

Rosyth Royal Dockyard Limited

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

Registered number: SC101959



IAM.

Directors and advisors

Directors

Mr A K Smith (resigned 18 May 1997)

Mr D S Batty

Mr G D Hilton (resigned 30 April 1998)

Mr D M Johnson

Mr A A MacPherson

Mr M N McKenna

Mr M S Easton (appointed 18 May 1997)

Secretary

Mr G T Lyon (appointed 2 September 1997)

Mr A P Kennedy (resigned 2 September 1997)

Registered Office

Rosyth Royal Dockyard

Rosyth

Fife

KY11 2YD

Auditors

Arthur Andersen

18 Charlotte Square

Edinburgh

EH2 4DF

Bankers

The Royal Bank of Scotland plc

52/54 East Port

Dunfermline

Fife

KY12 7HB

Solicitors

McGrigor Donald

Pacific House

70 Wellington Street

Glasgow

G2 6SB

Directors' report

For the year ended 31 March 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.

Directors' responsibilities

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

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

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

Principal activities and business review

The company continued to make its employees and assets available to other Babcock group companies. In addition it also purchased all materials and services required by Babcock Rosyth Defence Limited and its turnover reflects this.

Dividends and reserves

No dividends were paid or proposed during the year (1997 - £nil). The directors recommend that the profit for the year of £434,000 (1997 - loss - £427,000) be transferred to reserves.

Supplier payment policy

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

Directors' report (continued)

Directors and their interests

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

Mr A K Smith (resigned 18 May 1997)
 Mr D S Batty
 Mr G D Hilton (resigned 30 April 1998)
 Mr D M Johnson
 Mr A A MacPherson
 Mr M N McKenna
 Mr M S Easton (appointed 18 May 1997)

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

Interests of directors who are directors of the ultimate parent company, Babcock International Group PLC, are shown in that company's accounts. According to the register of directors' interests maintained under the Companies Act, the 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 Ordinary shares in Babcock International Group PLC	
	31 March 1998	31 March 1997
Mr D S Batty	3,928	3,928
Mr D M Johnson	-	2,033

Executive share options

Name of director	Number of options over Ordinary shares in Babcock International Group PLC		
	31 March 1998	Granted during the year	31 March 1997
Mr D S Batty	185,627	-	185,627
Mr G D Hilton	73,720	-	73,720
Mr D M Johnson	63,039	-	63,039
Mr AA McPherson	63,039	-	63,039
Mr M N McKenna	84,039	-	84,039

Directors' report (continued)

Directors and their interests (continued)

SAYE share options

	Number of options over Ordinary shares in Babcock International Group PLC		
	31 March 1998	Granted during the year	31 March 1997
Mr D S Batty	5,571	5,571	-
Mr D M Johnson	2,754	2,754	-
Mr M N McKenna	14,022	14,022	-

Changes in directors' interests in shares or options between 31 March 1998 and the date of this report are set out below.

Name of director	Number of options over Ordinary shares in Babcock International Group PLC			
	31 March 1998	Granted	Released	27 November 1998
Mr D S Batty	185,627	60,000	135,627	110,000
Mr D M Johnson	63,039	40,000	48,039	55,000
Mr A A MacPherson	63,039	40,000	48,039	55,000
Mr M N McKenna	84,039	40,000	64,039	60,000

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.

Employment of disabled persons

The policy and practice of the company is to seek to encourage and assist the employment of disabled persons who are able to perform their duties without exposing themselves or others to abnormal risks.

The training, career development and promotion opportunities of the company's disabled employees are equal to those of their able-bodied colleagues.

Arrangements are made, wherever possible, for the continued employment of employees becoming disabled whilst working for the company. If necessary, retraining is offered to such individuals to allow each of them to perform work suited to their aptitudes and abilities.

Directors' report (continued)


Employee involvement

The company communicates regularly with its employees in briefings and discussions, by written communications on specific topics and on more general issues through the bulletin "Newsweek". The company newspaper has been refocused to address the need for productivity improvements and cost savings. The employing company routinely discusses issues affecting its employees with the employees' trade unions' representatives.

Auditors

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

By order of the Board



M S Easton
Director

27 November 1998

Auditors' report

Edinburgh

To the Shareholders of Rosyth Royal Dockyard Limited:

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

Respective responsibilities of directors and auditors

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


Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 March 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	225,884	110,054
Cost of sales		(224,799)	(109,891)
Gross profit		1,085	163
Net interest	3	(1,081)	(160)
Profit on ordinary activities before taxation	4	4	3
Tax on profit on ordinary activities	6	430	(430)
Profit/(loss) the financial year		434	(427)
Retained (loss)/profit at beginning of year		(417)	10
Retained profit/(loss) at end of year		17	(417)

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

There are no recognised gains or losses in either year other than the profit/(loss) 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 fixed assets	7	21,441	25,676
Intangible fixed assets	7	252	300
Investments	8	-	-
		<u>21,693</u>	<u>25,976</u>
Current assets			
Debtors	9	8,873	1,297
Cash at bank and in hand		80	76
		<u>8,953</u>	<u>1,373</u>
Creditors: Amounts falling due within one year	10	<u>(1)</u>	<u>(23)</u>
Net current assets		<u>8,952</u>	<u>1,350</u>
Total assets less current liabilities		<u>30,645</u>	<u>27,326</u>
Creditors: Amounts falling due after more than one year	11	<u>(13,163)</u>	<u>(14,763)</u>
Provisions for liabilities and charges	12	<u>(4,915)</u>	<u>(430)</u>
Net assets		<u>12,567</u>	<u>12,133</u>
Capital and reserves			
Called-up equity share capital	13	250	250
Share premium account		12,300	12,300
Profit and loss account		17	(417)
Total capital employed	14	<u>12,567</u>	<u>12,133</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*

Fixed assets are stated at cost less depreciation. Depreciation is calculated on all fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset over the life of the allocated programme of work from the Ministry of Defence to the company's immediate parent company, Babcock Rosyth Defence Limited, weighted according to the levels of work within that programme.

c) *Intangible fixed assets*

Intangible fixed assets represent intellectual property rights acquired from the Ministry of Defence. Depreciation is calculated in line with tangible fixed assets (see note 1b).

d) *Investments*

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

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.

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 be accounts.

f) *Pensions*

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

Notes to accounts (continued)

For the year ended 31 March 1998

1 Accounting policies (continued)

g) Group accounts

The company has not prepared group accounts as it is exempted from the requirement to do so by section 228 of the Companies Act 1985, as the company is a subsidiary undertaking of Babcock International Group PLC, a company registered in England, and is included in the consolidated accounts of that company.

h) Cash flow statements

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

2 Turnover

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

3 Net interest

	1998 £'000	1997 £'000
Bank interest receivable	4	3
Interest on amounts owed to other group undertakings (note 11)	(1,085)	(163)
	<u>(1,081)</u>	<u>(160)</u>

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1998 £'000	1997 £'000
Depreciation of tangible fixed assets	3,986	1,015
Licence for use of:		
- land and buildings	-	1,033
- plant and machinery	-	699
Staff costs (note 5)	<u>84,309</u>	<u>86,016</u>

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

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

Notes to accounts (continued)

For the year ended 31 March 1998

5 Staff costs

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

Employee costs during the year amounted to:

	1998 £'000	1997 £'000
Wages and salaries	73,714	73,128
Social security costs	5,680	5,826
Other pension costs (note 16)	4,915	7,062
	<u>84,309</u>	<u>86,016</u>

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

	1998 Number	1997 Number
Production	3,470	3,484
Administration	21	21
	<u>3,491</u>	<u>3,505</u>

Directors' remuneration was as follows:

	1998 £'000	1997 £'000
Emoluments (including benefits-in-kind)	<u>420</u>	<u>447</u>

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

	1998 £'000	1997 £'000
Highest paid director	<u>129</u>	<u>110</u>

The accrued pension entitlement under the company's defined benefit scheme in respect of the highest paid director at 31 March 1998 was £58,333 (1997- £53,306).

The services of Mr M S Easton were paid by Babcock International Group plc. No part of his remuneration could be attributed to his services in respect of Rosyth Royal Dockyard Limited.

The number of directors who were members of the defined benefit scheme at 31 March 1998 was 6 (1997 - 6).

Notes to accounts (continued)

For the year ended 31 March 1998

6 Tax on profit on ordinary activities

	1998 £'000	1997 £'000
Deferred taxation	(430)	430
	<u>(430)</u>	<u>430</u>

The movement in the year relates to the release of the prior year provision made in respect of accelerated capital allowances no longer required.

7 Fixed assets

Tangible fixed assets

	Land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
Beginning of year	11,263	15,427	26,690
Additions	-	-	-
Disposals	-	(35)	(35)
Transfers to other group undertakings	-	(227)	(227)
End of year	<u>11,263</u>	<u>15,165</u>	<u>26,428</u>
Depreciation			
Beginning of year	421	593	1,014
Charge for year	1,671	2,315	3,986
On disposals	-	(4)	(4)
Transfers to other group undertakings	-	(9)	(9)
End of year	<u>2,092</u>	<u>2,895</u>	<u>4,987</u>
Net book value			
End of year	<u>9,171</u>	<u>12,270</u>	<u>21,441</u>
Beginning of year	<u>10,842</u>	<u>14,834</u>	<u>25,676</u>

Notes to accounts (continued)

For the year ended 31 March 1998

7 Fixed assets (continued)

Intangible fixed assets

	Intellectual Property £'000
Cost	
Beginning of year	300
End of year	300
Depreciation	
Beginning of year	-
Charge for year	48
End of year	48
Net book value	
End of year	252
Beginning of year	300

8 Fixed asset investments

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

9 Debtors

Amounts falling due within one year:

	1998 £'000	1997 £'000
Amounts owed by parent undertaking	8,873	1,295
Other debtors	-	2
	<u>8,873</u>	<u>1,297</u>

10 Creditors: Amounts falling due within one year

	1998 £'000	1997 £'000
Other taxes and social security costs	-	1
Accruals and deferred income	1	22
	<u>1</u>	<u>23</u>

Notes to accounts (continued)

For the year ended 31 March 1998

11 Creditors: Amounts falling due after more than one year

	1998 £'000	1997 £'000
Amounts owed to other group undertakings	13,163	14,763

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

12 Provision for liabilities and charges

	Deferred taxation £'000	Pensions £'000	Total £'000
Beginning of year	430	-	430
Charged/(credited) to profit and loss account	(430)	4,915	4,485
End of year	-	4,915	4,915

Deferred taxation relates to accelerated capital allowances and had been provided in full. The movement in the year related to the release of the prior year provision made in respect of accelerated capital allowances no longer required. As at 31 March 1998 a potential deferred tax asset of £1,485,000 (1997 - £Nil) exists due to short term timing differences, none of which has been recognised.

Details of pension benefits are set out in note 16.

13 Called-up equity share capital

	Authorised		Allotted, called-up and fully paid	
	1998 Number	1997 Number	1998 £'000	1997 £'000
£1 Ordinary shares	200,002	200,002	200	200
£1 'A' Ordinary shares	49,998	49,998	50	50
£1 Special share	1	1	-	-
	250,001	250,001	250	250

Share capital consists entirely of equity shares.

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

Notes to accounts (continued)

For the year ended 31 March 1998

14 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Profit/(Loss) for the financial year	434	(427)
Issue of share capital	-	12,500
Net additions to shareholders' funds	434	12,073
Opening shareholders' funds	12,133	60
Closing shareholders' funds	12,567	12,133

15 Guarantees and financial commitments

a) Capital commitments

There were no capital commitments at the end of the year (1997 - £nil).

b) Contingent liabilities

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

i) Strategic assets

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

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

ii) Development clawback

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

Notes to accounts (continued)

For the year ended 31 March 1998

15 Guarantees and financial commitments (continued)

c) Operating lease commitments

	1998 £'000	1997 £'000
Land and buildings		
Annual commitment which expire:		
- in two to five years	72	72
- thereafter	40	40
	<u>112</u>	<u>112</u>

16 Pension costs

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

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

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

The pension cost in the year was £4,915,000 (1997 - £7,062,044).

The Rosyth Royal Dockyard Superannuation Scheme for Senior Executives was amalgamated with the Babcock International Pension Scheme with effect from 28 November 1997.

Notes to accounts (continued)

For the year ended 31 March 1998

17 Related Party Transactions

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

18 Immediate parent company and Ultimate parent company

The company's immediate parent company is Babcock Rosyth Defence Limited, a company registered in Scotland. The company's ultimate parent company is Babcock International Group PLC, a company registered in England. 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