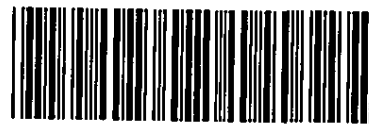


Registered number: SC220243

Babcock Marine (Clyde) Limited  
Annual report and financial statements  
for the year ended 31 March 2011

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# **Babcock Marine (Clyde) Limited**

## **Annual report and financial statements for the year ended 31 March 2011**

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# **Babcock Marine (Clyde) Limited**

## **Directors and advisers**

### **Directors**

A A Bethel  
J M Dixon  
C Lockhart  
F Martinelli  
P L Rogers  
W Tame  
I S Urquhart

### **Joint company secretaries**

J D T Greig  
V F A Teller

### **Registered office**

Rosyth Business Park  
Rosyth  
Dunfermline  
Fife  
KY11 2YD

Registered Number SC220243

### **Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
141 Bothwell Street  
Glasgow  
G2 7EQ

### **Bankers**

The Royal Bank of Scotland plc  
Dunfermline Branch  
52-54 East Port  
Dunfermline  
KY12 7HB

# **Babcock Marine (Clyde) Limited**

## **Directors' report for the year ended 31 March 2011**

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2011.

### **Principal activities**

The principal activity of the Company is the provision of services to the Ministry of Defence (MoD) in its operation of HM Naval Base Clyde (HMNB Clyde). HMNB Clyde was announced recently as the Home of the UK Submarine Service and is the Submarine Centre of Specialisation (SMCoS) in the UK.

The Company was established to operate as the MoD's "partner" at HMNB Clyde under a contract (Partnering Agreement) that commenced on 1 September 2002. This contract incentivises the Company to reduce the cost of the operation of HMNB Clyde whilst maintaining the same levels of service to the customer.

The main services which the Company provides are the maintenance of base ported and visiting submarines and ships, the provision of accommodation to armed forces personnel, maintenance of the infrastructure of the HMNB Clyde sites at Faslane and Coulport, and the operation of the warehouse and transport functions.

Under the Partnering Agreement the Naval Base Commander has responsibility for all activities undertaken at HMNB Clyde and has the authority to direct the Company to alter the manner in which it undertakes its activities. Due to the nature of the activities undertaken at HMNB Clyde, the Naval Base Commander requires assurance that the Company is operating in a manner that complies with the nuclear regulator. This assurance has been achieved by the direct involvement of the Captain Base Safety's (CBS) organisation. CBS provides assurance to the Authorisee that we are, and remain compliant with the Authorisation Conditions and this is achieved by way of audit and inspection. This assurance is also achieved by the existence of the relevant due process Authorisation Groups, and Safety Committees.

In addition, approximately 110 Royal Navy personnel (2010: 120) are placed with the Company in support of delivering its outputs.

Under the contract the Company has an indemnity from the MoD against liabilities relating to nuclear work. The MoD is also liable for redundancy payments.

The majority of materials and a number of services used by the Company are provided free of charge by the MoD.

## **Babcock Marine (Clyde) Limited**

### **Directors' report for the year ended 31 March 2011 (continued)**

#### **Business review**

The Company is part of Babcock's Marine and Technology Division and has continued to participate in a wide range of initiatives that are intended to deliver key elements of the MoD's maritime change programme. This programme seeks to deliver improvements in both cost effectiveness and performance across the joint industrial-MoD enterprise whilst ensuring that important naval design, build and support capabilities are retained.

The Marine and Technology Division's Terms of Business Agreement (ToBA) with MoD was signed off in March 2010 confirming Babcock's management role in the Clyde Naval Base through to 2025. As a result of signing the ToBA, Babcock has guaranteed savings to the MoD over the life of the agreement, with savings being made in each of the Naval Bases that the Marine and Technology Division manages. The Company is working closely with both Babcock and MoD teams to determine where savings will be made at Clyde through to 2025, and is also working to determine the contractual structure of the business post March 2013 (when the current WSMi contract comes to an end).

In addition to the longer term view of savings, the financial year to 31 March 2011 has seen the Company continue to reduce the cost of its underlying operation of the current Partnering Agreement. The cost reductions achieved are ahead of the Company's and the contractual targets and this has been delivered whilst achieving performance standards beyond the acceptable levels on the contracted Key Performance Indicators.

The Company's profitability is largely determined by the savings generated over the second term of the partnering agreement which is a five and a half year agreement from September 2007 to March 2013.

The Company continues to explore business growth in other areas of activity at HMNB Clyde. The year to March 2011 saw a number of new services being provided to the MoD, and in addition the Company also provided support to other companies within the Babcock Marine and Technology Division, by matching available skills and resources against requirements.

#### **Future outlook**

Following agreement of the strategically important ToBA with the MoD, the Company's long term business relationship with the MoD and role in connection with the Clyde site is now confirmed. Work is currently underway to jointly develop the future shape and size of the naval base operations, including rationalisation of the range of facilities and resources across the enterprise. This work is essential to the delivery of committed levels of future cost savings.

Other long term prospects are developing positively, with a number of proposals and opportunities at various stages of development. The Company is actively engaged in pan-

# **Babcock Marine (Clyde) Limited**

## **Directors' report for the year ended 31 March 2011 (continued)**

### **Future outlook (continued)**

industry alliances with the MoD that will look to determine arrangements for delivering and supporting current and future classes of surface ships and submarines.

We remain confident that the Company will continue to benefit from the strength of its relationship with the MoD. The ToBA now provides an excellent basis on which to cement and develop the existing partnering arrangements with the MoD over future years, building on the long term commitments and the degree of visibility that it provides.

### **Results and dividends**

The audited financial statements for the year ended 31 March 2011 are set out on pages 12 to 26. The profit for the year after taxation was £9,954,000 (2010: £6,380,000). No interim dividend was paid during the year (2010: £nil) and the directors recommend that no final dividend is paid (2010: £nil).

### **Directors**

The directors who served during the whole of the year and up to the date of signing the financial statements, unless otherwise stated, were as follows:

A A Bethel

S A R Billiald (resigned 1 September 2010)

J M Dixon

C Lockhart

F Martinelli

P L Rogers

W Tame

I S Urquhart (appointed 1 January 2011)

### **Supplier payment policy**

The Company's policy is to settle terms of payment with suppliers by mutual agreement, ensuring suppliers are made aware of the terms of payment, and to abide by those terms of payment. Further information is available on request from the registered office, the address for which is detailed on page 1. Trade creditors of the Company at 31 March 2011 were equivalent to 18 days (2010: 38).

### **Health & safety**

During 2010/11 further progress was made towards our Health and Safety objectives. These objectives are built on previous learning and actively demonstrate continuous improvement as we strive to meet our goal of ensuring that every person entering HMNB Clyde goes 'home safe, every day'.

All areas of the Clyde now have robust, maturing Health and Safety improvement plans and we constantly challenge these so that there is no place for complacency.

## **Babcock Marine (Clyde) Limited**

### **Directors' report for the year ended 31 March 2011 (continued)**

#### **Health & safety (continued)**

We continue to invest in developing 'Leaders of Safety' through our IIF® (incident and injury free) Programme which is the backbone of our behavioural approach to safety.

During the year we updated and revised our Safety Strategy which sets out our long term objectives on Safety and the Environment. For 2011/12 our objectives will be prioritised to ensure we improve performance in all areas.

As noted, HMNB Clyde has become the Submarine Centre of Specialisation, and was announced recently as the Home of the UK Submarine Service. This will result in a greater focus on Fleet Time Operational activities at the site and, as such, we are committed to ensuring that a positive and proactive safety culture is a fundamental part of the operational capabilities at HMNB Clyde.

Every objective, task or initiative needs to reflect our commitment to safety, to meet our aspiration for an incident and injury-free Base. Our safety initiatives include:

- A Single Control of Work Organisation
- Fully compliant Safe Systems of Work (SSOW)
- Full review of our Occupational Health outputs
- NARO (Nuclear Accident Response Organisation) response improvement
- Re-certification of ISO 14001
- Further roll-out and development of our IIF Programme

Our challenge is to embed a culture of safety throughout the organisation, embracing everyone who lives, works or visits here, resulting in significant improvements in safety performance.

The change in culture has already been seen with an increase in the number of near miss events reported, which shows that our people are more alert to hazards, more aware of their surroundings and more willing to engage in our 'positive' reporting culture. Our challenge for 2011/12 is to build on this success.

#### **The environment**

The Company continues to support the government's policy for Sustainable Development and is committed to helping the MoD achieve the targets for energy and waste reduction. The target of a 1% year on year reduction in energy usage was achieved in 2010 calendar year. The Naval Base also exceeded the target for waste reduction, by recycling 45% of the waste produced.

## **Babcock Marine (Clyde) Limited**

### **Directors' report for the year ended 31 March 2011 (continued)**

#### **The environment (continued)**

HMNB Clyde's ISO 14001 has been audited by LRQA twice during 2010/11 and no major non-conformances were raised. Some minor non-conformances were raised during the two visits which have been dealt with through our internal management systems.

Under the EU Emissions Trading Scheme Phase 2 our emissions for 2010 were verified by SGS. The total CO2 emitted at Faslane and Coulport was under our allowance which meant that no internal trading was needed to meet legal requirements. The permits were revised and updated to reflect the more stringent reporting of Phase 2 of the scheme.

A successful HIE-life exhibition was held October 2010 which included environmental companies and a stall manned by the Environmental Team. This served to raise awareness of environmental issues across HMNB Clyde.

#### **Principal risk and 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 and Risk Committee.

The key risks and uncertainties affecting the Company are considered to be related to contractual performance and the political and regulatory environment. Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on pages 39 to 45 of the annual report of Babcock International Group PLC, which does not form part of this report.

#### **Financial risk management**

Financial risk is managed in accordance with Group policies and procedures which are discussed on pages 41, 42, 44 and 45 and Note 2 of the annual report of Babcock International Group PLC which does not form part of this report.

#### **Key performance indicators**

The Marine and Technology 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 and Technology, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 16 and 17 of the Group's report, which does not form part of this report.



## **Babcock Marine (Clyde) Limited**

### **Directors' report for the year ended 31 March 2011 (continued)**

#### **Employment of disabled persons**

The policy and practice of the Company is to seek to encourage and assist the employment of disabled persons who are able to perform their duties without exposing themselves or others to abnormal risks. The training, career development and promotion opportunities of the Company's disabled employees are equal to those of their able-bodied colleagues. Arrangements are made, wherever possible, for the continued employment of employees becoming disabled whilst working for the Company. If necessary, retraining is offered to such individuals to allow each of them to perform work suited to their aptitudes and abilities.

#### **Employee involvement**

The Company continues to invest in a range of employee development programmes to ensure that its people are developed to meet the future business challenges.

During the year the Company continued its ongoing review of strategy for engaging with its employees. This year's leadership conference extended the engagement theme by focussing on the Joint Business Plan for the Naval Base which included both Company and MoD employees as delegates at the conference itself.

#### **Babcock Marine (Clyde) in the community**

The Company's Community Investment Group promotes Babcock at Clyde's commitment to the local community. Our strategy is to support three key areas in the community, namely: education, re-generation and the environment.

In the year to 31 March 2011 we donated and raised funds for a number of charities and good causes. There were a wide variety of beneficiaries from The Children's Safety Education Foundation to Erskine Hospital for Ex Servicemen and Women. Increasingly we are forging partnerships with charitable agencies. We continue to support the Prince's Trust programmes and have also committed to support the local Young Enterprise Programmes and various core skills sessions in local schools.

We also provide support for the community through employee involvement and last year our apprentices supported a number of activities in the local community.

#### **Charitable & political donations**

During the year the Company made charitable donations of £9,048 (2010: £8,663). There were no donations greater than £2,000. (2010: £nil). There were no political contributions (2010: £nil). In addition, sponsorship was provided to a number of local events.

# **Babcock Marine (Clyde) Limited**

## **Directors' report for the year ended 31 March 2011 (continued)**

### **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 year ended 31 March 2011, 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 which he is acquitted or in connection with any application in which relief is granted to him by the court from any liability.

### **Statement of directors' responsibilities**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

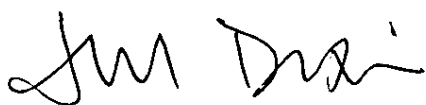
## **Babcock Marine (Clyde) Limited**

### **Directors' report for the year ended 31 March 2011 (continued)**

#### **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.

**On behalf of the Board**

A handwritten signature in black ink, appearing to read 'J M Dixon', written in a cursive style.

**J M Dixon**

**Director**

**29 June 2011**

## **Babcock Marine (Clyde) Limited**

### **Independent auditors' report to the members of Babcock Marine (Clyde) Limited**

We have audited the financial statements of Babcock Marine (Clyde) Limited for the year ended 31 March 2011 which comprise of the Profit and Loss Account, the Balance Sheet, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Babcock Marine (Clyde) Limited**

### **Independent auditors' report to the members of Babcock Marine (Clyde) Limited (continued)**

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Kenneth Wilson (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Glasgow  
29 June 2011

## Babcock Marine (Clyde) Limited

### Profit and loss account for the year ended 31 March 2011

	Note	2011 £000	2010 £000
Turnover	2	100,855	100,994
Cost of sales		(89,893)	(94,181)
Gross profit		10,962	6,813
Administration		(1,109)	(521)
Operating profit	3	9,853	6,292
Interest receivable and similar income	4	81	86
Profit on ordinary activities before taxation		9,934	6,378
Tax on profit on ordinary activities	7	20	2
Profit on ordinary activities after taxation		9,954	6,380
Retained profit for the financial year		9,954	6,380

The notes on pages 17 to 26 form an integral part of these financial statements.

All items dealt with in arriving at operating profit above relate to continuing operations.

The Company has no recognised gains and losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

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

# Babcock Marine (Clyde) Limited

## Balance sheet as at 31 March 2011

Company registration number SC220243

	Note	2011 £000	2010 £000
<b>Fixed assets</b>			
Tangible assets	8	-	-
Investments	9	-	4
		-	4
<b>Current assets</b>			
Stock	10	111	-
Debtors	11	50,517	40,386
Cash at bank and in hand		76	4,684
		50,704	45,070
<b>Creditors – amounts falling due within one year</b>	12	(15,944)	(20,268)
<b>Net current assets</b>		<b>34,760</b>	<b>24,802</b>
<b>Total assets less current liabilities</b>		<b>34,760</b>	<b>24,806</b>
<b>Net assets</b>		<b>34,760</b>	<b>24,806</b>
<b>Capital and reserves</b>			
Called up share capital	14	-	-
Profit and loss account	15	34,760	24,806
<b>Total shareholders' funds</b>	16	<b>34,760</b>	<b>24,806</b>

The financial statements on pages 12 to 26 were approved by the board of directors on 29 June 2011 and were signed on its behalf by:



J M Dixon  
Director

# **Babcock Marine (Clyde) Limited**

## **Accounting Policies**

### **Basis of accounting**

These financial statements are prepared under the historical cost convention and in accordance with the Companies Act 2006, the accounting policies set out below, in accordance with applicable accounting standards and on the basis that the Company will continue as a going concern.

### **Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost, less accumulated depreciation. Cost comprises purchase cost, together with any incidental expenses of acquisition. Depreciation is provided at rates calculated to write off the assets evenly over their estimated useful lives at the following annual rates:

Motor vehicles	33%
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### **Long-term contracts**

Long-term contracts are those which extend over more than one accounting period. The amounts recoverable on these long-term contracts, which is included in debtors, is stated at the net sales value of the work done less amounts invoiced for progress payments on account. Any unpaid invoices for progress payments are shown as trade debtors. Management reviews are conducted monthly to assess progress against savings initiatives. Profit is recognised in relation to the expected level of savings made in relation to the target savings in the contract having made allowance for future risks and uncertainties.

### **Turnover**

The majority of turnover is calculated as costs incurred to date, net of value added tax, plus profit taken to date on individual contracts. An appropriate level of profit is attributed to the contract if the final outcome can be assessed with reasonable certainty. An expected loss on a contract is recognised immediately. Other turnover represents the invoiced value of services supplied, net of value added tax and trade discounts.

### **Leases**

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

### **Pension costs**

The Company operates a defined benefit pension scheme, the Babcock Naval Services Pension Scheme. The scheme is administered by a corporate trustee and the funds are held separately from Babcock International Group PLC (Group). 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.



# **Babcock Marine (Clyde) Limited**

## **Accounting Policies (continued)**

### **Pension costs (continued)**

Under the Partnering Agreement, in the normal course of activity, the Company bears no commercial risk for the performance of this scheme with any surplus or deficit falling to MoD at contract termination. During the life of the contract if the employer contribution rates were to vary in line with actuarial valuations, the Partnering Agreement pricing would be amended accordingly. As a result the Company does not believe the accounting treatment for a defined benefit scheme is appropriate to this scheme and is therefore accounting for it in line with that required for a defined contribution scheme. The cost of the employer contributions charged to the profit and loss account is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

The Company is a contributing employer to the Rosyth Royal Dockyard Pension Scheme and BIG Passport Schemes which are defined benefit schemes operated by fellow Group undertakings. These schemes are administered by corporate trustees and the funds are held separately from the Group. The schemes are multi-employer and as such the Company is unable to identify its share of the underlying assets and liabilities in the schemes. The Company therefore does not believe that the accounting treatment for a defined benefit scheme is appropriate and is accounting for it in line with that required for a defined contribution scheme. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

The Company also contributes to defined contribution pension plans. Obligations for these payments, and for the payments to the Babcock Naval Services Pension Scheme, Rosyth Royal Dockyard Pension Scheme and the BIG Passport Scheme are recognised as an expense as incurred.

### **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 taxation**

Deferred taxation 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 Company'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.

# **Babcock Marine (Clyde) Limited**

## **Accounting Policies (continued)**

### **Deferred taxation (continued)**

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 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 substantially enacted by the balance sheet date.

### **Investments**

The Company's interest in subsidiary undertakings is shown at cost less any provision for permanent impairment. The value of investments is reviewed annually by the directors, or more frequently if there is a triggering event, and a provision made where it is considered that there has been a permanent impairment of value.

### **Stock**

Stock is stated at the lower of cost (on a first in first out basis) and net realisable value. Stock that is past its sell by date is written off.

### **Group financial statements**

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of Babcock International Group PLC which prepares consolidated financial statements which are publicly available.

### **Deferred and accrued income**

Deferred income is recognised in respect of amounts invoiced in advance. That part of the invoice value that relates to future periods is debited to turnover or cost of sales in the profit and loss account as appropriate and held within current liabilities in the balance sheet. Accrued income is recognised where there is considered to be a high probability of recovering overhead expenditure incurred. Such amounts are credited to cost of sales in the profit and loss account and held within current assets in the balance sheet.

# Babcock Marine (Clyde) Limited

## Notes to the financial statements for the year ended 31 March 2011

### 1 Cash flow statement

The Company's ultimate parent undertaking, Babcock International Group PLC, produces a consolidated cash flow statement in accordance with Financial Reporting Standard number 1 (Revised 1996) (FRS1) and consequently, the Company has taken advantage of the exemption under FRS1 from producing a cash flow statement.

### 2 Turnover

Turnover is entirely attributable to the United Kingdom market and the activities described in the Directors' report.

Due to the nature of the Company's operations it is currently reliant upon the Ministry of Defence for the majority of its turnover.

### 3 Operating profit

	2011 £000	2010 £000
Operating profit – is stated after charging/(crediting):		
Depreciation of tangible fixed assets	4	26
Auditors' remuneration		
- audit services	24	18
Operating lease charges		
- other	18	-
Royalty charges	821	-
Profit on disposal of fixed assets	-	(4)

### 4 Interest receivable and similar income

	2011 £000	2010 £000
Group loan interest	81	86

## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2011 (continued)

#### 5 Staff costs

	2011 £000	2010 £000
Wages and salaries	43,788	41,627
Social security costs	3,417	3,254
Other pension costs (note 18)	6,652	6,270
<b>Staff costs</b>	<b>53,857</b>	<b>51,151</b>

The average monthly number of persons (including executive directors) employed by the Company during the year was:

By activity	2011 Number	2010 Number
<b>Production</b>	<b>1,394</b>	<b>1,330</b>

The nature of the Partnering Agreement is such that the vast majority of the Company's employees are directly engaged on the contract.

#### 6 Directors' emoluments

	2011 £000	2010 £000
Aggregate emoluments (including benefits in kind)	413	510
Pension contributions	30	41
<b>Total</b>	<b>443</b>	<b>551</b>

Pension benefits are accruing to J M Dixon and C Lockhart.

## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2011 (continued)

#### 6 Directors' emoluments (continued)

##### Highest paid director

	2011 £000	2010 £000
Aggregate emoluments (including benefits in kind)	222	303
Pension contributions	22	20
<b>Total</b>	<b>244</b>	<b>323</b>

All directors are members of a Group defined benefit pension scheme. The emoluments of P L Rogers and W Tame are included in the accounts of the ultimate parent company, Babcock International Group PLC. The emoluments of S A R Billiald, F Martinelli and A A Bethel are included in the accounts of Babcock Holdings Ltd. The emoluments of I S Urquhart are included in the accounts of Babcock Marine (Rosyth) Ltd. None of their emoluments received were in respect of services provided to the Company. The accrued benefit entitlement under the Babcock Naval Service defined benefit scheme of the highest paid director was £5,949 (2010: £40,695)

#### 7 Taxation on profit on ordinary activities

	2011 £000	2010 £000
<b>The taxation charge comprises:</b>		
Corporation tax on the profit for the year at 28% (2010: 28%)	-	-
<b>Current tax charge for the year</b>	<b>-</b>	<b>-</b>
Deferred tax - current	17	-
- adjustment in respect of prior periods	(40)	(2)
Impact of change in UK tax rate	3	
<b>Total tax (credit) for the year</b>	<b>(20)</b>	<b>(2)</b>

## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2011 (continued)

#### 7 Taxation on profit on ordinary activities (continued)

The difference between the total current year tax shown above and the amount calculated by applying the standard rate of UK Corporation tax to the profit on ordinary activities before tax is as follows:

	2011	2010
	£000	£000
Profit on ordinary activities before tax	9,934	6,378
Expected tax charge on profit on ordinary activities at 28% (2010: 28%)	2,782	1,786
Effects of:		
Timing differences	(17)	-
Group relief at nil consideration	(2,769)	(1,793)
Expenses not deductible for tax purposes	4	7
<b>Current tax charge for the year</b>	-	-

A number of changes to the UK Corporation tax system were announced in the March 2011 Budget Statement. The rate of corporation tax was reduced from 28% to 26% with effect from 1 April 2011. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 is expected to be included in the Finance Act 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2011 (continued)

#### 8 Tangible assets

	Motor vehicles £000
<b>Cost</b>	
At 1 April 2010 and 31 March 2011	79
<b>Depreciation</b>	
At 1 April 2010	75
Charge for the year	4
At 31 March 2011	79
<b>Net book amount</b>	
At 31 March 2011	Nil
At 31 March 2010	4

#### 9 Investments

	2011 £
<b>Cost</b>	
At 1 April 2010 and 31 March 2011	1
<b>Provision for diminution in value</b>	
At 1 April 2010 and 31 March 2011	-
<b>Net book amount</b>	
At 1 April 2010 and 31 March 2011	1

## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2011 (continued)

#### 9 Investments (continued)

The directors believe that the book value of the investments is not less than the value of the underlying net assets.

The Company owns 100% of BNS Pensions Limited, a non-trading company which performs pensions administration and is registered in Scotland.

On 15 September 2010, proprietary know-how, not capitalised in the accounts of the company in accordance with FRS 10, was transferred to Babcock Integration LLP in exchange for an interest in that partnership. This was in order to facilitate the integration of the Babcock and VT groups. The partnership interest has been recognised at a cost of £nil given that the know how transferred was not recognised in the accounts of the Company prior to the transfer.

#### 10 Stock

	2011	2010
	£000	£000
Finished goods	111	-

#### 11 Debtors

	2011	2010
	£000	£000
Trade debtors	367	27
Amounts owed by parent undertakings	17,500	17,500
Amounts owed by group undertakings	15,115	9,136
Amounts recoverable on long term contracts	16,659	12,831
Other debtors	529	719
Deferred tax (note 13)	37	17
Prepayments and accrued income	310	156
	50,517	40,386

The amounts owed by parent undertakings are short term interest free loans that are receivable on demand. The amounts owed by group undertakings include short term loans, receivable on demand, paying interest based on LIBOR plus 100 basis points.



## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2011 (continued)

#### 12 Creditors – amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	1,764	3,987
Amounts owed to group undertakings	6,948	4,762
Other creditors	23	6
Payments in advance of turnover	147	64
Other taxes and social security	-	1,283
Accruals and deferred income	7,062	10,166
	15,944	20,268

Amounts owed to group undertakings are for balances that are repayable on demand with no interest payable.

#### 13 Deferred taxation

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

	2011 £000	2010 £000
Accelerated capital allowances	15	17
Other short term timing differences	22	-
	37	17

The movement on the deferred tax asset is as follows:

	2011 £000	2010 £000
As at 1 April	17	15
Current year charge	(17)	-
Prior year adjustment	40	2
Impact of change in UK tax rate	(3)	-
As at 31 March	37	17

## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2011 (continued)

#### 14 Called up share capital

	2011 £	2010 £
<b>Authorised</b>		
1,000 ordinary shares of £1 each	1,000	1,000
<b>Allotted and fully paid</b>		
1 ordinary shares of £1 each	1	1
	1	1

#### 15 Profit and loss account

	2011 £000	2010 £000
At 1 April	24,806	18,426
Retained profit for the financial year	9,954	6,380
<b>At 31 March</b>	<b>34,760</b>	<b>24,806</b>

#### 16 Reconciliation of movements in shareholders' funds

	2011 £000	2010 £000
Profit for the financial year	9,954	6,380
Opening shareholders' funds	24,806	18,426
<b>Closing shareholders' funds</b>	<b>34,760</b>	<b>24,806</b>

## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2011 (continued)

#### 17 Guarantees & financial commitments

##### Contingent liabilities

The Company at the period end had guaranteed or had joint several liability for drawn Babcock International Group PLC bank facilities of £782.5 million (2010: £330m) provided to certain group companies. In addition, the Company at the period end had joint and several liability for drawn facilities of other group companies for the value of £nil (2010: £2.3m).

##### Operating lease commitments

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

	2011 £000	2010 £000
Vehicles		
- between two and five years	18	-

#### 18 Pension commitments

The pension cost included as a charge in arriving at the operating profit was as follows:

	2011 £000	2010 £000
Babcock Naval Services Pension Scheme	6,516	6,218
Rosyth Royal Dockyard Scheme	34	52
Babcock International Group Pension Scheme	94	-
BIG Defined Contribution Scheme	8	-
	6,652	6,270

The Company operates a defined benefit pension scheme, the Babcock Naval Services Pension Scheme, whose assets are held in a separately administered fund. As explained in the accounting policies, the Company is accounting for this scheme in line with that required of a defined contribution scheme. The employer contributions are made at a rate consistent with the latest actuarial valuation of the scheme.

## **Babcock Marine (Clyde) Limited**

### **Notes to the financial statements for the year ended 31 March 2011 (continued)**

#### **18 Pension commitments (continued)**

The Company is a contributing employer to the Rosyth Royal Dockyard Pension Scheme and Babcock International Group Pension Scheme. These schemes are multi-employer schemes, the full details of which are contained in the accounts of Babcock International Group PLC.

The Rosyth Royal Dockyard Pension Scheme and Babcock International Group Pension Scheme are defined benefit schemes. As explained in the accounting policies, the Company is accounting for these schemes in line with that is required of a defined contribution scheme, as the Company is unable to identify its share of the underlying assets and liabilities in the scheme. Full FRS 17 disclosure of the schemes is given in the accounts of Rosyth Royal Dockyard Limited and Babcock International Group PLC respectively. Any surplus or deficit in the scheme will affect the contributions made by the Company as required by the scheme's rules.

The Rosyth Royal Dockyard Pension Scheme had a deficit of £134.2m (2010: £136.3m). The Babcock International Group Pension Scheme had a deficit of £32.9m (2010: £45.6m).

#### **19 Related party transactions**

The company has taken advantage of the exemption under paragraph 3 (c) from the provisions of FRS8, "Related Party Disclosures", on the grounds that it is a wholly owned subsidiary of a group headed by Babcock International Group PLC.

#### **20 Ultimate parent undertaking**

On 7 September 2010 the shares in the company were transferred at book value to Gibraltar Investments (No.2) Limited, a company incorporated in the UK. The shares were transferred from Babcock Marine Holdings (UK) Limited, the Company's previous immediate parent undertaking. Gibraltar Investments (No.2) Limited is considered to be the Company's immediate parent undertaking.

The ultimate parent undertaking and controlling party is Babcock International Group PLC, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the Babcock International Group PLC consolidated financial statements can be obtained from the Company Secretary at Babcock International Group PLC, 33 Wigmore Street, London, W1U 1QX.