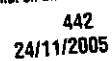


Company number 65805



DIRECTORS

P L Rogers
W Tame
F Martinelli

SECRETARY

S A Billiald

REGISTERED OFFICE

2 Cavendish Square
London
W1G 0PX

AUDITORS

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

**DIRECTORS' REPORT
for the year ended 31 March 2005**

The directors present their annual report on the company together with the financial statements and auditors' report of the company for the year ended 31 March 2005.

Principal activity

The principal activity of the company is to hold and manage the Babcock name, which is licensed out to Babcock group companies as appropriate. It also provides finance to other group companies and incurs certain costs as agent for Babcock Holdings Limited, which are recharged to Babcock Holdings Limited.

Results and dividends

The profit on ordinary activities after taxation for the financial year is £8,619,000 (loss 2004: £12,535,000). A dividend of £30,000,000 was paid during the period (2004: none). The retained loss for the year of £21,381,000 (2004: £12,535,000) will be transferred from reserves.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2005 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that 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 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.

BABCOCK INTERNATIONAL LIMITED

**DIRECTORS' REPORT (continued)
for the year ended 31 March 2005**

Directors and their interests

The members of the Board during the year and since the year end were:

P L Rogers
W Tame
F Martinelli

None of the directors had any beneficial interest in the shares of the company. At 31 March 2005, Mr P L Rogers and Mr W Tame were also directors of the ultimate parent company and their interests in the shares and share options of that company are disclosed in that company's accounts.

The interests of the other directors in the shares and share options of the company's ultimate parent company, Babcock International Group PLC, were as follows:

	Ordinary shares Number	Ordinary shares Number	Share options Number	Share options Number
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
F Martinelli	-	-	150,000	115,000

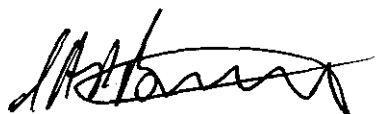
During the year 35,000 share options were granted to Mr F Martinelli.

No director had any material interest during the year in any contract with the company or its subsidiaries requiring disclosure under Section 317 of the Companies Act 1985.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

This report was approved by the Board on 18 October 2005.



S A Billiald
Secretary

Independent auditors' report to the members of Babcock International Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

Independent auditors' report to the members of Babcock International Limited (continued)

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs at 31 March 2005 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

18 October 2005

BABCOCK INTERNATIONAL LIMITED

**PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2005**

	Notes	2005	2004
		£000	£000
Premium on grant of intellectual property licence		3,183	-
Administrative expenses		(110)	(523)
Reimbursement of costs		238	171
Operating Profit/(loss)	3	3,311	(352)
Loss on disposal of Investment		-	(17,793)
Profit/(loss) on ordinary activities before interest		3,311	(18,145)
Net interest receivable	2	5,311	5,570
Profit/(loss) on ordinary activities before taxation		8,622	(12,575)
Taxation	5	(3)	40
Profit/(loss) on ordinary activities after taxation		8,619	(12,535)
Dividends paid and proposed		(30,000)	-
Retained loss for year	13	(21,381)	(12,535)

During the year there were no recognised gains and losses other than those dealt with in the profit and loss account. All of the above results derive from continuing activities.

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

There are no material differences between profit on ordinary activities before tax and the retained loss for the year stated above and their historical cost equivalent.

BABCOCK INTERNATIONAL LIMITED

**BALANCE SHEET
as at 31 March 2005**

	Notes	2005	2004
		£000	£000
FIXED ASSETS			
Tangible assets	6	730	879
Investments	7	20,838	20,838
		21,568	21,717
CURRENT ASSETS			
Debtors	8	16,072	31,427
Debtors more than one year	8	204,200	204,200
Cash at bank and in hand		11	42
		220,283	235,669
CREDITORS: amounts falling due within one year	9	(181,383)	(136,537)
Net current assets		38,900	99,132
Total assets less current liabilities		60,468	120,849
CREDITORS: amounts falling due after more than one year	10	(31,232)	(70,232)
Net assets		29,236	50,617
CAPITAL AND RESERVES			
Called up share capital	12	10,000	10,000
Share premium account	13	4,633	4,633
Profit and loss account	13	14,603	35,984
Shareholders' interests equity	14	29,236	50,617

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

The financial statements on pages 6 to 15 were approved by the Board on 18 October 2005 and signed on its behalf by


W Tame
Director

1 ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and preceding year.

Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards.

The company has taken advantage of Section 228 of the Companies Act 1985 and has not prepared group financial statements as it is a wholly owned subsidiary undertaking of another company registered in England, which prepares consolidated financial statements that are publicly available.

Cash flow

A cash flow statement has not been prepared as the company has taken advantage of the exemption under FRS1 available to wholly owned subsidiaries of a company incorporated in the EU whose consolidated financial statements include a consolidated cash flow statement.

Fixed asset investments

Fixed asset investments are stated at cost less provision for impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on a straight line basis to write off the cost or valuation of fixed assets over their estimated useful lives at the following annual rates:

Furniture, fittings and equipment	10% to 33.3%
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Taxation

Current tax, including UK corporation tax and foreign 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.

Deferred tax 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.

NOTES TO THE FINANCIAL STATEMENTS (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 not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

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 substantively enacted by the balance sheet date.

During the year the Babcock International Group has continued its policy of surrendering tax losses and advance corporation tax to group undertakings for no consideration except where there is a minority interest in the subsidiary and except for the ex-Peterhouse companies acquired part-way through the accounting period.

Pension costs

The company is a member of the Babcock International Group pension scheme and has also contributed to certain employees' personal defined contribution pension schemes. Contributions to the group scheme are based on periodic actuarial calculations and are charged so as to spread the cost of pensions over the expected service lives of the employees who are members of the scheme.

Foreign currency

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the year end exchange rates. Any exchange differences arising are dealt with in the profit and loss account.

Agency agreement effective 1 April 2003

The company acts as an agent for Babcock Holdings Limited in the management and stewardship of its investments. Where it acts as an agent the employee and administration costs are not reflected within these accounts.

Intellectual Property Licence Premium

Where a licence is granted to group companies any premium received is released to the profit and loss account evenly over the period of the licence.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Included in deferred income are premiums received in respect of Intellectual Property Rights. The premiums received on the Intellectual Property Rights Licenses granted by the company are being released to the profit and loss account in line with this policy.

2 NET INTEREST RECEIVABLE

	2005	2004
	£000	£000
Net interest receivable from fellow group companies	5,695	6,417
Net interest payable on bank overdraft	(384)	(847)
	5,311	5,570

3 OPERATING LOSS is stated after charging:

Depreciation	173	171
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Costs are incurred in carrying out services for Babcock Holdings Limited as an agent. These costs are reimbursed by Babcock Holdings Limited and are not borne in these accounts. Auditors' remuneration in respect of audit services is borne by Babcock International Group PLC.

4 STAFF COSTS AND DIRECTORS' REMUNERATION

All directors and staff costs have been reimbursed by Babcock Holdings Limited and are disclosed in those accounts.

5 TAXATION**Tax on profit on ordinary activities**

	2005	2004
	£000	£000
UK corporation tax charge at 30%		
Current	-	138
Current tax charge/(credit) for the year	-	138
Deferred tax charge	(1)	-
Adjustments in respect of deferred tax for prior years	4	(178)
Total tax charge/(credit) for the year	3	(40)

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 before tax is as follows:

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 TAXATION (continued)

	2005 £000	2004 £000
Profit/(loss) on ordinary activities before tax	8,622	(12,575)
Tax on profit on ordinary activities at standard UK Corporation tax rate of 30% (2004: 30%)	2,587	(3,773)
Effects of:		
Timing differences	1	-
Disallowed expenses and non-taxable income	(685)	-
Group relief received for nil consideration	(1,903)	(1,427)
Intra-group disposals with no tax effect	-	5,338
Current tax charge/(credit) for the year	-	138

6 TANGIBLE FIXED ASSETS

	Furniture, fittings and equipment £000
Cost	
1 April 2004	1,318
Additions	24
31 March 2005	1,342
Depreciation	
1 April 2004	(439)
Charge for the year	(173)
31 March 2005	(612)
Net book value	
31 March 2005	730
31 March 2004	879

The company had no capital commitments at 31 March 2005 or at 31 March 2004.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 FIXED ASSET INVESTMENTS

	Shares in subsidiary undertakings £000
Cost	
1 April 2004	21,454
31 March 2005	21,454
Provision for impairment	
1 April 2004	(616)
31 March 2005	(616)
Net book value	
31 March 2005	20,838
31 March 2004	20,838

In the opinion of the directors the value of the company's investments in its subsidiary undertakings is not less than the amount at which they are stated in the company's balance sheet.

On 9 November 2004 the company sold its entire share holdings of Birchill Investment Company Limited and Tyneham Investments Limited for the sum of £2 (resulting in a loss of £211).

NOTES TO THE FINANCIAL STATEMENTS (continued)

8	DEBTORS	2005 £000	2004 £000
	Amounts owed by parent and fellow subsidiary undertakings	217,782	234,839
	VAT	129	105
	Other debtors	6	6
	Prepayments and accrued income	2,290	609
	Recoverable taxation	65	68
		220,272	235,627

Included in amounts owed by fellow subsidiary undertakings is £204,200,000 (2004: £204,200,000) due after more than one year of which £150,000,000 bears an interest rate of UK LIBOR average six monthly plus 100 basis points. The remaining £54,200,000 is interest free.

9	CREDITORS: amounts falling due within one year	2005 £000	2004 £000
	Bank overdraft	8,301	38,273
	Amounts owed to parent and fellow subsidiary undertakings	153,844	97,089
	Other creditors	140	38
	Accruals and deferred income	19,098	1,137
		181,383	136,537

Included in accruals and deferred income are amounts received in respect of Intellectual Property Rights Licenses granted by the company during the year, which provide the rights to use the Babcock name.

10	CREDITORS: amounts falling due after more than one year	2005 £000	2004 £000
	Amounts owed to parent and fellow subsidiary undertakings	31,232	70,232

These debts are repayable between two and five years. £12,763,000 is non interest bearing. The debt of £17,469,000 bears an interest rate of UK LIBOR average six monthly plus 50 basis points.

11 DEFERRED TAXATION

The movement on the deferred tax liability/(asset) is as follow:

	£000
Balance at start of the year	(68)
Charge to the profit and loss account	3
Balance at the end of the year	(65)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 DEFERRED TAXATION (continued)

	Provided		Potential Asset	
	2005 £000	2004 £000	2005 £000	2004 £000
Accelerated capital allowances	(58)	(61)	(58)	(61)
Other timing differences	(7)	(7)	(7)	(7)
	(65)	(68)	(65)	(68)

12 CALLED UP SHARE CAPITAL

	2005 £000	2004 £000
Authorised:		
155,000,000 ordinary shares of 10p each	15,500	15,500
Allotted, called up and fully paid:		
100,000,000 ordinary shares of 10p each	10,000	10,000

13 RESERVES

	Share premium account £000	Profit and loss account £000	Total £000
1 April 2004	4,633	35,984	40,617
Loss for the year	-	(21,381)	(21,381)
31 March 2005	4,633	14,603	19,236

14 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2005 £000	2004 £000
Shareholders' equity at start of year	50,617	63,152
Retained loss for the year	(21,381)	(12,535)
Shareholders' equity at end of year	29,236	50,617

15 CONTINGENT LIABILITIES

- (a) The company has joint and several liability for bank facilities of £10.0 million (2004: £10.0 million) for certain fellow Babcock International Group companies.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 PENSION FUNDING

The employees of the company are eligible to join the Babcock Group defined benefit pension scheme. The Group scheme is funded by company and employee contributions which are determined with the advice of an independent qualified actuary. Due to the Group scheme being in surplus the company is currently on a contribution holiday.

Details of the latest valuation of the Group pension scheme are contained within the financial statements of Babcock International Group PLC.

17 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption granted to 90% subsidiaries, by FRS8 – Related Party Disclosures, not to disclose transactions with group undertakings. There are no other related party transactions.

18 ULTIMATE CONTROLLING PARTY

The company's immediate parent company is Babcock Holdings Limited and the ultimate controlling company is Babcock International Group PLC. Both companies are 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 the Babcock International Group PLC accounts are available from the following address:

Company Secretary
Babcock International Group PLC
2 Cavendish Square
London
W1G 0PX