

Registered number: SC220243

Babcock Marine (Clyde) Limited  
Annual report and financial statements  
for the year ended 31 March 2012

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# **Babcock Marine (Clyde) Limited**

## **Annual report and financial statements for the year ended 31 March 2012**

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# **Babcock Marine (Clyde) Limited**

## **Directors and advisers**

### **Directors**

A A Bethel CBE

J M Dixon

C Lockhart

F Martinelli

P L Rogers CBE

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**

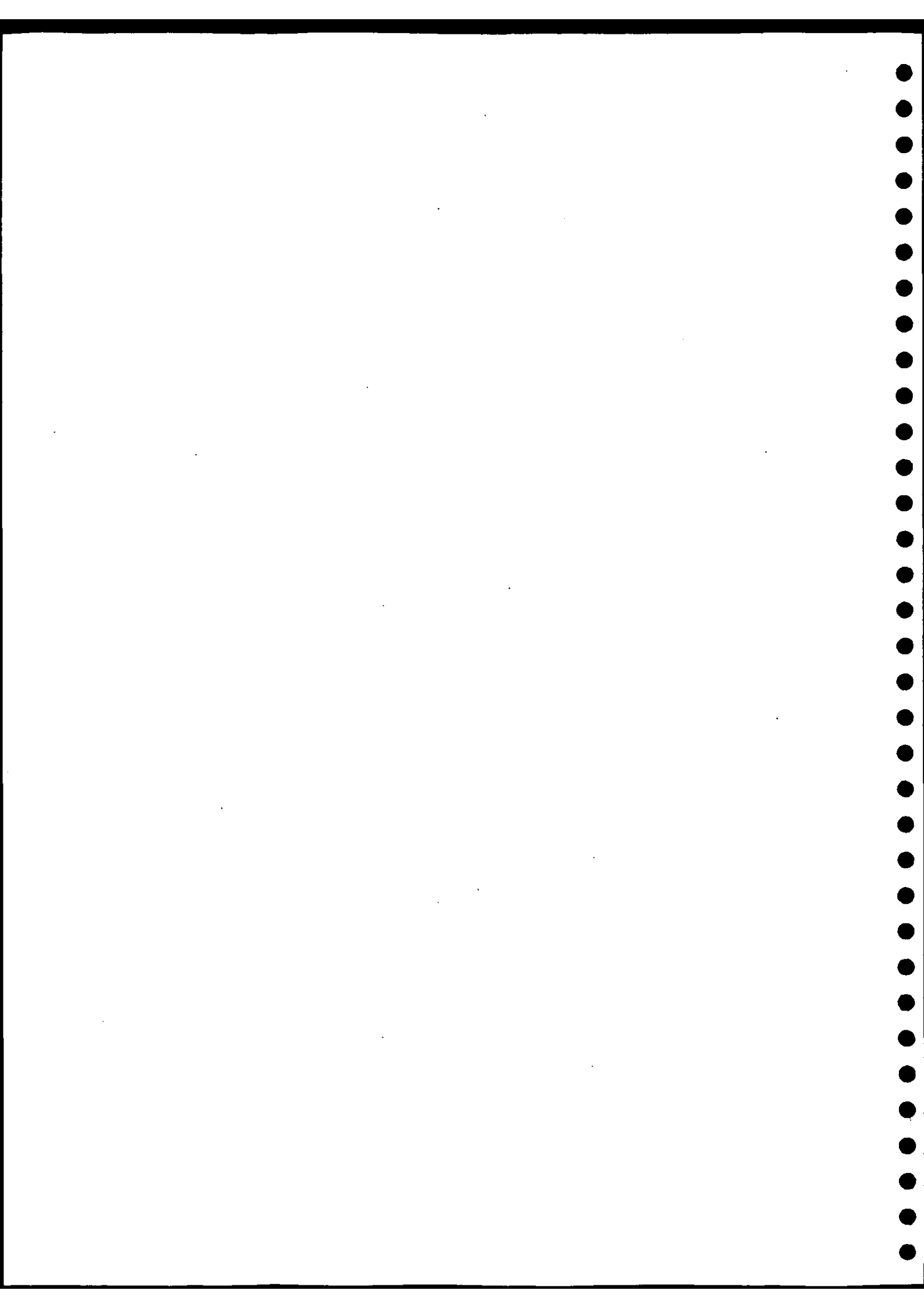
The Royal Bank of Scotland plc

Dunfermline Branch

52-54 East Port

Dunfermline

KY12 7HB



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

### **Directors' report for the year ended 31 March 2012**

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2012.

#### **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 has been announced 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.

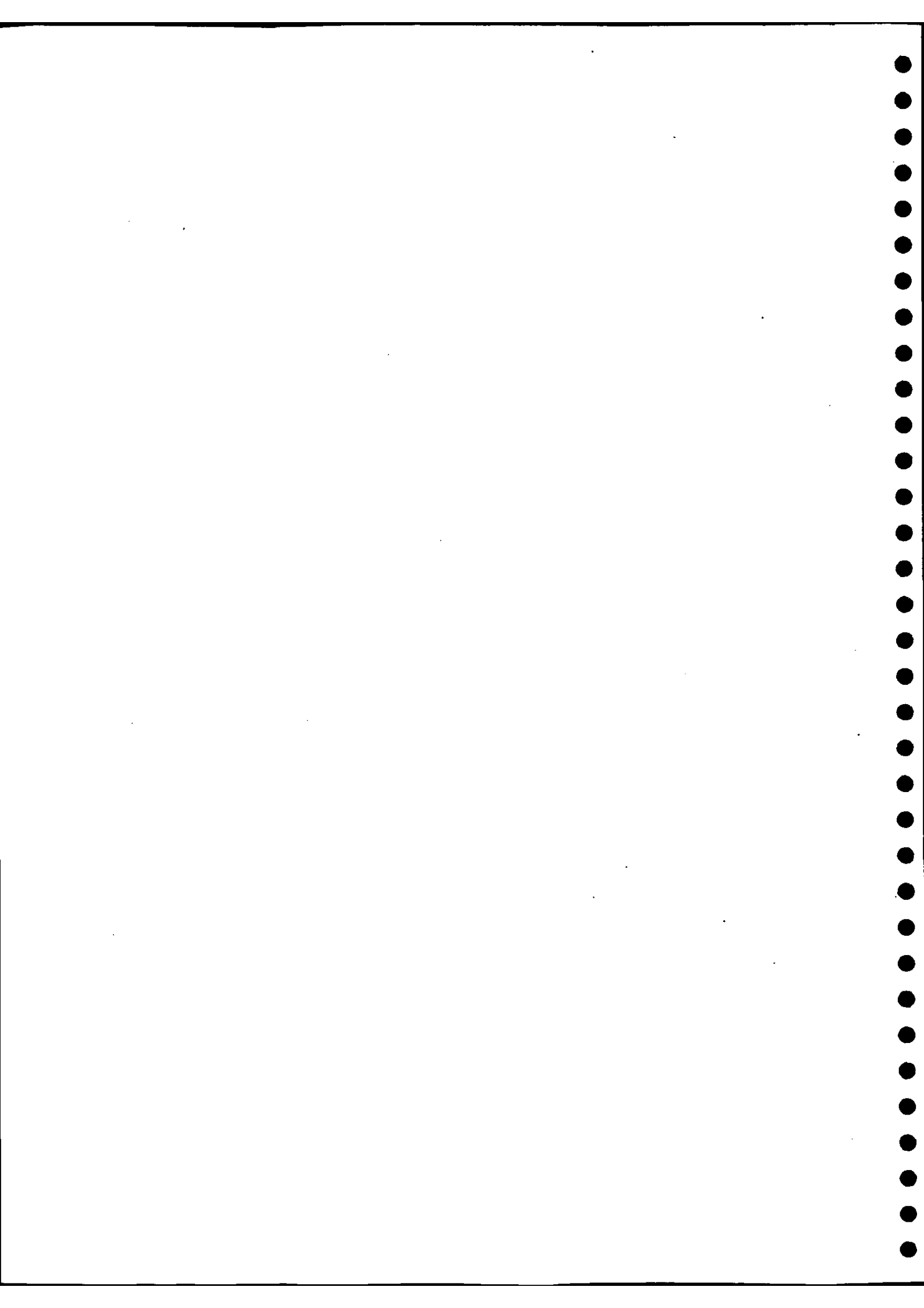
The main services which the Company provides are the maintenance of base ported and visiting submarines and ships, the provision of accommodation to armed forces personnel, maintenance of the infrastructure of the HMNB Clyde sites at Faslane and Coulport, and the operation of the warehouse and transport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

Under the Partnering Agreement the Naval Base Commander, as Authorisee, 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 115 Royal Navy personnel (2011: 110) 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 2012 (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 Warship Modernisation initiative (WSMi) contract comes to an end).

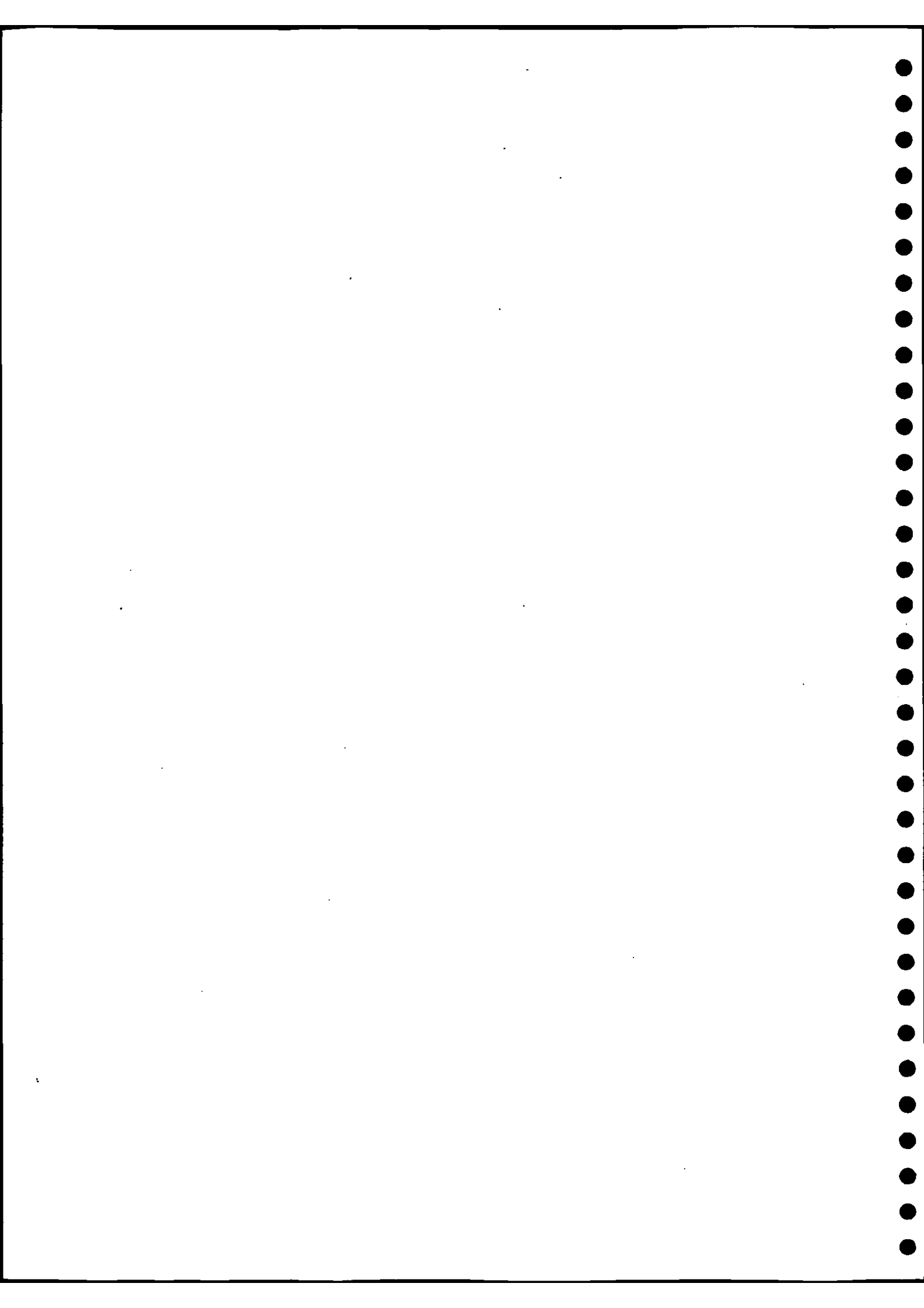
In addition to the longer term view of savings, the financial year to 31 March 2012 has seen the Company continue to reduce the cost of its underlying operation of the current Partnering Agreement. The cost reductions achieved are ahead of the Company's and the contractual targets and this has been delivered 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 2012 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.



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

### **Directors' report for the year ended 31 March 2012 (continued)**

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

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-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 2012 are set out on pages 11 to 26. The profit for the year after taxation was £7,721,000 (2011: £9,954,000). No interim dividend was paid during the year (2011: £nil) and the directors recommend that no final dividend is paid (2011: £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 CBE  
J M Dixon  
C Lockhart  
F Martinelli  
P L Rogers CBE  
W Tame  
I S Urquhart

#### **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 2012 were equivalent to 31 days (2011: 18 days).

#### **Health and safety**

During 2011/12 further progress was made towards our Health and Safety objectives. During 2011/12 HMNB Clyde significantly reduced the number of accidents on site and made improvements to supporting processes including the Accident reporting system.



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

### **Directors' report for the year ended 31 March 2012 (continued)**

#### **Health and safety (continued)**

HMNB Clyde continues to set challenging objectives to ensure continual improvement as we strive to meet our goal of ensuring that every person entering HMNB Clyde goes 'home safe, every day'.

During the last year HMNB Clyde has developed a Safety Culture Improvement team and we continue to invest in developing 'Leaders of Safety' through our IIF® (incident and injury free) and Waypoint Programmes which form the backbone of our behavioural approach to safety.

HMNB Clyde is the Submarine Centre of Specialisation, and is the Home of the UK Submarine Service. This has resulted 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. HMNB Clyde won a Babcock International Group Safety Excellence award in conjunction with our RN partners in recognition of our joint safety initiatives and coordinated approach to working together safely.

Our challenge going forward is to continue to embed a culture of safety throughout the organisation, embracing everyone who lives, works or visits HMNB Clyde.

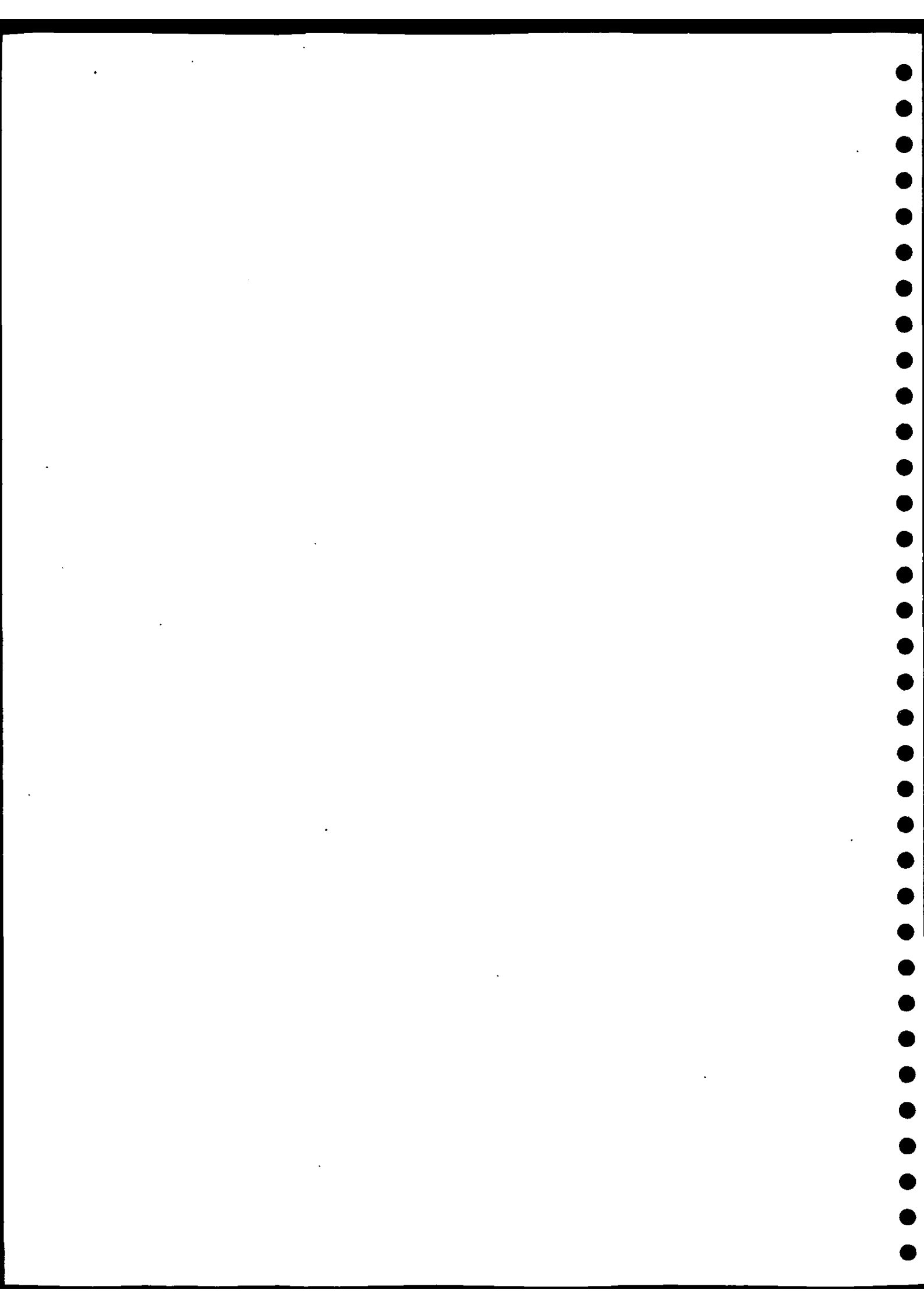
#### **The environment**

The Company continues to support the government's policy for Sustainable Development (SD) and is committed to helping the MoD achieve its SD targets with HMNB Clyde achieving those set up to date. Newer government SD targets have been set as against a 2009/10 baseline and these will be adopted at a local level during 2012 with appropriate mitigating measures.

Work is ongoing to develop the environmental management system and in the year the company's ISO 14001 was successfully re-certified for a further 3 years.

Under the EU Emissions Trading Scheme Phase 2 our emissions for 2011 were independently verified by SGS UK Ltd. In addition SGS verified data for HMNB Clyde's inclusion in Phase 3 during 2011, which will deliver more stringent cuts in carbon emissions from the beginning of 2013.

A successful health, safety and environmental exhibition was held October 2011, which included environmental companies and a stall manned by the Environmental Team and energy engineers. This served to raise awareness of environmental and energy management issues across HMNB Clyde.



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

### **Directors' report for the year ended 31 March 2012 (continued)**

#### **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 Babcock International Group PLC ("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 40 to 43 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 93 to 96 and Note 2 of the annual report of Babcock International Group PLC which does not form part of this report.

#### **Management of capital**

The group's objectives, policies and processes for managing capital are discussed on page 94 of the annual report of Babcock International Group PLC.

#### **Key performance indicators**

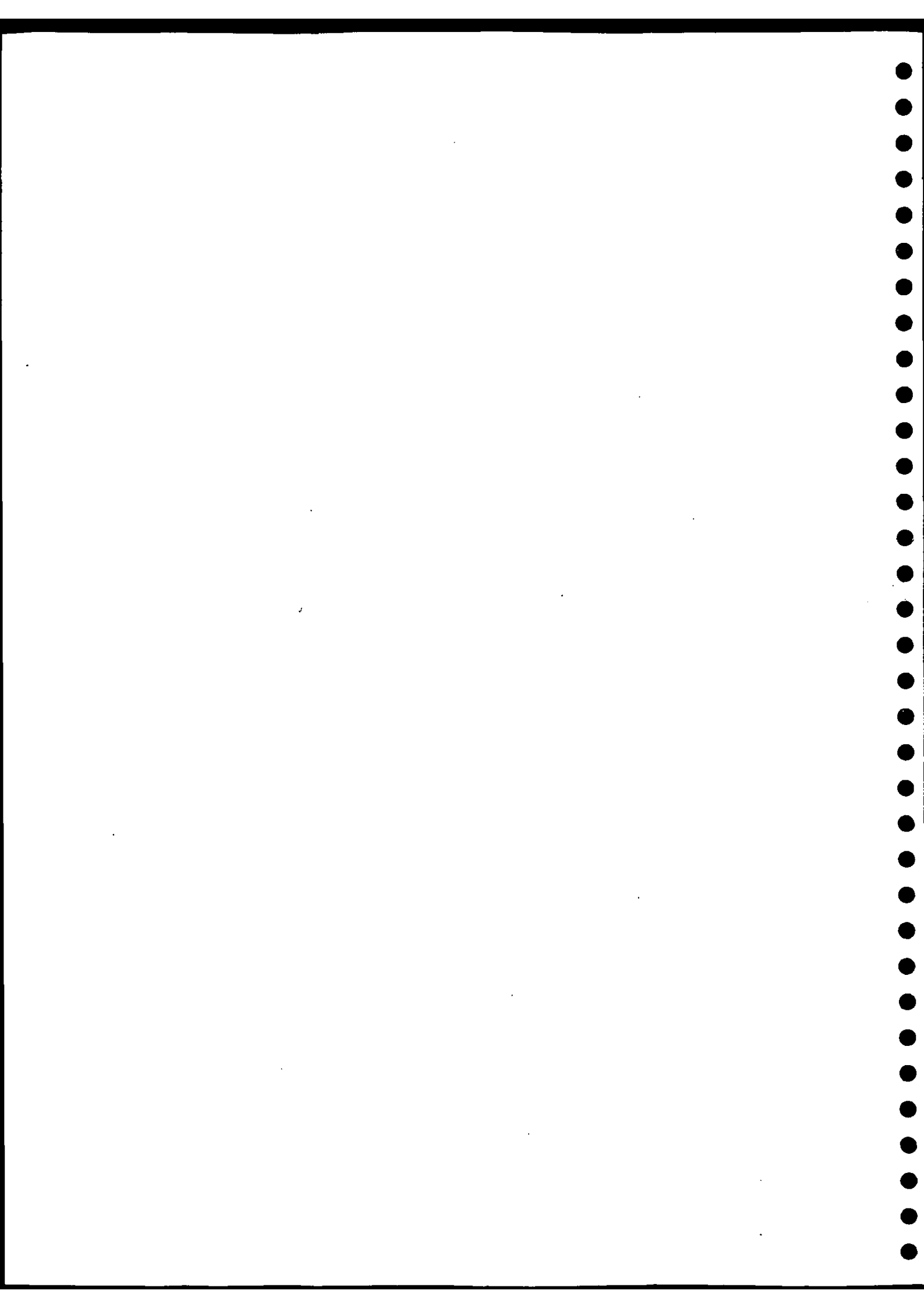
The Marine and Technology activities of the group are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the 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 18 and 19 of the Group's report, which does not form part of this report.

#### **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.





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

### **Directors' report for the year ended 31 March 2012 (continued)**

#### **Employee involvement (continued)**

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 2012 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. This year we have been working closely with SSAFA (Soldiers, Sailors, Airmen and Families Association) to help raise funds for this particular charity. We have also committed to supporting a number of local Young Enterprise Programmes and various core skills sessions with both primary and secondary local schools.

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

#### **Charitable and political donations**

During the year the Company made charitable donations of £7,804 (2011: £9,048). There were no donations greater than £2,000 (2011: £nil). There were no political contributions (2011: £nil). In addition, sponsorship was provided to a number of local events.

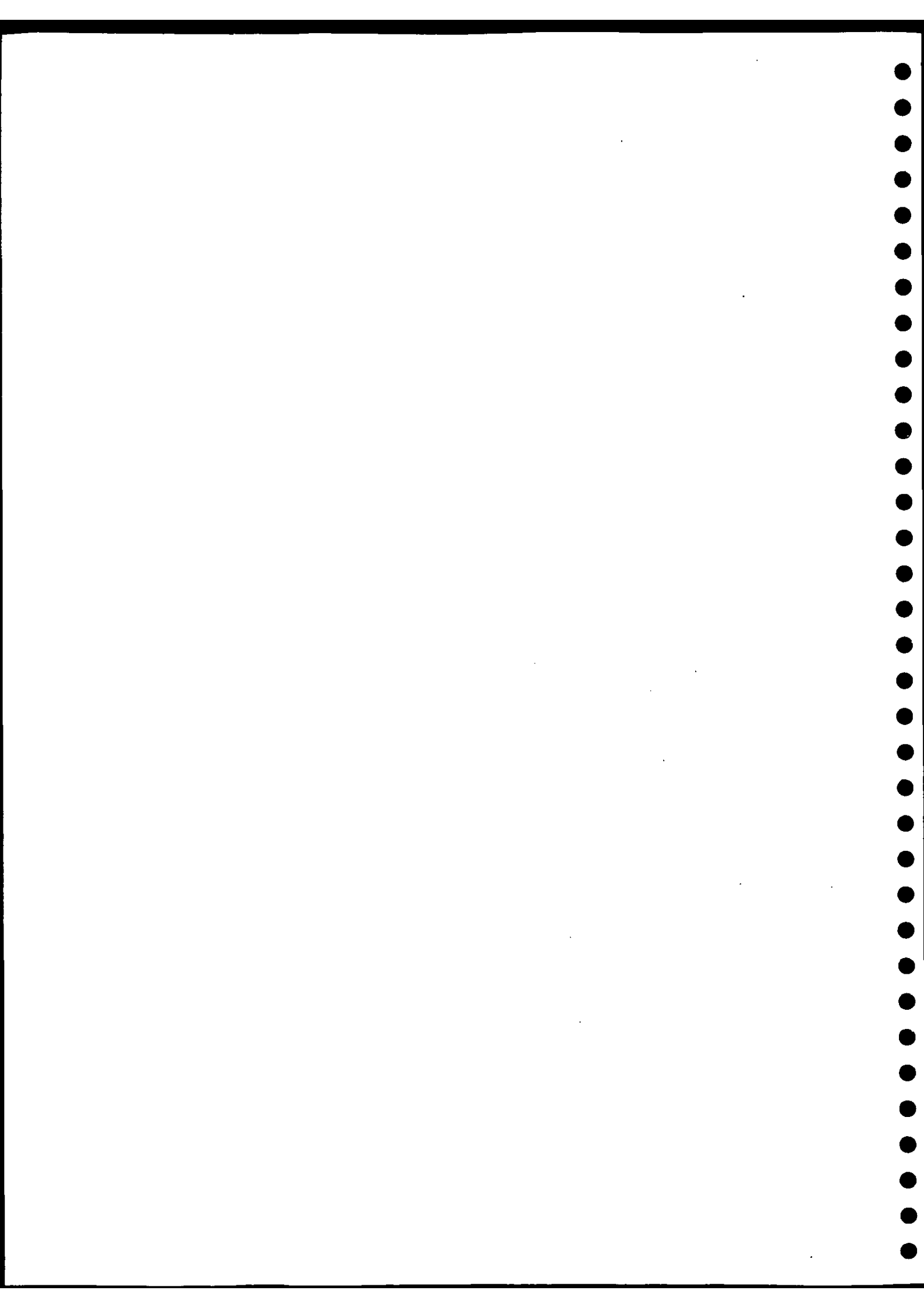
#### **Qualifying third party indemnity provisions**

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 2012, 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



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

### **Directors' report for the year ended 31 March 2012 (continued)**

#### **Statement of directors' responsibilities (continued)**

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.

#### **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**



J M Dixon  
**Director**  
28 June 2012



## **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 2012 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 Statement of Directors' Responsibilities 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 and financial statements 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 2012 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.

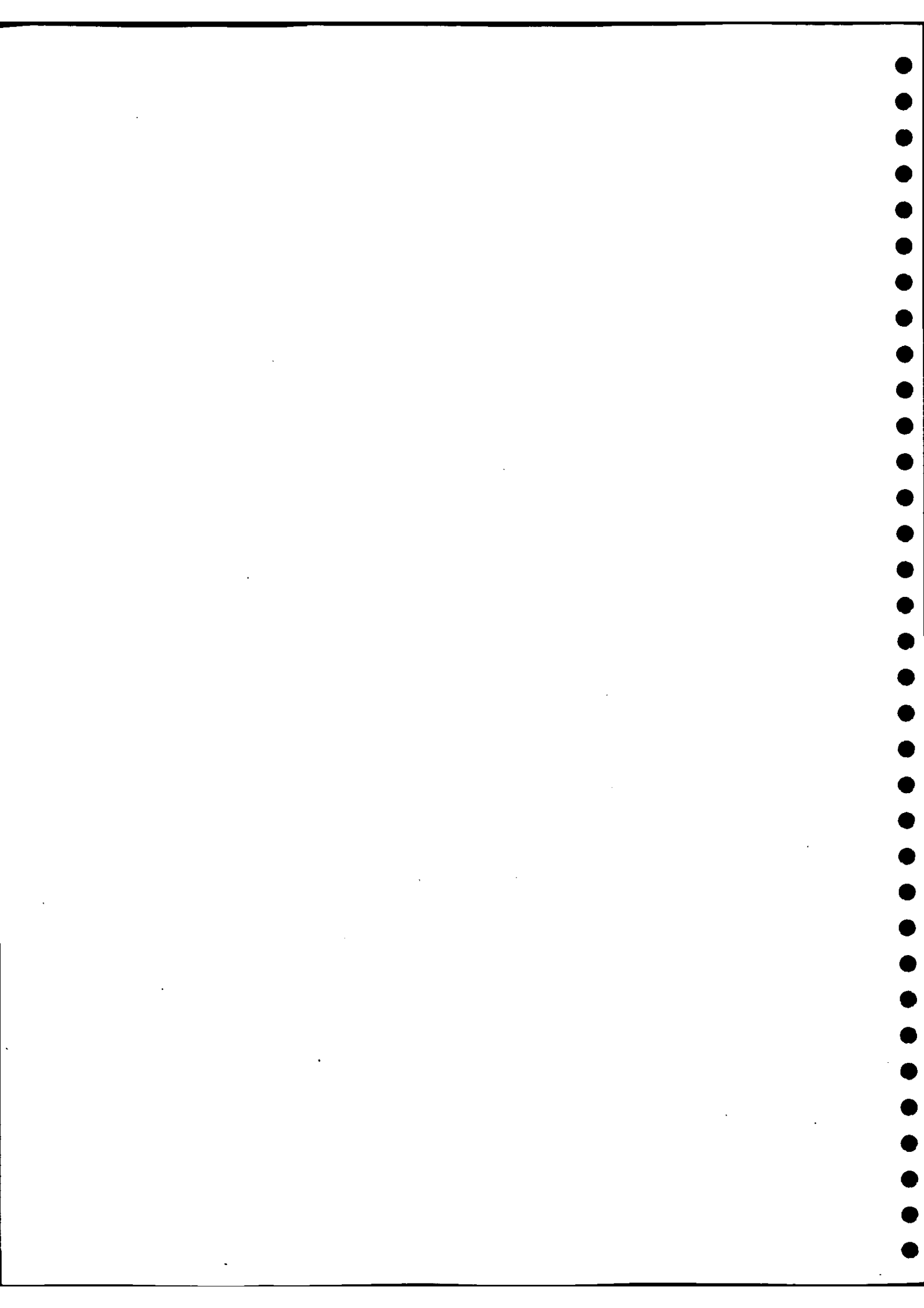
#### **Matters on which we are required to report by exception**

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*

Kenneth Wilson (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Glasgow  
28 June 2012





## Babcock Marine (Clyde) Limited

### Profit and loss account for the year ended 31 March 2012

	Note	2012 £000	2011 £000
Turnover	2	105,067	100,855
Cost of sales		(95,634)	(89,893)
Gross profit		9,433	10,962
Administration		(1,797)	(1,109)
Operating profit	3	7,636	9,853
Interest receivable and similar income	4	91	81
Profit on ordinary activities before taxation		7,727	9,934
Tax on profit on ordinary activities	7	(6)	20
Profit for the financial year	15	7,721	9,954

The notes on pages 16 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 profit for the financial year stated above and their historical cost equivalents.



# Babcock Marine (Clyde) Limited

## Balance sheet as at 31 March 2012

Company registration number SC220243

	Note	2012 £000	2011 £000
<b>Fixed assets</b>			
Tangible assets	8	-	-
Investments	9	-	-
		-	-
<b>Current assets</b>			
Stock	10	113	111
Debtors	11	56,836	50,517
Cash at bank and in hand		5,890	76
		62,839	50,704
<b>Creditors – amounts falling due within one year</b>	12	(20,358)	(15,944)
<b>Net current assets</b>		42,481	34,760
<b>Total assets less current liabilities</b>		42,481	34,760
<b>Capital and reserves</b>			
Called up share capital	14	-	-
Profit and loss account	15	42,481	34,760
<b>Total shareholders' funds</b>	16	42,481	34,760

The financial statements on pages 11 to 26 were approved by the board of directors on 28 June 2012 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 in the United Kingdom and on the basis that the Company will continue as a going concern. All principal accounting policies have been applied consistently throughout the year.

### **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**

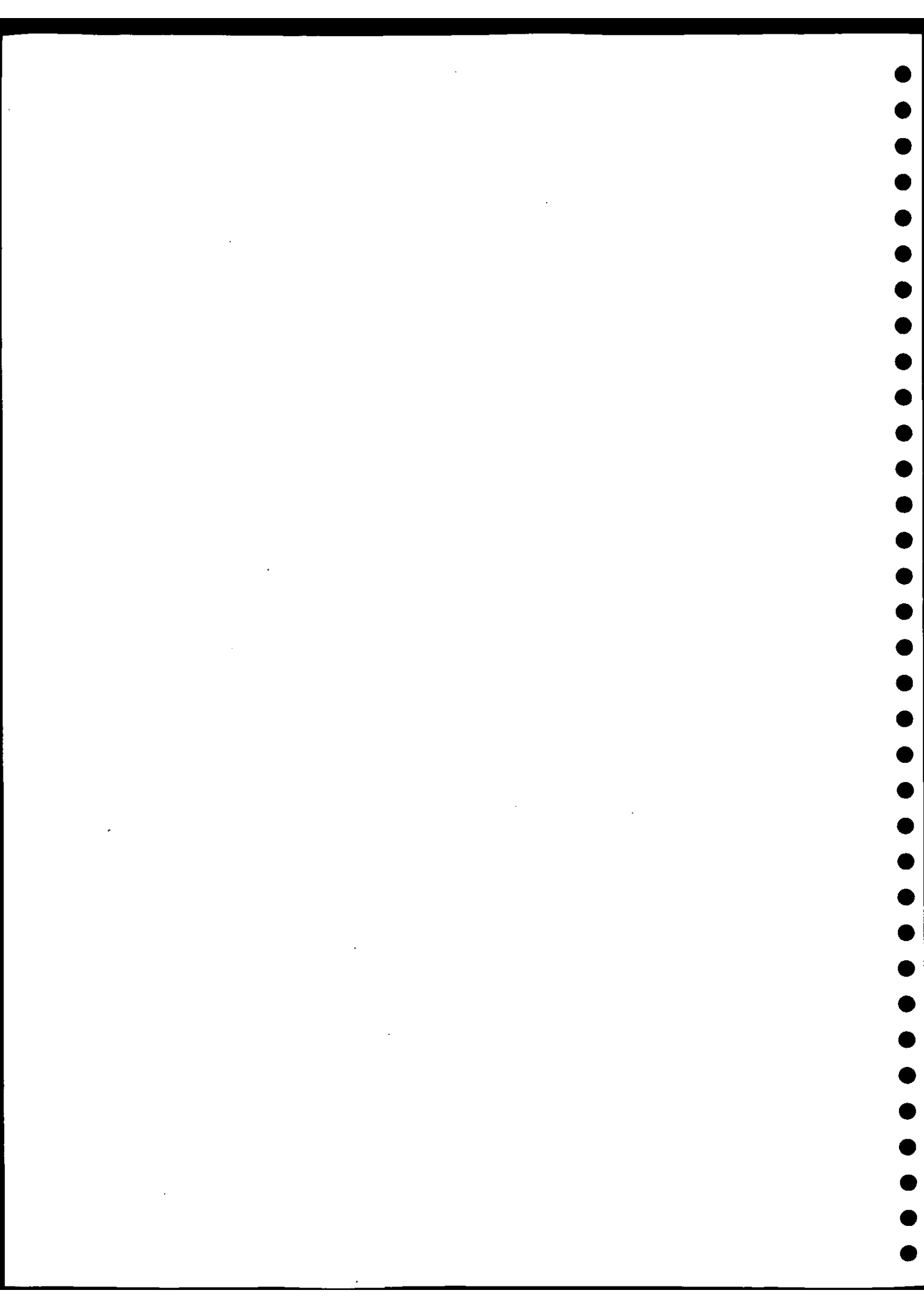
The majority of turnover is calculated as costs incurred to date, net of value added tax, plus profit taken to date on individual contracts. An appropriate level of profit is attributed to the contract if the final outcome can be assessed with reasonable certainty. An expected loss on a contract is recognised 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 2012

### 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 activity 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

	2012 £000	2011 £000
Operating profit – is stated after charging/(crediting):		
Depreciation of tangible fixed assets	-	4
Auditors' remuneration		
- audit services	25	24
Operating lease charges		
- other	18	18
Royalty charges	1,576	821
Profit on disposal of fixed assets	(10)	-

The Company's ultimate parent undertaking, Babcock International Group PLC, discloses other (non-audit) services provided to the group, including the company, on a consolidated basis. Consequently, the Company has taken advantage of the exemption not to disclose this information here.



## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2012 (continued)

#### 4 Interest receivable and similar income

	2012	2011
	£000	£000
Group loan interest	91	81

#### 5 Staff costs

	2012	2011
	£000	£000
Wages and salaries	47,159	43,788
Social security costs	3,854	3,417
Other pension costs (note 18)	6,904	6,652
<b>Staff costs</b>	<b>57,917</b>	<b>53,857</b>

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

By activity	2012 Number	2011 Number
<b>Production</b>	<b>1,430</b>	<b>1,394</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

	2012	2011
	£000	£000
Aggregate emoluments (including benefits in kind)	233	413
Pension contributions	22	30
<b>Total</b>	<b>255</b>	<b>443</b>



## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2012 (continued)

#### 6 Directors' emoluments (continued)

Pension benefits are accruing to J M Dixon and C Lockhart (2011: J M Dixon and C Lockhart).

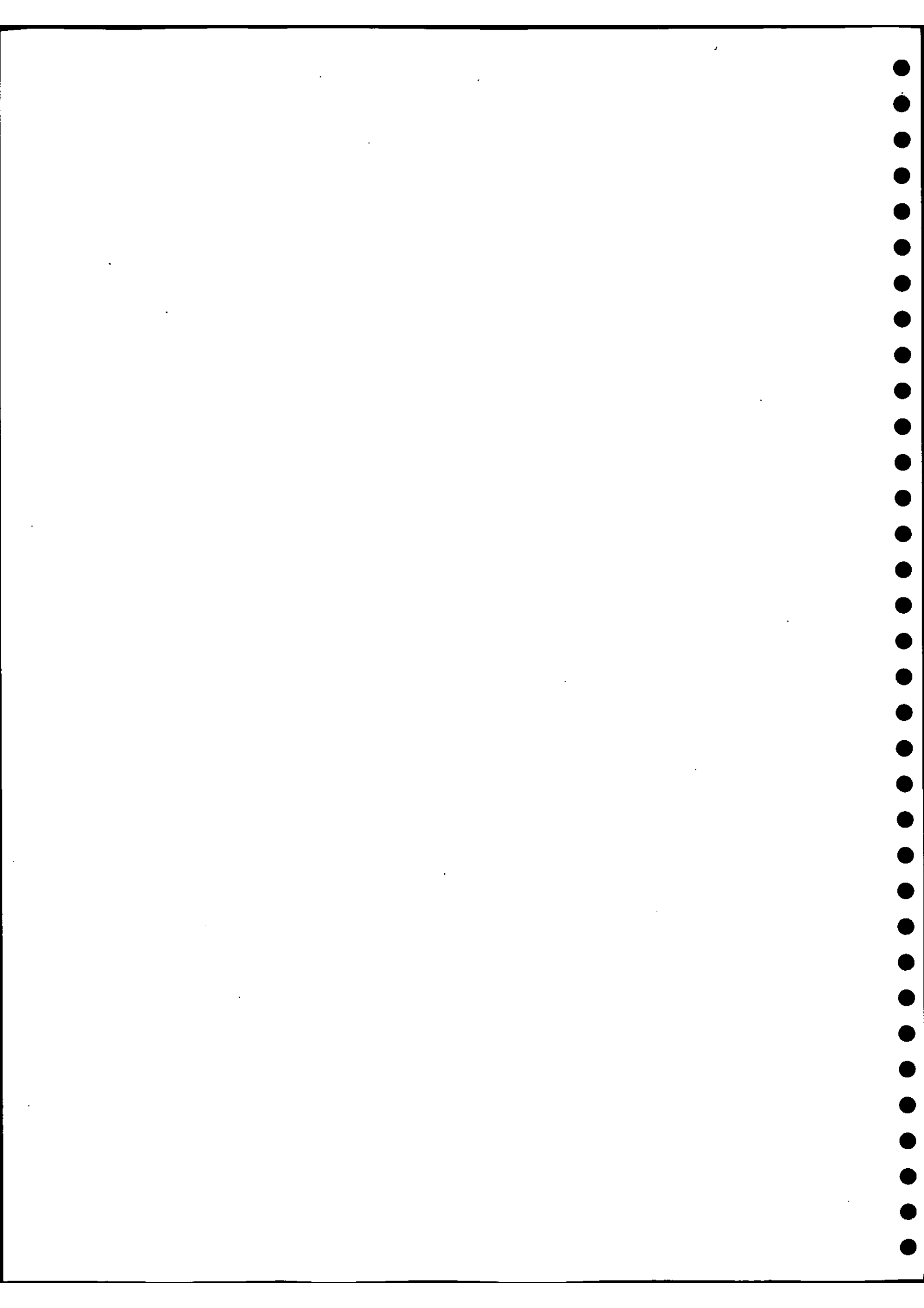
##### Highest paid director

	2012	2011
	£000	£000
Aggregate emoluments (including benefits in kind)	233	222
Pension contributions	22	22
<b>Total</b>	<b>255</b>	<b>244</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 financial statements of the ultimate parent company, Babcock International Group PLC. The emoluments of F Martinelli and A A Bethel are included in the financial statements of Babcock Holdings Ltd. The emoluments of I S Urquhart are included in the financial statements of Babcock Marine (Rosyth) Limited. The emoluments of C Lockhart for the year ended 31 March 2012 are included in the financial accounts of Babcock Integrated Technology Australia. 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 £8,102 (2011: £5,949).

#### 7 Taxation on profit on ordinary activities

	2012	2011
	£000	£000
<b>The taxation charge comprises:</b>		
Corporation tax on the profit for the year at 26% (2011: 28%)	-	-
<b>Current tax charge for the year</b>	<b>-</b>	<b>-</b>
Deferred tax - current	21	17
- adjustment in respect of prior years	(18)	(40)
Impact of change in UK tax rate	3	3
<b>Total tax charge / (credit) for the year</b>	<b>6</b>	<b>(20)</b>





## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2012 (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:

	2012 £000	2011 £000
Profit on ordinary activities before tax	7,727	9,934
Expected tax charge on profit on ordinary activities at 26% (2011: 28%)	2,009	2,782
Effects of:		
Timing differences	(21)	(17)
Group relief at nil consideration	(1,992)	(2,769)
Expenses not deductible for tax purposes	4	4
<b>Current tax charge for the year</b>	-	-

The standard rate of Corporation Tax in the UK changed from 28% to 26% with effect from 1 April 2011. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 26%.

A number of changes to the UK Corporation tax system were announced in the March 2012 Budget Statement. Legislation to reduce the main rate of corporation tax from 26% to 24% from 1 April 2012 is expected to be included in the Finance Act 2012. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2013. These further changes had not been substantively enacted at the balance sheet date and, therefore the impact is not included in these financial statements.

The effect of the changes expected to be enacted in the Finance Act 2012 would be to reduce the deferred tax asset provided at the balance sheet date by an immaterial amount. This decrease in deferred tax asset would decrease the profit by an immaterial amount. This decrease in the deferred tax asset is due to the reduction in the corporation tax rate from 24% to 23% with effect from 1 April 2013.



## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2012 (continued)

#### 8 Tangible assets

	Motor vehicles £000
<b>Cost</b>	
At 1 April 2011	79
Disposals	(36)
<b>At 31 March 2012</b>	<b>43</b>
<b>Accumulated depreciation</b>	
At 1 April 2011	79
Disposals	(36)
<b>At 31 March 2012</b>	<b>43</b>
<b>Net book amount</b>	
<b>At 31 March 2012</b>	<b>Nil</b>
At 31 March 2011	Nil

#### 9 Investments

	2012 £
<b>Cost</b>	
At 1 April 2011 and 31 March 2012	1
<b>Provision for diminution in value</b>	
At 1 April 2011 and 31 March 2012	-
<b>Net book amount</b>	
<b>At 1 April 2011 and 31 March 2012</b>	<b>1</b>



## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2012 (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.

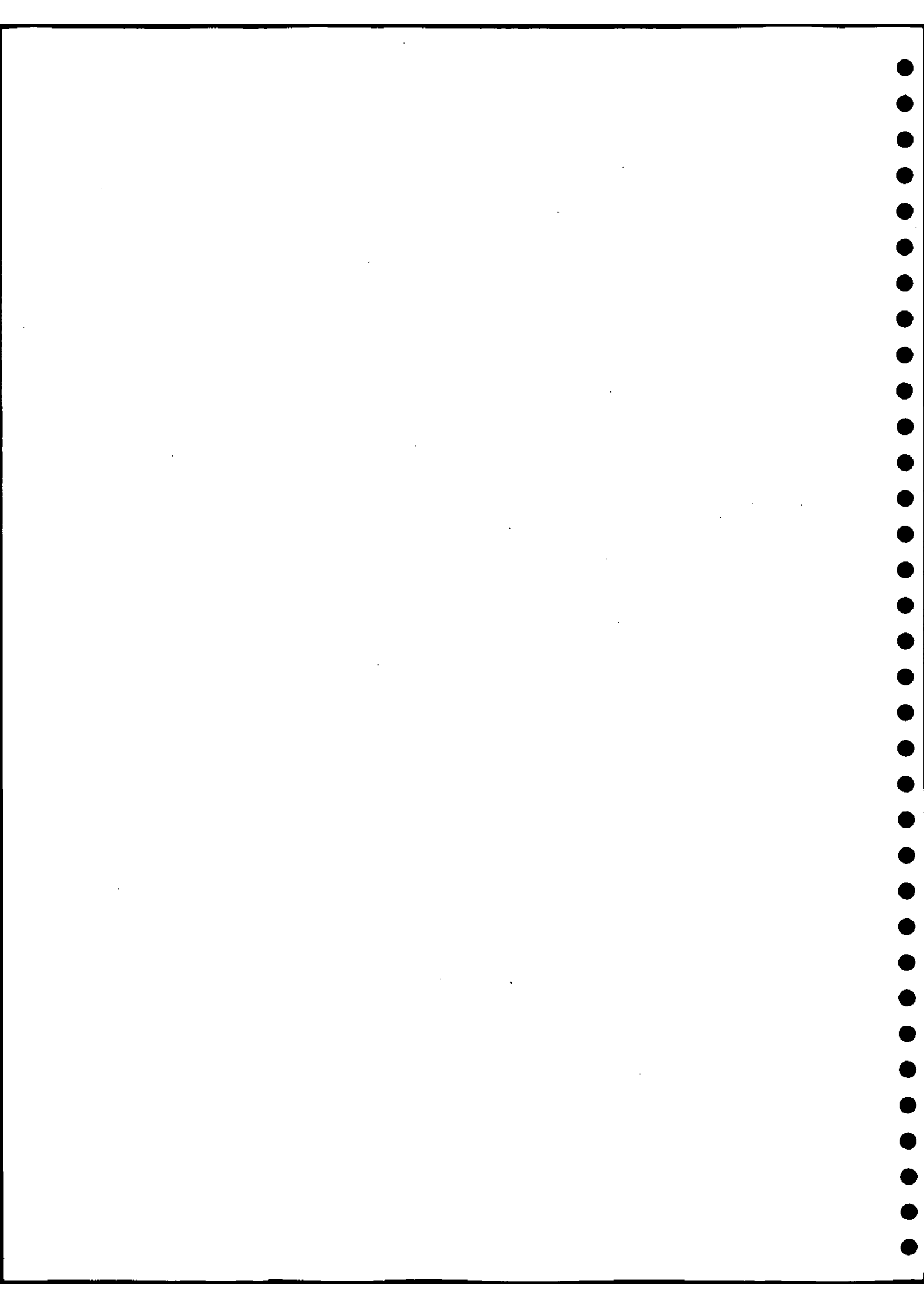
On 15 September 2010, proprietary know-how, not capitalised in the financial statements of the company in accordance with FRS 10, was transferred to Babcock Integration LLP in exchange for an interest in that partnership. This was in order to facilitate the integration of the Babcock and VT groups. The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

#### 10 Stock

	2012	2011
	£000	£000
Finished goods	113	111

#### 11 Debtors

	2012	2011
	£000	£000
Trade debtors	100	367
Amounts owed by parent undertakings	27,500	17,500
Amounts owed by group undertakings	14,845	15,115
Amounts recoverable on long term contracts	13,257	16,659
Other debtors	799	529
Deferred tax (note 13)	31	37
Prepayments and accrued income	304	310
	56,836	50,517



## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2012 (continued)

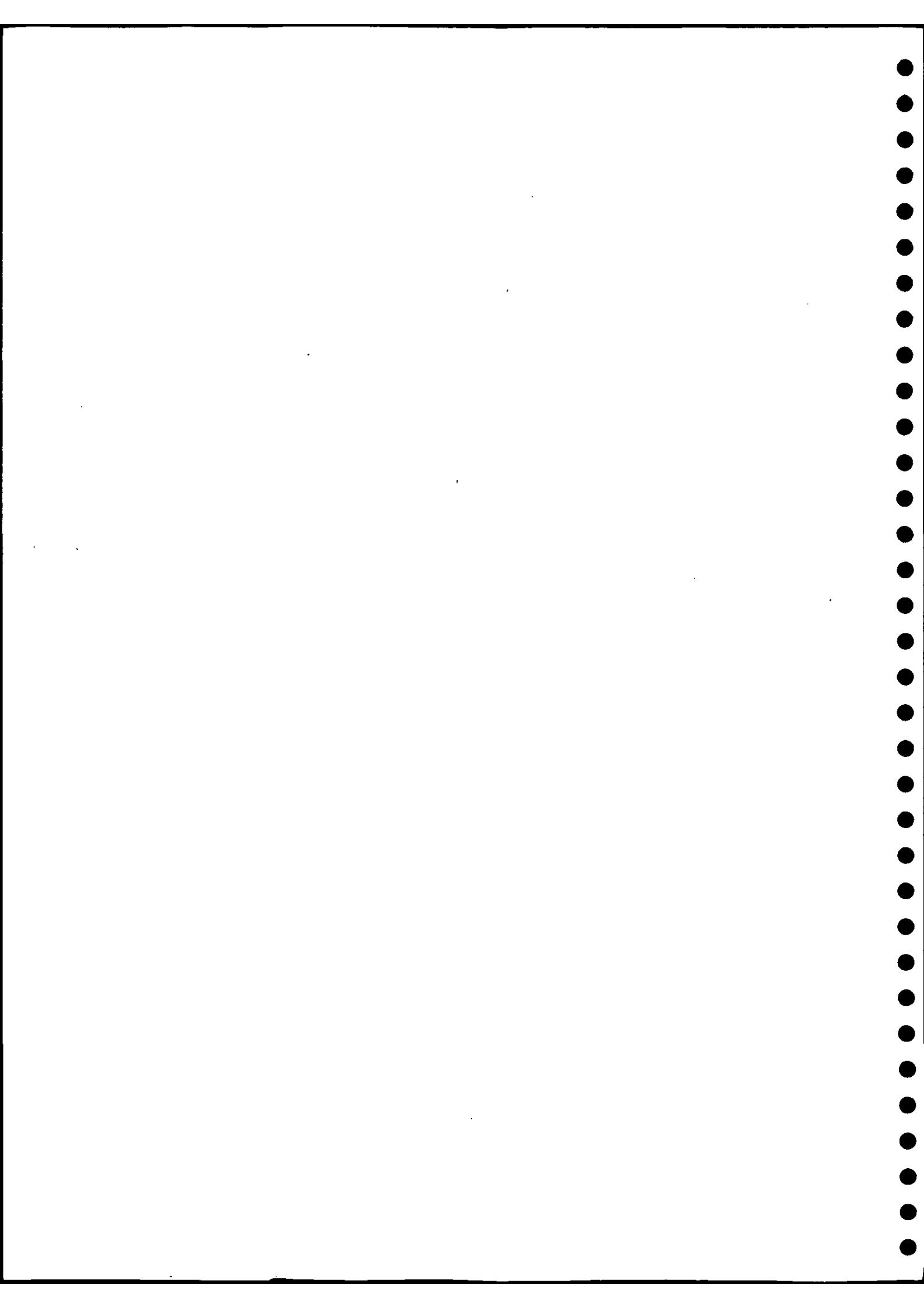
#### 11 Debtors (continued)

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.

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

	2012 £000	2011 £000
Trade creditors	3,165	1,764
Amounts owed to group undertakings	4,601	6,948
Other creditors	47	23
Payments in advance	-	147
Other taxes and social security	1,232	-
Accruals and deferred income	11,313	7,062
	<b>20,358</b>	<b>15,944</b>

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





## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2012 (continued)

#### 13 Deferred taxation

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

	2012	2011
	£000	£000
Accelerated capital allowances	12	15
Other short term timing differences	19	22
	31	37

The movement on the deferred tax asset is as follows:

	2012	2011
	£000	£000
As at 1 April	37	17
Current year charge	(21)	(17)
Prior year adjustment	18	40
Impact of change in UK tax rate	(3)	(3)
As at 31 March	31	37

#### 14 Called up share capital

	2012	2011
	£	£
<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



## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2012 (continued)

#### 15 Profit and loss account

	2012 £000	2011 £000
At 1 April	34,760	24,806
Profit for the financial year	7,721	9,954
<b>At 31 March</b>	<b>42,481</b>	<b>34,760</b>

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

	2012 £000	2011 £000
Profit for the financial year	7,721	9,954
Opening shareholders' funds	34,760	24,806
<b>Closing shareholders' funds</b>	<b>42,481</b>	<b>34,760</b>

#### 17 Guarantees and financial commitments

##### Contingent liabilities

The Company at the year end had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £731.8 million (2011: £782.5m) provided to certain group companies.

##### Operating lease commitments

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

	2012 £000	2011 £000
	Vehicles	Vehicles
- between two and five years	18	18



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

### **Notes to the financial statements for the year ended 31 March 2012 (continued)**

#### **18 Pension commitments**

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

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Babcock Naval Services Pension Scheme	<b>6,424</b>	6,516
Rosyth Royal Dockyard Scheme	<b>14</b>	34
Babcock International Group Pension Scheme	<b>221</b>	94
BIG Defined Contribution Scheme	<b>245</b>	8
	<b>6,904</b>	6,652

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.

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 financial statements 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 financial statements 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 £172.0m (2011: £134.2m). The Babcock International Group Pension Scheme had a deficit of £49.6 m (2011: £32.9m).

#### **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.



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

### **Notes to the financial statements for the year ended 31 March 2012 (continued)**

#### **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.

