ARTHUR ANDERSEN

# Babcock Rosyth Industries Limited

(formerly Linkarena Limited)

Accounts for the 13 month period ended 31 March 1998 together with directors' and auditors' reports

Registered number: SC173116

SCT *SFF5LCC0* 160
COMPANIES HOUSE 22/12/98

# Directors and advisors

**Directors**

Mr D W Lindsay
Mr W A Cramond
Mr M S Easton

**Secretary**

Mr J D T Greig

**Registered Office**

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 13 month period 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 period since the date of incorporation to 31 March 1998.

**Principal activities and business review**

The company was incorporated on 3 March 1997 as Linkarena Limited. A special resolution was passed to change the name of the company to Babcock Rosyth Industries Limited on 13 March 1997.

The company is engaged principally in the design and manufacture of subsea equipment for the oil and gas industry, the design and manufacture of rail freight wagons and the refurbishment of rail passenger rolling stock.

The businesses and net assets of commercial fabrication and rail operations previously carried out by Babcock Rosyth Defence Limited, a fellow group undertaking were transferred into the company 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 period of £370,000 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 and their interests**

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

Jordans (Scotland) Limited (appointed 3 March 1997, resigned 10 March 1997)
Mr A K Smith (appointed 10 March 1997, resigned 18 May 1997)
Mr D W Lindsay (appointed 10 March 1997)
Mr W A Cramond (appointed 10 March 1997)
Mr A J Marsh (appointed 10 March 1997, resigned 1 July 1997)
Mr M S Easton (appointed 18 May 1997)

Interests of the 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 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.

# Directors' report (continued)

## Directors and their interests (continued)

| Name of director | Number of Ordinary Shares in Babcock International Group PLC<br>31 March 1998 |
|---|---|
| Mr D W Lindsay | - |
| Mr W A Cramond | 9,250 |

**Executive Share Options**

| Name of director | Number of options over Ordinary Shares in Babcock International Group PLC<br>31 March 1998 |
|---|---|
| Mr D W Lindsay | 15,000 |
| Mr W A Cramond | 15,000 |

**SAYE Options**

| Name of director | Number of options over Ordinary Shares in Babcock International Group PLC<br>31 March 1998 |
|---|---|
| Mr D W Lindsay | 5,571 |
| Mr W A Cramond | 5,571 |

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

| | Number of options over Ordinary Shares in Babcock International Group PLC | | |
|---|---|---|---|
| Name of director | 31 March 1998 | Granted | 27 November 1998 |
| Mr D W Lindsay | 15,000 | 40,000 | 55,000 |
| Mr W A Cramond | 15,000 | 40,000 | 55,000 |

**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.

# Directors' report (continued)

**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 that 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.

**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

M.S. Easton
Director

27 November 1998

# Auditors' report

Edinburgh

**To the Shareholders of Babcock Rosyth Industries 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 4, 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 period then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

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

27 November 1998

# Profit and loss account

For the period ended 31 March 1998

| | Notes | 13 month period ended 31 March 1998 £'000 |
|---|---|---|
| **Turnover** | 2 | 11,179 |
| Cost of sales | | (8,916) |
| **Gross profit** | | 2,263 |
| Administrative expenses | | (1,700) |
| **Profit before interest and taxation** | | 563 |
| Other interest receivable and similar income | | 44 |
| Interest payable and similar charges | 3 | (237) |
| **Profit on ordinary activities before taxation** | 4 | 370 |
| Tax on profit on ordinary activities | 6 | - |
| **Retained profit for the period** | | 370 |
| **Retained profit at beginning of period** | | - |
| **Retained profit at end of period** | | 370 |

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

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

# Balance sheet

31 March 1998

| | Notes | 31 March 1998 £'000 |
|---|---|---|
| **Fixed assets** | | |
| Tangible assets | 7 | 416 |
| **Current assets** | | |
| Stocks | 8 | 135 |
| Debtors | 9 | 2,250 |
| Cash at bank and in hand | | 192 |
| | | 2,577 |
| **Creditors:** Amounts falling due within one year | 10 | (2,613) |
| **Total current assets** | | (36) |
| **Net assets** | | 380 |
| **Capital and reserves** | | |
| Called-up equity share capital | 11 | 10 |
| Profit and loss account | 12 | 370 |
| **Total capital employed** | 12 | 380 |

**Signed on behalf of the Board**

M S Easton M S Easton Director

27 November 1998

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

# Notes to accounts

For the 13 month period ended 31 March 1998

## 1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period 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:

Plant and machinery - 2 to 10 years.

*c) Stocks*

Stocks are stated at the lower of cost and net realisable value.

Cost is based on:

| | | |
|---|---|---|
| Raw materials and consumables | - | purchase cost |
| Work-in-progress | - | cost of direct materials and labour, plus a reasonable proportion of manufacturing overheads based on normal levels of activity. |

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Long term contract balances are stated at costs incurred less amounts transferred to cost of sales, less provisions for foreseeable losses and applicable payments on account.

*d) 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 account (continued)

## 1 Accounting policies (continued)

*e) 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.

*f) 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 sales of goods and services at invoiced value. Turnover is almost entirely attributable to the United Kingdom market, but includes £520,000 attributable to countries in The Rest Of Europe.

## 3 Interest payable and similar charges

| | 13 month period ended 31 March 1998 £'000 |
|---|---|
| Interest payable to Babcock group companies | 237 |

# Notes to account (continued)

## 4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

| | 13 month period ended 31 March 1998 £'000 |
|---|---|
| Depreciation - owned fixed assets | 96 |
| Operating lease rentals | |
| - plant and machinery | 12 |

The auditors' remuneration in the current 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 and their respective historical cost equivalents.

## 5 Staff costs

The fellow group undertaking, Rosyth Royal Dockyard Limited is the employer company 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 employees under this agreement was 135.

The remuneration of directors was as follows:

| | 13 month period ended 31 March 1998 £000 |
|---|---|
| Emoluments (including benefits-in-kind) | 107 |

The number of directors who were members of the defined benefit pension scheme was 3.

The services of Mr M S Easton, Mr A K Smith and Mr A J Marsh were paid by another Babcock group company. No part of this remuneration could be attributed to their services in respect of Babcock Rosyth Industries Limited.

# Notes to account (continued)

## 6 Tax on profit on ordinary activities

| | 13 month period ended 31 March 1998 £'000 |
|---|---|
| Corporation tax at 31% | 179 |
| Group relief relating to current period | (179) |
| | - |

There is no unprovided tax and thus, no provision has been recorded.

## 7 Tangible fixed assets

| | Plant and machinery £'000 |
|---|---|
| **Cost** | |
| Transfers from group undertakings | 788 |
| End of period | 788 |
| **Depreciation** | |
| Transfers from group undertakings | 276 |
| Charge for the period | 96 |
| End of period | 372 |
| **Net book value** | |
| End of period | 416 |

# Notes to accounts (continued)

## 8 Stocks

| | 31 March 1998 £'000 |
|---|---|
| Raw materials and consumables | 135 |

In the opinion of the directors there is no material difference between the balance sheet value of stocks and their replacement cost.

## 9 Debtors

| Amounts falling due within one year: | 31 March 1998 £'000 |
|---|---|
| Trade debtors | 1,389 |
| Amounts recoverable on contracts | 647 |
| Amounts owed by other group undertakings | 147 |
| VAT | 18 |
| Prepayments , other debtors and other accrued income | 49 |
| | 2,250 |

## 10 Creditors: Amounts falling due within one year

| | 31 March 1998 £'000 |
|---|---|
| Contract accruals and provisions | 407 |
| Trade creditors | 855 |
| Amounts owed to other group undertakings | 776 |
| Accruals and deferred income | 575 |
| | 2,613 |

# Notes to accounts (continued)

**11 Called-up equity share capital**

| | 31 March 1998 £'000 |
|---|---|
| *Authorised* | |
| 1,000,000 ordinary shares of £1 each | 1,000 |
| *Allotted, called up and fully paid* | |
| 10,000 ordinary shares of £1 each | 10 |

Share capital consists entirely of equity shares.

During the period, 2 £1 shares were issued at par and transferred to Babcock Facilities Management Limited, and 9,998 £1 shares were issued at par to Babcock Facilities Management Limited. Babcock Facilities Management Limited is a wholly owned subsidiary of Babcock International Limited, a member of the Babcock International Group PLC group.

**12 Reconciliation of movements in shareholders' funds**

| | 13 month period ended 31 March 1998 £'000 |
|---|---|
| Issue of ordinary shares (note 11) | 10 |
| Profit for the financial period | 370 |
| Net increase to shareholders' funds | 380 |
| Opening shareholders' funds | - |
| Closing shareholders' funds | 380 |

# Notes to accounts (continued)

## 13 Guarantees and financial commitments

*a) Capital commitments*

| | 31 March 1998 £'000 |
|---|---|
| Contracted for but not provided for | - |

*b) Contingent liabilities*

Contingent liabilities exist in respect of guarantees given in the ordinary course of business for £1,140,261 for which no losses are anticipated. In addition, the ultimate parent company has provided performance guarantees to Babcock Rosyth Industries Limited's clients amounting to £6,637,311 for which no losses are anticipated.

*c) Operating lease commitments*

| Plant and machinery | 31 March 1998 £'000 |
|---|---|
| Annual commitments which expire: | |
| - between two and five years | 12 |

## 14 Related party transactions

The company as a wholly owned subsidiary, has taken advantage of exemptions granted under Financial Reporting Standards Number 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 10.

## 15 Immediate parent undertaking and Ultimate parent company

The company's immediate parent undertaking 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