

# **BABCOCK DEFENCE SYSTEMS LIMITED**

**Accounts for the year ended 31 March 2000  
together with directors' and auditors' reports**

**Registered Number: 1199791**



## **Directors and Advisors**

### **Directors**

Mr M S Easton  
Mr W A Cramond  
Mr W M Meir  
Mr N R Young

### **Company 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  
Dunfermline Branch  
52-54 East Port  
Dunfermline  
KY12 7HB

# **Directors' Report**

## **For the year ended 31 March 2000**

The directors present their annual report on the affairs of the company, together with the accounts, for the year to 31 March 2000.

### **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 the profit or loss of the company for that year. In preparing those accounts, the directors are required to:

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

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

### **Principal Activities**

The principal activity of the company is that of engineering, design and development and the provision of support services to the Ministry of Defence.

### **Results and Dividends**

The audited accounts for the year ended 31 March 2000 are set out on pages 5 to 12. The loss for the year after taxation was £36,000 (1999: £363,000 profit). A dividend of £343,000 (1999 - £nil) was paid from accumulated distributable reserves on 24 July 1999. The directors recommend that no further dividend is paid and that the retained loss for the year of £379,000 (1999 £363,000 profit) be transferred to reserves.

### **Directors and their Interests**

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

Mr M S Easton  
Mr W A Cramond  
Mr W M Meir  
Mr N R Young

The interests of Mr M S Easton and Mr N R Young who are also directors of the ultimate parent company, 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 2000 and their immediate families have the following shares in and options to subscribe for shares in Babcock International Group PLC.

## Directors' Report (continued)

For the year ended 31 March 2000

### Directors and their Interests (continued)

	31 March 2000	Granted/Issued/ Transferred in year	1 April 1999
<u>Executive Share Options Over 50p Ordinary Shares</u>			
Mr W M Meir	<u>12,100</u>	<u>12,100</u>	<u>-</u>
<u>SAYE Share Options Over 50p Ordinary Shares</u>			
Mr W M Meir	<u>14,022</u>	<u>-</u>	<u>14,022</u>
<u>50p Ordinary Shares Held In Trust Under An Employee Share Participation Scheme</u>			
Mr W M Meir	<u>264</u>	<u>-</u>	<u>-</u>

The above holdings are based on the Babcock International Group PLC share structure that prevailed at 31 March 2000.

### Safety policy

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

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

### Year 2000

After an initial assessment of the potential impact of the year 2000 on the company, a plan was developed to ensure that all significant risks were addressed well in advance of critical dates and with minimum disruption to the business.

The board can confirm that the company achieved year 2000 compliance in all areas which have a potential impact on the business and that the cost of doing so did not have a material impact on the company.

Based on experience since the start of the new year, no significant issues have arisen and the directors are confident that no further matters will arise.

### Auditors

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

By order of the Board



M S Easton

Director

25 January 2001

# Auditors' Report

## To the Shareholders of Babcock Defence Systems Limited

We have audited the accounts on pages 5 to 12, which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

## Respective Responsibilities of the Directors and the Auditors

As described on page 2, the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

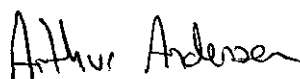
## Basis of Opinion

We have 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 company's circumstances, 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 the company's affairs at 31 March 2000 and of the loss of the company for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



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

25 January 2001

## Profit and Loss Account

For the year ended 31 March 2000

	Notes	2000 £'000	1999 £'000
<b>Turnover</b>	2	3,664	8,174
Cost of Sales		<u>(2,900)</u>	<u>(6,378)</u>
<b>Gross Profit</b>		764	1,796
Administrative expenses		<u>(854)</u>	<u>(1,470)</u>
<b>(Loss)/Profit before Interest and Taxation</b>		(90)	326
Net interest and similar charges	3	<u>54</u>	<u>37</u>
<b>(Loss)/Profit on Ordinary Activities before Taxation</b>	4	(36)	363
Taxation on Loss on Ordinary Activities	6	<u>-</u>	<u>-</u>
<b>(Loss)/Profit for the financial year</b>		(36)	363
Dividends Paid	7	<u>(343)</u>	<u>-</u>
<b>Retained (Loss)/Profit for for the Financial Year</b>		(379)	363
<b>Retained Profit at beginning of year</b>		<u>744</u>	<u>381</u>
<b>Retained Profit at end of year</b>		<u><u>365</u></u>	<u><u>744</u></u>

All the profit and loss items relate to continuing operations.

There are no recognised gains or losses other than the retained loss for the period.

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

# Balance Sheet

As at 31 March 2000

	Notes	2000 £'000	1999 £'000
<b>Fixed Assets</b>			
Tangible Assets	8	130	217
<b>Current Assets</b>			
Debtors	9	1,111	1,776
Cash at Bank		<u>1,313</u>	<u>1,540</u>
		<u>2,424</u>	<u>3,316</u>
<b>Creditors</b>			
Amounts falling due within one year	10	<u>(2,179)</u>	<u>(2,779)</u>
<b>Net Current Assets</b>		<u>245</u>	<u>537</u>
<b>Net Assets</b>		<u>375</u>	<u>754</u>
<b>Capital and Reserves</b>			
Called-up equity share capital	12	10	10
Profit and Loss account		<u>365</u>	<u>744</u>
<b>Equity Shareholders' Funds</b>	14	<u>375</u>	<u>754</u>

Signed on behalf of the Board



M S Easton

Director

25 January 2001

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

## Notes to the accounts

For the year ended 31 March 2000

### 1 Accounting Policies

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

#### a) *Basis of accounting*

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

#### b) *Tangible Fixed Assets*

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 & Machinery	- 10 years (10% per annum)
Computer Equipment	- 3 years (33.3% per annum)
Office Equipment	- 10 years (10% per annum)

#### c) *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 provisions for contingencies and anticipated future losses and applicable payments on account, are included as long term contract balances in debtors.

#### d) *Taxation*

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

Provision is made for deferred taxation, using the liability method, to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

#### e) *Cash Flow Statement*

The company has taken advantage of the small company 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.

#### 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.



## Notes to the accounts (continued)

### For the year ended 31 March 2000

#### *g) Pension Contributions*

Rosyth Royal Dockyard Limited, a fellow group undertaking, operates a defined benefit pension scheme for the benefit of all its employees. The funds of the scheme are administered by Trustees and are separate from the group. Independent qualified actuaries complete valuations periodically and, in accordance with their recommendations, annual contributions from employees and employer are paid into the scheme so as to secure the benefits set out in the rules. The cost of these contributions is charged against profits on a systematic basis over the services lives of the employees.

## 2 Turnover

Turnover, which excludes value added tax and similar taxes, derives from the company's principal activity carried out in the UK and comprises:

- Contracts – cost of sales plus profit taken; and
- Sales (other than contract sales) of goods and services at invoiced value

## 3 Net Interest and Similar Charges

	2000	1999
	£'000	£'000
Bank interest receivable	<u>54</u>	<u>37</u>

## 4 (Loss) / Profit on ordinary activities before taxation

(Loss) / Profit on ordinary activities before taxation is stated after charging:

	2000	1999
	£'000	£'000
Depreciation	87	70
Operating lease rentals		
- plant and machinery	-	-
- short term plant hire	-	314
Licence for use of:		
- land and buildings	<u>38</u>	<u>36</u>

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 (loss)/profit on ordinary activities before taxation and the retained (loss)/profit for both years and their respective historical cost equivalents.

## Notes to the accounts (continued)

### For the year ended 31 March 2000

#### 5 Staff Costs

The fellow group undertaking, Rosyth Royal Dockyard Limited, is the employer for a number of Babcock group undertaking. 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 agreement was 53 (1999 – 56).

The remuneration of directors was as follows:

	2000	1999
	£'000	£'000
Emoluments (including benefits-in-kind)	<u>110</u>	<u>117</u>

The emoluments of Mr W A Cramond have been equally apportioned between the company and Babcock Rosyth Industries Limited, another group undertaking.

The number of directors who were members of a defined benefit pension scheme within the group was 4 (1999 – 4).

#### 6 Taxation

	2000	1999
	£'000	£'000
UK corporation tax at 30% (1999 - 31%)	29	151
Group relief received	<u>(29)</u>	<u>(151)</u>
	<u>-</u>	<u>-</u>

#### 7 Dividends paid on Equity Shares

	2000	1999
	£'000	£'000
Interim paid of £3.43 (1999 - Nil) per ordinary share	<u>343</u>	<u>-</u>

# Notes to the accounts (continued)

For the year ended 31 March 2000

## 8 Tangible Fixed Assets

Cost	Leasehold Improvements £'000	Plant and Machinery £'000	Computer Equipment £'000	Office Equipment £'000	Total £'000
Beginning of year	95	2	194	35	326
Disposals	(13)	-	-	-	(13)
End of year	<u>82</u>	<u>2</u>	<u>194</u>	<u>35</u>	<u>313</u>

### Depreciation

Beginning of year	25	-	80	4	109
Charge for the year	18	1	65	3	87
On Disposals	(13)	-	-	-	(13)
End of year	<u>30</u>	<u>1</u>	<u>145</u>	<u>7</u>	<u>183</u>

### Net Book Value

End of year	<u>52</u>	<u>1</u>	<u>49</u>	<u>28</u>	<u>130</u>
Beginning of year	<u>70</u>	<u>2</u>	<u>114</u>	<u>31</u>	<u>217</u>

## 9 Debtors

	2000 £'000	1999 £'000
Trade debtors	928	1,087
Amounts recoverable on contracts	159	643
Other debtors	<u>24</u>	<u>46</u>
	<u>1,111</u>	<u>1,776</u>

## Notes to the accounts (continued)

For the year ended 31 March 2000

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

	2000	1999
	£'000	£'000
Trade creditors	371	499
Contract accruals and provisions	92	253
Advance payments on account of long term contracts	945	889
Amounts owed to other group undertakings	613	975
Other creditors, accruals and deferred income	158	163
	<u>2,179</u>	<u>2,779</u>

### 11 Provisions for liabilities and charges

There is no unprovided deferred tax liability. The deferred tax provision at the year end is £nil (1999 – Nil).

### 12 Equity Share Capital

	2000	2000	1999	1999
	Number	£'000	Number	£'000
<b>Authorised</b>				
Ordinary Shares of £1	<u>100,000</u>	<u>100</u>	<u>100,000</u>	<u>100</u>
<b>Allotted, Called-up and Fully Paid</b>				
Ordinary Shares of £1	<u>10,000</u>	<u>10</u>	<u>10,000</u>	<u>10</u>

### 13 Guarantees and financial commitments

#### a) Capital Commitments

There were no capital commitments contracted for but not provided for at the year end (1999 – £nil).

#### b) Operating Lease Commitments

	2000	1999
	£'000	£'000
Land and buildings		
Annual commitments expiring:		
- within one year	-	12
- between two and five years	-	-
- after five years	26	26
	<u>26</u>	<u>38</u>

## Notes to the accounts (continued)

For the year ended 31 March 2000

### 14 Reconciliation of Movements in Shareholders' Funds

	2000	1999
	£'000	£'000
(Loss)/Profit for the Financial Year	(36)	363
Dividends Paid and Proposed on Equity Shares	(343)	-
Net movement in Shareholders' Funds	(379)	363
Opening Shareholders' Funds	754	391
Closing Shareholders' Funds	375	754

### 15 Related Party Transactions

The company, as a wholly owned subsidiary, has taken advantage of the exemption, granted under the 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 10.

### 16 Ultimate parent undertaking

The company's immediate parent company is Babcock Engineering Services Limited (formerly Babcock Facilities Management Limited), a company registered in England and Wales.

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

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

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