The pension cost in the year was £5,048,000 (1998 - £4,915,000).

## Notes to accounts (continued)

### 17 Related Party Transactions

The company, as a wholly owned subsidiary, has taken advantage of the exemption, granted under Financial Reporting Standard 8, Related Parties, by not disclosing details of sales and purchases with other members of the group headed up by Babcock International Group PLC. Details of balances owed by and to other group companies are disclosed in notes 9 and 11.

### 18 Immediate parent company and Ultimate parent company

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