



Babcock Defence Systems Limited

Accounts for the year ended 31 March 1998
together with directors' and auditors' reports

Registered number: 1199791



Directors and advisors

Directors

Mr A K Smith (resigned 18 May 1997)

Mr M S Easton (appointed 18 May 1997)

Mr W M Meir

Mr W A Cramond

Mr N R Young (appointed 30 June 1998)

Secretary

Mr J D T Greig

Registered Office

Badminton Court

Church Street

Amersham

Bucks.

HP7 0DD

Auditors

Arthur Andersen

18 Charlotte Square

Edinburgh

EH2 4DF

Bankers

The Royal Bank of Scotland plc

52/54 East Port

Dunfermline

Fife

KY12 7HB

Solicitors

McGrigor Donald

Pacific House

70 Wellington Street

Glasgow

G2 6SB

Hammond Suddards

Trinity Court

16 Dalton Street

Manchester

M60 8HS

Directors' report

For the year ended 31 March 1998

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 March 1998.

Principal activities and business review

The company commenced trading on 1 April 1997. The principal activity of the company was that of engineering, design and development and the provision of support services, primarily to the Ministry of Defence.

The business and net assets of the engineering, design, development and support business carried out at Weymouth, were transferred from another group undertaking, at net book value, with effect from 1 April 1997.

Dividends and reserves

The directors recommend that no dividend is paid and that the retained profit for the year of £379,784 be transferred to reserves.

Supplier payment policy

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

Directors and their interests

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

Mr A K Smith (resigned 18 May 1997)

Mr M S Easton (appointed 18 May 1997)

Mr W M Meir

Mr W A Cramond

M N R Young (appointed 30 June 1998)

The interests of directors, who are directors of the ultimate parent company in Babcock International Group PLC, are shown in that company's accounts. The interests of Mr W A Cramond are shown in the accounts of Babcock Rosyth Industries Limited, a fellow group undertaking. According to the register of directors' interests maintained under the Companies Act, the remaining directors who held office at 31 March 1998 and their immediate families have the following shares and options to subscribe for shares in group companies.

Name of director	Number of options over Ordinary shares in Babcock International Group PLC		
	31 March 1997	Granted during the year	31 March 1998
Mr W M Meir - SAYE Share Options	-	14,022	14,022

There have been no changes in this director's interests in shares or options between 31 March 1998 and the date of this report.

Directors' report (continued)

Year 2000

The company has a well advanced programme that addresses the risk to the business of the year 2000 date change. The majority of the actions necessary have been completed and there is an ongoing programme to clear outstanding issues. Review will continue on a regular basis.

Safety policy

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

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

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those accounts, the directors are required to:

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

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

Directors' report (continued)

Auditors

The company has elected pursuant to s386 Companies Act 1985 to dispense with the obligation to appoint auditors annually.

By order of the Board



M S Easton

Director

27 November 1998

Auditors' report

Edinburgh

To the Shareholders of Babcock Defence Systems Limited:

We have audited the accounts on pages 6 to 14 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

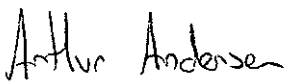
Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 March 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

27 November 1998

Profit and loss account For the year ended 31 March 1998

	Notes	1998 £'000	1997 £'000
Turnover	2	7,691	-
Cost of sales		(6,028)	-
Gross profit		1,663	-
Administrative expenses		(1,320)	-
Loan account forgiven	7	-	509
Profit before interest and taxation		343	509
Other interest receivable and similar income	3	37	-
Profit on ordinary activities before taxation	4	380	-
Tax on profit on ordinary activities	6	-	-
		380	-
Profit for the financial year		380	509
Retained profit at beginning of year		1	(508)
Retained profit at end of year		381	1

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

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

Balance sheet

31 March 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	8	165	-
Investments	9	1	1
		<u>166</u>	<u>1</u>
Current assets			
Debtors	10	1,732	-
Cash at bank and in hand		286	-
		<u>2,018</u>	<u>-</u>
Creditors: Amounts falling due within one year	11	(1,793)	-
Net current assets		<u>225</u>	<u>-</u>
Net assets		<u>391</u>	<u>1</u>
Capital and reserves			
Called-up equity share capital	13	10	-
Profit and loss account		381	1
Total capital employed	14	<u>391</u>	<u>1</u>

Signed on behalf of the Board

M S Easton



Director

27 November 1998

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

Notes to accounts

For the year ended 31 March 1998

1 Accounting policies

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

a) *Basis of accounting*

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

b) *Tangible fixed assets*

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold Improvements - over term of lease

Plant and machinery - 10 years (10% per annum)

Computer Equipment - 3 years (33.3% per annum)

Office Equipment - 10 years (10% per annum)

c) *Investments*

Investments held as fixed assets are stated at cost less amounts written off. Provisions are made for permanent reductions in value.

d) *Long term contracts*

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses and applicable payments in account, are included as long term contract balances in debtors.

e) *Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

The taxation liabilities of certain Babcock group companies are reduced wholly or in part by the surrender of losses and ACT by fellow Babcock group companies. The taxation benefits arising from group relief and the surrender of ACT are recognised in the accounts of the recipient companies. The Babcock group adopts a policy of not paying for group relief.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax legislation) has been calculated on the liability method. Deferred taxation is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of the reversal. Deferred taxation is not provided on timing differences which, in the opinion of the directors, will probably not reverse. However, the amount of all deferred tax, including that which will probably not reverse, is shown in the notes to the accounts.

Notes to accounts(continued)

1 Accounting policies (continued)

f) Leases

The company enters into operating 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.

Assets acquired under finance lease are capitalised and the outstanding capital element of instalments is included in creditors. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where these are shorter.

g) Cash Flow Statements

The company has taken advantage of the exemption in Financial Reporting Standard 1 (Revised), to dispense with the requirement to publish a cash flow statement in its accounts, as a consolidated cash flow statement will be included in the accounts of the ultimate parent company.

2 Turnover

Turnover, which excludes value added and similar taxes, comprises:

- (i) Contract work - cost of sales plus profit taken; and
- (ii) Sales (other than contract sales) of goods and services - at invoiced value.

Turnover is entirely attributable to the United Kingdom market.

3 Other interest receivable and similar income

	1998 £'000	1997 £'000
Bank interest receivable	<u>37</u>	<u>-</u>

Notes to accounts(continued)

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1998 £'000	1997 £'000
Depreciation - owned fixed assets	39	-
Operating lease rentals		
- plant and machinery	1	-
- short-term plant hire	307	-
Licence for use of:		
- land and buildings	42	-

The auditors' remuneration in both the current and prior year was borne by a fellow group undertaking, Babcock Rosyth Defence Limited.

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

5 Staff costs

The fellow group undertaking, Rosyth Royal Dockyard Limited, is the employer for a number of Babcock group companies. The company is charged for the use of personnel, a sum equivalent to the employment costs of those personnel assigned to the company. The average monthly number of persons employed under this arrangement was 47 (1997- Nil).

The remuneration of directors was as follows:

	1998 £000	1997 £000
Emoluments (including benefits-in-kind)	87	-

The number of directors who were members of the defined benefit pension scheme was 3 (1997-3).

The services of Mr M S Easton and Mr A K Smith were paid by Babcock International Group PLC. No part of this remuneration could be attributed to his services in respect of Babcock Defence Systems Limited.

Notes to accounts(continued)

6 Tax on profit on ordinary activities

	1998 £'000	1997 £'000
Corporation tax at 31% (1997 - 33%)	144	-
Group relief relating to current year	(144)	-
	<u>-</u>	<u>-</u>

7 Loan account forgiven

In 1997, amounts owed to fellow subsidiary undertakings of £509,000 were forgiven as part of a group reorganisation. No such item arose in the current year.

8 Tangible fixed assets

	Leasehold Improvements £'000	Plant and machinery £'000	Computer Equipment £'000	Office Equipment £'000	Total £'000
Cost					
Beginning of year	-	-	-	-	-
Additions	80	9	97	18	204
Disposals	-	-	-	-	-
End of year	<u>80</u>	<u>9</u>	<u>97</u>	<u>18</u>	<u>204</u>
Depreciation					
Beginning of year	-	-	-	-	-
Charge for year	10	-	28	1	39
End of year	<u>10</u>	<u>-</u>	<u>28</u>	<u>1</u>	<u>39</u>
Net book value					
End of year	<u>70</u>	<u>9</u>	<u>69</u>	<u>17</u>	<u>165</u>
Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

9 Fixed asset investments

	1998 £'000	1997 £'000
9.75% Treasury Stock 2002	<u>1</u>	<u>1</u>

Notes to accounts(continued)

10 Debtors

Amounts falling due within one year:

	1998 £'000	1997 £'000
Trade debtors	1,086	-
Amounts recoverable on contracts	595	-
VAT	7	-
Prepayments, other debtors and other accrued income	44	-
	<u>1,732</u>	<u>-</u>

11 Creditors

Amounts falling due within one year :

	1998 £'000	1997 £'000
Payments on account of long-term contracts	801	-
Contract accruals and provisions	165	-
Trade creditors	252	-
Amounts owed to other group undertakings	492	-
Accruals and deferred income	83	-
	<u>1,793</u>	<u>-</u>

12 Provisions for liabilities and charges

No deferred taxation was provided in the accounts. The potential tax asset was as follows:

	1998 £'000	1997 £'000
Fixed asset timing differences	<u>5</u>	<u>-</u>

13 Called-up equity share capital

	1998 £'000	1997 £'000
Authorised		
100,000 Ordinary Shares @ £1 each	<u>100</u>	<u>100</u>
Authorised, called up and fully paid		
10,000 Ordinary Shares @ £1 each	<u>10</u>	<u>-</u>

During the year, the company issued 9,950 £1 ordinary shares at par to Babcock Facilities Management Limited.

Share capital consists entirely of equity shares.

Notes to accounts(continued)

14 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Profit for the financial year	380	509
Ordinary Shares issued	10	-
Net increase to shareholders' funds	390	509
Opening shareholders' funds	1	(508)
Closing shareholders' funds	391	1

15 Guarantees and financial commitments

a) Capital commitments

	1998 £'000	1997 £'000
Contracted for but not provided for	8	-

b) Operating lease commitments

Land and buildings

	1998 £'000	1997 £'000
Annual commitments which expire:		
- after five years	61	-

Notes to accounts(continued)

16 Related Party Transactions

The company, as a wholly owned subsidiary, has taken advantage of the exemption, granted under Financial Reporting Standard 8, Related Parties, by not disclosing details of sales and purchases with other members of the group headed up by Babcock International Group PLC. Details of balances owed to other group companies are disclosed in note T1.

17 Ultimate parent company

The company's immediate parent company is Babcock Facilities Management Limited, a company registered in England.

The company's ultimate parent company is Babcock International Group PLC, a company registered in England. The only group in which the results of the company are consolidated is that headed by Babcock International Group PLC.

Copies of Babcock International Group PLC accounts are available to the public from the following address:

The Company Secretary
Babcock International Group PLC
Badminton Court
Church Street
Amersham
Bucks HP7 0DD