

Babcock Support Services Limited

**Financial statements for the year ended 31 March 2004
together with directors' and auditors' reports**

Registered Number: SC099884



Babcock Support Services Limited

Directors and Advisors

Directors

A N Dungate
P H Kay
A J Marsh
P Rogers
R B Stewart
W Tame
K R Thomas

Joint company secretaries

J D T Greig
S A R Billiald

Registered office

Rosyth Business Park
Rosyth
Dunfermline, Fife
KY11 2YD

Auditors

PricewaterhouseCoopers LLP
Embankment Place
London
WC2N 6RH

Babcock Support Services Limited

Directors' report

The directors present their Annual Report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 31 March 2004.

Principal activities

The company has three principal business streams. Babcock Engineering Services is primarily engaged in the refit and repair of naval vessels and engineering support services. Due to the nature of its operations in repairing and refitting naval vessels it is reliant upon the Ministry of Defence ("MOD") for the majority of its turnover.

Babcock Defence Services ("BDS") provides support services to all three Armed Forces ranging from flying training, tank maintenance and driver training, to operating and maintaining fleets of aircraft including Hercules and Hawks as well as providing support to the Ministry of Defence on overseas deployments.

Babcock Infrastructure Services ("BIS") (incorporating the assets acquired from Service Group International Limited) provides comprehensive property management and facilities maintenance services to the Ministry of Defence, local authorities, civil government departments and private sector clients.

As part of the privatisation agreement and purchase of Rosyth Dockyard in 1997 the company has an indemnity from the MOD against liabilities relating to nuclear work and the MOD will bear the cost of decommissioning the nuclear facilities and removing residual nuclear contamination at Rosyth Dockyard.

Arrangements made by the company provide that it has the right to the use of the land, buildings and machinery at Rosyth Dockyard and the services of the employees of Rosyth Royal Dockyard Limited and that Rosyth Royal Dockyard Limited will purchase materials and services required by the company.

Review of business and future developments

Following the refit of HMS Ark Royal and HMS Invincible, the third aircraft carrier HMS Illustrious is now well into its refit. A number of minor war vessel refitting contracts were also competitively secured.

Rosyth is the nominated site for the assembly and integration of the new aircraft carrier programme. However, the construction programme is unlikely to start before 2007/08. Discussions continue with the MoD as to the best solution for bridging the gap between the end of the allocated programme of naval refits during next year and the start of construction of the carriers.

The high point for BDS was the win of the RAF Valley multi-activity contract. BDS is now responsible for the operational maintenance of virtually all of the RAF Hawk Fast Jets.

BIS had an excellent year with the major contract win being South West Regional Prime. This will lead to BIS maintaining and upgrading a significant element of the Ministry Estate in the South West of England for the next seven years.

Babcock Support Services Limited

Directors' report (continued)

Results and dividends

The audited financial statements for the year ended 31 March 2004 are set out on pages 9 to 33. The profit for the year after taxation was £16,734,000 (2003: £11,059,000).

An interim dividend of £nil was paid during the year (2003: £3,000,000) and the directors recommend the payment of a final dividend of £2,860,000 (2003: £16,000,000). The retained profit for the year of £13,874,000 (2003: loss of £7,941,000) has been transferred to reserves.

Directors and their interests

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

W A Cramond	(resigned 27 October 2003)
P H Kay	(resigned 1 April 2004)
R B Stewart	(resigned 29 July 2004)
W Tame	
M N McKenna	(resigned 12 September 2003)
A N Dungate	
P Rogers	
A J Marsh	
K R Thomas	
N Russell	(appointed 18 May 2004)

The interests of W Tame and P Rogers who are also directors of the ultimate parent company, Babcock International Group PLC, are shown in that company's financial statements. According to the register of directors' interests maintained under the Companies Act 1985, the remaining directors who held office at 31 March 2004 and their immediate families have the following shares in and options to subscribe for shares in Babcock International Group PLC:

Babcock Support Services Limited

Directors' report (continued)

Directors and their interests (continued)

	1 April 2003 or date of appointment	Movement during the year	31 March 2004
Ordinary shares			
A J Marsh	1,022	-	1,022
<hr/>			
Number of options over ordinary shares			
A N Dungate	247,064	-	247,064
P H Kay	150,000	-	150,000
A J Marsh	375,300	-	375,300
R B Stewart	100,283	25,000	125,283
K R Thomas	75,000	-	75,000
<hr/>			

11,611 share options lapsed unexercised during the year.

Details of share awards made to Directors under the Babcock International Group PLC L-TIP scheme are set out in the table below:-

Director	Number of shares subject to award at 1 April 2003	Movement during the year	Number of shares subject to award at 31 March 2004	Market value of each share at date of award	Exercisable from	Expiry date
A N Dungate	-	132,158	132,158	113.5p	Jul 2006	Jul 2013
P H Kay	-	114,537	114,537	113.5p	Jul 2006	Jul 2013
A J Marsh	-	145,374	145,374	113.5p	Jul 2006	Jul 2013
K R Thomas	-	105,726	105,726	113.5p	Jul 2006	Jul 2013

The awards were made, by the Trustee of the Babcock Employee Share Trust, as conditional rights to acquire shares (effectively nil cost options).

No share awards have lapsed unexercised during the year.

Babcock Support Services Limited

Directors' report (continued)

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. Trade creditors of the company at 31 March 2004 were equivalent to 23 (2003: 36) days.

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.

Employment of disabled persons

The policy of the company is to give full consideration to disabled applicants for employment, having regards to their particular aptitudes and abilities, and they share in the opportunities for training, career development and promotion. If an employee becomes disabled, our objective is the continued provision of suitable employment either in the same or an alternative position, appropriate training being given if necessary.

Employee involvement

It is group policy for employing companies to communicate regularly with their employees in briefings and discussions, by written communications on specific topics and on more general issues through the bulletins 'Newsweek' and 'Outlook'. The company newspaper addresses the need for productivity improvements and cost savings. The employing company routinely discusses issues affecting its employees directly using various communication forums and also through the employees' trade unions' representatives and Works Councils.

Employee involvement in the group's performance is also encouraged via a Sharesave Scheme, AESOP and profit share schemes which are generally adopted under United Kingdom laws.

Charitable and political donations

During the year the company made charitable donations of £10,972 (2003: £16,294). There were no political contributions (2003: £nil).

Statement of Directors' responsibilities

Company law requires the directors to prepare financial statements 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 period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

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Directors' report (continued)

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements 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 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.

Auditors

The company has elected, pursuant to s386 of the Companies Act 1985, to dispense with the obligation to appoint auditors annually. In the absence of a notice proposing that the appointment be terminated PricewaterhouseCoopers LLP will be deemed to be re-appointed for the next financial year.

By order of the Board



W Tame
Director

Rosyth Business Park
Rosyth
Dunfermline
Fife
KY11 2YD

24 September 2004

Babcock Support Services Limited

Independent auditors' report to the members of Babcock Support Services 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 into 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.

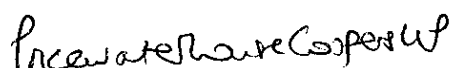
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Independent auditors' report (continued)

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

24 September 2004

Babcock Support Services Limited

Profit and Loss Account

For the year ended 31 March 2004

	Notes	2004 £'000	2003 £'000
Turnover			
Continuing operations	2	214,678	220,216
Cost of sales	3	(183,422)	(189,483)
Gross profit		31,256	30,733
Administrative expenses	3	(16,903)	(16,012)
Administrative expenses - exceptional	3	-	(2,385)
Operating profit		14,353	12,336
Income from fixed asset investments	4	5,500	3,000
Profit on ordinary activities before interest		19,853	15,336
Net interest payable and similar charges	5	(1,417)	(1,526)
Profit on ordinary activities before taxation	6	18,436	13,810
Tax on profit on ordinary activities	9	(1,702)	(2,751)
Profit for the financial year		16,734	11,059
Dividends paid and proposed on equity shares	10	(2,860)	(19,000)
Retained profit/(loss) for the financial year	22	13,874	(7,941)
Retained profit at beginning of year		5,385	13,326
Retained profit at end of year	22	19,259	5,385

There are no other recognised gains or losses in the year, other than those included in the profit and loss above.

All the profit and loss items relate to continuing operations.

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

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

Babcock Support Services Limited

Balance sheet

As at 31 March 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Intangible assets - goodwill	11	73,237	74,842
Intangible assets - other	11	3,082	3,514
Tangible assets	12	2,611	2,979
Investments	13	11,183	11,183
		<u>90,113</u>	<u>92,518</u>
Current assets			
Stocks	15	2,505	4,205
Debtors	16	40,635	46,383
Cash at bank and in hand		6,208	5,140
		<u>49,348</u>	<u>55,728</u>
Creditors - amounts due within one year	17	<u>(95,720)</u>	<u>(120,808)</u>
Net current liabilities		<u>(46,372)</u>	<u>(65,080)</u>
Total assets less current liabilities		43,741	27,438
Creditors - amounts due after more than one year	18	(21,300)	(21,300)
Provisions for liabilities and charges	19	(3,082)	(653)
Net assets		<u>19,359</u>	<u>5,485</u>
Capital and reserves			
Called-up equity share capital	21	100	100
Profit and loss account	22	<u>19,259</u>	<u>5,385</u>
Equity shareholders' funds	23	<u>19,359</u>	<u>5,485</u>

Signed on behalf of the Board

W. Tame
Director
24 September 2004

Babcock Support Services Limited

Notes to the financial statements

1 Accounting policies

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

a) Basis of accounting

The Financial Statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and the Companies Act 1985. Babcock International Group PLC has undertaken to give such financial assistance as is necessary to the company for a period of not less than twelve months from the date of approval of these financial statements. On the strength of this assurance, the financial statements have been prepared on the basis that the company is a going concern.

b) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and any provision for impairment in value. Depreciation is provided on a straight line basis to write off the cost of all tangible fixed assets over their estimated useful lives or contract period if shorter, to their estimated residual value as follows:

Plant & machinery - 2 to 15 years

c) Intangible assets

Intangible fixed assets are stated at cost after amortisation. The intangible fixed assets are amortised on a straight line basis as follows:

(i) Intellectual property rights & know how

Intellectual property rights are amortised over the shorter of the project life or seven years.

Purchased know how is amortised over twenty years.

(ii) Goodwill

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets the difference is treated as purchased goodwill and is capitalised and amortised through the profit and loss account over its estimated economic life. The estimated economic life of goodwill is twenty years. Provision is made for any impairment.

Babcock Support Services Limited

Notes to the financial statements (continued)

1 Accounting policies (continued)

d) Investments

Fixed assets investments are stated at cost less provision for impairment in value.

e) Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value. In the case of raw materials and consumables, cost comprises the purchase cost. In the case of work in progress, cost comprises direct materials and labour and 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.

f) Long-term contracts

Long term contract balances, which are included in debtors as amounts recoverable on long-term contracts, are valued at the net sales value of the work done less amounts received as progress payments on account.

Any progress payments received in excess of the net sales value of work done are included in creditors as payments received on account of long term contracts.

g) Turnover

In respect of long-term contracts, turnover represents amounts transferred to cost of sales during the period plus attributed profit. Other turnover comprises the invoiced value of goods and services supplied by the company. Turnover excludes VAT and other sales related taxes.

h) Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted as at the balance sheet date.

Deferred taxation 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

1 Accounting policies (continued)

h) Taxation (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 the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

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 substantially enacted by the balance sheet date.

i) Pensions

- (i) Rosyth Royal Dockyard Limited, a subsidiary undertaking, operates a defined benefit pension scheme for the benefit of all its employees and employees of other Babcock companies. The fund of the scheme is administered by Trustees and is held separately 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 in the Royal Rosyth Dockyard Limited financial statements 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.
- (ii) Babcock International Group Pension Scheme operates a defined benefit scheme for the benefit of members of the Babcock Group. The fund of the scheme is administered by Trustees and is held separately from the group. 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 in the Babcock International Group PLC financial statements

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Notes to the financial statements (continued)

1 Accounting policies (continued)

i) Pensions (continued)

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.

- (iii) Unicorn Pension Scheme operates a defined benefit scheme for the benefit of the employees that transferred to the company following the acquisition of the business of Service Group International Limited on 19 June 2002 and ex-employees of Service Group International Limited. The fund of the scheme is administered by Trustees and is held separately from the company. A full actuarial valuation of the scheme was carried out at 31 December 2000 and updated to 19 June 2002. The scheme was closed to new members from 30 November 2002 and there is no further accrual of benefits for future service. All scheme members are in the process of transferring to the Babcock International Group Pension Scheme. The company made no contribution to the scheme during the year to 31 March 2004. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

j) Leases

Assets acquired under finance leases 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 off the assets over their expected useful lives or over the lease terms where these are shorter.

Rentals under operating leases are charged to the profit and loss account on a straight-line basis.

k) Group financial statements

The company has taken advantage of the exemption from preparing consolidated financial statements afforded by section 228 of the Companies Act 1985 because it is a wholly owned subsidiary of Babcock International Group PLC which prepares consolidated financial statements which are publicly available.

Babcock Support Services Limited

Notes to the financial statements (continued)

1 Accounting policies (continued)

1) Cash flow statement

The company has taken advantage of the exemption in Financial Reporting Standard 1 (revised) to dispense with the requirement to prepare a cash flow statement in its financial statements, as a consolidated cash flow statement is included in the accounts of the ultimate parent company.

2 Turnover

Turnover is almost entirely attributable to the United Kingdom market and entirely attributable to the activities described in the Directors' report.

The directors have decided not to disclose the turnover attributable to each class of business as, in their opinion, such disclosure would be seriously prejudicial to the interests of the company. Due to the nature of the company's operations it is reliant upon the Ministry of Defence for the majority of its turnover.

3 Cost of sales, gross profit and administration expenses

	Existing operations £'000 2004	Existing operations £'000 2003
Cost of sales	<u>183,422</u>	<u>189,483</u>
Gross profit	<u>31,256</u>	<u>30,733</u>
Administrative expenses	<u>16,903</u>	<u>18,397</u>

In 2004 there are no operating exceptional items. Operating exceptional charges of £2,385,000 in the prior year related to the write-off of intercompany debt.

4 Income from fixed asset investments

	2004 £'000	2003 £'000
Dividends from subsidiary undertakings	<u>5,500</u>	<u>3,000</u>

Babcock Support Services Limited

Notes to the financial statements (continued)

5 Net interest payable and similar (charges)/income

	2004 £'000	2003 £'000
Interest payable and similar charges:		
- Bank interest	(541)	(1,755)
- Loan interest	(1,045)	(28)
- Finance lease interest	-	(4)
- Other	(41)	(4)
	<u>(1,627)</u>	<u>(1,791)</u>
Interest receivable and similar income:		
- Bank interest	210	265
Total interest charge	<u>(1,417)</u>	<u>(1,526)</u>

Babcock Support Services Limited

Notes to the financial statements (continued)

6 Profit on ordinary activities before taxation

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

	2004 £'000	2003 £'000
Depreciation - owned fixed assets	1,363	2,293
Depreciation - leased fixed assets	9	82
Goodwill amortisation	4,147	3,889
Amortisation of other intangible assets	432	417
Auditors' remuneration		
- audit fees	81	108
- other services	7	-
Operating lease rentals		
- plant and machinery	1,141	1,702
- other	883	1,231
Loss/(profit) on disposal and write-off of fixed assets	12	38

7 Staff costs

A subsidiary 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 1,647 (2003: 1,881). The cost for the year of this arrangement was £46,606,000 (2003: £47,827,000).

In addition the company also employs personnel directly. Particulars of employees (including executive directors) are as shown below.

The average monthly number of employees (including directors) was:

	2004 Number	2003 Number
Production	1,480	1,609
Administration	101	107
	1,581	1,716

Babcock Support Services Limited

Notes to the financial statements

7 Staff costs (continued)

Their aggregate remuneration comprised:

	2004 £'000	2003 £'000
Wages and salaries	31,152	30,851
Social security costs	2,965	2,568
Other pension costs (note 26)	319	1,206
	<u>34,436</u>	<u>34,625</u>

8 Directors' remuneration

The remuneration of the directors, which was paid by other Babcock group companies, was as follows:

	2004 £'000	2003 £'000
Emoluments (including benefits-in-kind)	764	709
Amounts paid as compensation for loss of office	140	-
	<u>904</u>	<u>709</u>

	2004 £'000	2003 £'000
Highest paid director:		
Total (excluding pension and pension contributions)	201	195
Accrued benefit entitlement under the group's defined benefit scheme	<u>96</u>	<u>29</u>

The remuneration of W Tame, P Rogers, AJ Marsh and A N Dungate was incurred by Babcock International Group PLC. No part of their remuneration could be attributed to their services in respect of Babcock Support Services Limited.

Retirement benefits are accruing to 8 directors (2003: 9) under defined benefit pension schemes.

During the year one director (2003: nil) exercised options over 60p shares of Babcock International Group PLC.

Babcock Support Services Limited

Notes to the financial statements (continued)

9 Tax on profit on ordinary activities

	2004 £'000	2003 £'000
Current tax:		
UK Corporation tax on profits of the period	2,172	5,085
Adjustment in respect of prior years	(796)	-
	<u>1,376</u>	<u>5,085</u>
Deferred tax:		
Origination and reversal of timing differences	326	(47)
Adjustment in respect of prior years	-	(148)
	<u>326</u>	<u>(195)</u>
ACT - adjustment in respect of prior years	-	(2,139)
	<u>1,702</u>	<u>2,751</u>

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:

Profit on ordinary activities before tax	18,436	13,810
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2003 : 30%)	5,531	4,143
Effects of:		
Capital allowances in excess of depreciation	(263)	43
Movement on short term timing differences	867	558
Goodwill amortisation not deductible for tax purposes	1,244	1,292
Non-taxable dividends	(1,650)	(900)
Expenses not deductible for tax purposes	220	801
Group relief surrendered for no consideration	(3,777)	(852)
Adjustment in respect of prior years	(796)	-
	<u>1,376</u>	<u>5,085</u>

The tax charge in future periods may be affected by permanent differences and by group relief claimed for nil consideration.

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Notes to the financial statements (continued)

10 Dividends paid and proposed on equity shares

	2004 £'000	2003 £'000
Interim paid of £nil (2003: £30.00) per share	-	3,000
Final proposed of £28.60 (2003: £160.00) per share	<u>2,860</u>	<u>16,000</u>
	<u>2,860</u>	<u>19,000</u>

11 Intangible fixed assets

	Purchased goodwill £'000	Intellectual property rights and Know how £'000	Total £'000
Cost			
At 1 April 2003	81,977	4,729	86,706
Additions (note 14)	<u>2,542</u>	<u>-</u>	<u>2,542</u>
At 31 March 2004	<u>84,519</u>	<u>4,729</u>	<u>89,248</u>
Amortisation			
At 1 April 2003	7,135	1,215	8,350
Charge for the year	<u>4,147</u>	<u>432</u>	<u>4,579</u>
At 31 March 2004	<u>11,282</u>	<u>1,647</u>	<u>12,929</u>
Net book value			
At 31 March 2004	<u>73,237</u>	<u>3,082</u>	<u>76,319</u>
At 31 March 2003	<u>74,842</u>	<u>3,514</u>	<u>78,356</u>

The Know how and Intellectual property rights relate to design rights and production processes for fast ferries and other crafts purchased with the acquisition of FBM Marine Holdings (UK) Limited and FBM Lairdsie Limited on 16 March 2000.

Babcock Support Services Limited

Notes to the financial statements (continued)

12 Tangible fixed assets

	Short leasehold property £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 April 2003	46	17,479	17,525
Additions	-	1,486	1,486
Disposals	-	(7,749)	(7,749)
At 31 March 2004	46	11,216	11,262
Depreciation			
At 1 April 2003	16	14,530	14,546
Charge for the year	9	1,363	1,372
Disposals	-	(7,267)	(7,267)
At 31 March 2004	25	8,626	8,651
Net book value			
At 31 March 2004	21	2,590	2,611
At 31 March 2003	30	2,949	2,979

13 Fixed assets – investments in subsidiary undertakings

	£'000
At 1 April 2003 and 31 March 2004	<u>11,183</u>

Babcock Support Services Limited

Notes to the financial statements (continued)

13 Fixed assets – investments in subsidiary undertakings (continued)

The company's principal subsidiary undertakings, all of which are 100% owned directly or indirectly, are:

<u>Company</u>	<u>Country of Registration</u>	<u>Principal Activities</u>
Rosyth Royal Dockyard	Scotland	Employing company for Rosyth based companies and owners of the Rosyth site
Air Power International Limited	Scotland	Provision of compressed air management and support services
Babcock Design & Technology Limited	Scotland	Engineering and technology support services
Acetech Personnel Limited	England and Wales	Supplies contract labour to UK and International markets
Hiberna FM Limited	England and Wales	Supplies support services to the British Armed Forces
FBM Babcock Marine Holdings (UK) Limited	England and Wales	Investment holding company
Babcock Naval Services Limited	Scotland	Provision of support services to MoD at HMNB Clyde
Marine Engineering & Fabrications (Holdings) Limited	England and Wales	Investment holding company
Marine Engineering & Fabrications Limited	England and Wales	Specialising in the service and repair of marine vessels at berth and whilst at sea
FBM Babcock Marine Limited	England and Wales	Lease of covered shipyard facility at Birkenhead (activity ceased October 2002)
FBM Babcock (Lairdside) Limited	England and Wales	Lessee of covered shipyard facility at Birkenhead (activity ceased October 2002)
Unicorn Pension Trustees Limited	England and Wales	Pension trust

Babcock Support Services Limited

Notes to the financial statements (continued)

14 Acquisitions

On 19 June 2002 the company purchased the trade and certain of the assets of Service Group International (SGI), a facility and property management business providing management and professional consultancy services relating to the property estates of the MoD, Local Authorities, Central Government and the Private Sector, for cash consideration of £21.3 million. The net assets acquired and the related costs were as follows:

			SGI £000
	Fair value as stated in the 2003 accounts	Fair value adjustments	Fair value as now reinstated
Tangible Fixed Assets	305	-	305
Current Assets			
Debtors	4,397	(26)	4,371
Creditors	(3,227)	216	(3,011)
Finance Lease	(78)	-	(78)
Provisions for liabilities and charges	(971)	(701)	(1,672)
Net Assets	426	(511)	(85)
Fair value of consideration:			
Cash	21,300		21,300
Price Adjustment	(936)		(936)
Deferred consideration	-	2,000	2,000
Costs	664	31	695
	21,028	2,031	23,059
Goodwill arising	20,602	2,542	23,144

Adjustments were made to the fair value of the assets acquired on the purchase of SGI. This related to the valuation of the Unicorn Pension Scheme. Also contingent consideration of £2 million became probable. The additional deferred consideration becomes payable on the signature of the South West Prime Contract. This results in an increase of goodwill by £2.5 million. Dependent on future contract gains there is additional contingent consideration due of £3 million.

The main fair value adjustment relates to the valuation of the Unicorn pension scheme.

The £0.9 million price adjustment relating to the purchase of SGI was received in May 2003. There were no changes to the fair value of the assets acquired for Marine Engineering Fabrications (Holding) Limited (purchased on 2 August 2002).

Babcock Support Services Limited

Notes to the financial statements (continued)

15 Stocks

	2004	2003
	£'000	£'000
Raw materials and consumables	1,463	4,205
Finished products	1,042	-
	<u>2,505</u>	<u>4,205</u>

There is no material difference between the balance sheet value of stocks and their replacement cost.

16 Debtors

	2004	2003
	£'000	£'000
Due within one year:		
Trade debtors	8,528	12,934
Amounts recoverable on contracts	17,022	19,638
Amounts owed by group undertakings	8,181	4,566
VAT	469	31
Prepayments, other debtors and accrued income	2,440	4,893
ACT recoverable	3,769	3,769
Deferred tax (note 20)	226	552
	<u>40,635</u>	<u>46,383</u>

Babcock Support Services Limited

Notes to the financial statements (continued)

17 Creditors - amounts due within one year

	2004 £'000	2003 £'000
Bank overdrafts	4,460	12,283
Trade creditors	7,351	12,409
Contract accruals, other creditors and deferred income	34,635	42,904
Payments received on account of long term contracts	5,216	4,148
Amounts owed to group undertakings	37,120	28,837
Finance leases	-	31
Dividends payable	2,860	16,000
UK corporation tax	1,378	1,416
Other taxes and social security costs	2,700	2,780
	<u>95,720</u>	<u>120,808</u>

The company has access to the Babcock International Group PLC overdraft facility. The company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 24b).

Babcock Support Services Limited

Notes to the financial statements (continued)

18 Creditors - amounts due after more than one year

	2004 £'000	2003 £'000
Amounts owed to group undertakings	<u>21,300</u>	<u>21,300</u>

This debt matures in between two to four years.

19 Provisions for liabilities and charges

	Babcock Infrastructure Services Pension (a) £'000	Babcock Infrastructure Services Acquisition/Deferred consideration (b) £'000	Total £'000
At 1 April 2003	-	653	653
On acquisition	473	2,000	2,473
Charged to profit and loss account	-	-	-
Utilised during the year	-	(272)	(272)
Transfer from/(to) current assets	-	228	228
At 31 March 2004	<u>473</u>	<u>2,609</u>	<u>3,082</u>

(a) Provision for pension liabilities.

(b) This liability relates to specific provisions raised in respect of onerous contracts. In addition, deferred consideration relates to the contingent consideration of £2 million for SGI which fell due on the award of the South West Prime Contract. SGI was purchased on 19 June 2002.

Babcock Support Services Limited

Notes to the financial statements (continued)

20 Deferred taxation

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

	2004 Provided	2003 Provided	2004 Full potential	2003 Full potential
	£'000	£'000	£'000	£'000
Accelerated capital allowances	225	488	225	488
Pension asset	-	-	6,759	5,829
Other short term timing differences	1	64	1	64
	226	552	6,985	6,381

The company has not recognised the potential deferred tax pension asset as the directors consider that there is insufficient evidence as to the timing of future deductions and the likelihood or otherwise of suitable taxable profits at that time.

There is no deferred tax liability in the company.

The movement on the deferred tax asset is as follows:

	£'000
At 1 April 2003	552
Current year charge	(326)
At 31 March 2004	226

21 Called-up equity share capital

	Authorised		Allotted, called-up and fully paid
	2004	2003	2004
	£'000	£'000	£'000
£1 ordinary shares	1,000	1,000	100
	Number	Number	Number
	1,000,000	1,000,000	100

Babcock Support Services Limited

Notes to the financial statements (continued)

22 Reserves

	Profit and loss account £'000
At 31 March 2003	5,385
Retained profit for the year	13,874
At 31 March 2004	19,259

23 Reconciliation of movements in shareholders' funds

	2004 £'000	2003 £'000
Profit for the financial year	16,734	11,059
Dividends paid and proposed on equity shares	(2,860)	(19,000)
Net increase/(decrease) to shareholders' funds	13,874	(7,941)
Opening shareholders' funds	5,485	13,426
Closing shareholders' funds	19,359	5,485

24 Guarantees and financial commitments

a) Capital commitments

	2004 £'000	2003 £'000
Contracted for but not provided	97	57
Authorised but not contracted	5	-

b) Contingent liabilities

The company has guaranteed or has joint and several liability for bank facilities of £77.5 million provided to certain group companies. Subsequent to the year end the company was released from the above guarantee and entered into a new guarantee on a joint and several basis for bank facilities of £150 million provided to certain group companies.

The company has given guarantees in the ordinary course of business for £1,579,000 (2003: £9,123,000) for which no losses are anticipated.

Babcock Support Services Limited

Notes to the financial statements (continued)

24 Guarantees and financial commitments (continued)

c) Operating lease commitments	2004	2004	2003	2003
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Annual commitments expiring:				
- within one year	108	127	115	596
- between two and five years	77	486	93	212
- after five years	404	-	395	-
	589	613	603	808

25 Related party disclosures

The company, as a wholly owned subsidiary, has taken advantage of the exemption, granted under Financial Reporting Standard 8, Related Party Disclosures, from disclosing details of sales and purchases with other members of the group headed up by Babcock International Group PLC.

26 Pension commitments

The company contributes to pension schemes operated by other group companies (note 1i). Contributions are charged directly to the profit and loss account as and when payable. The pension cost for the year was £319,000 (2003: £1,206,000). The accrued contribution relating to the Rosyth Royal Dockyard Scheme at the year end of £22,484,000 (2003: £19,429,000) is included within amounts owed to other group undertakings in note 17. The accrued contribution relating to the Unicorn Scheme at year end of £473,000 (2003: £nil) is included within provisions for liabilities and charges in note 19.

As the company is the principal employer of the employees who contribute to the Unicorn Pension Scheme, FRS 17, Retirement Benefits, requires that certain additional disclosures (as set out below) are made by the company on the basis of the valuation methodology adopted.

Babcock Support Services Limited

Notes to the financial statements (continued)

26 Pension commitments (continued)

Full adoption of the requirements of FRS 17 is not yet mandatory for the company.

For defined benefit schemes the fair values of pension scheme assets at 31 March 2004 are compared with the pension liabilities calculated under the projected unit method. The latest full actuarial valuation of the Scheme has been updated to 31 March 2004 by qualified independent actuaries using the following assumptions:

	2004	2003
Rate of increase of future earnings	n/a	n/a
Discount rate	5.54%	5.4%
Expected pension increases	2.83%	2.5%
Inflation rate	2.83%	2.5%

No comparative disclosures have been made for 31 March 2002 as Babcock Support Services Limited did not become the principal employer until 19 June 2002.

The scheme assets are being merged with those of Babcock International Group Scheme and accordingly no expected rates of return are presented. The fair value of the assets at 31 March were as follows:

	2004	2003
	Fair value	Fair value
	£'000	£'000
Equities	1,781	5,077
Bonds	2,200	3,745
Cash	58	830
Fair value of assets	4,039	9,652
Present value of scheme liabilities	(751)	(13,340)
Recognised pension asset/(liability)	3,288	(3,688)
Related deferred tax asset/(liability)	(986)	1,106
Net pension asset/(liability)	2,302	(2,582)

Babcock Support Services Limited

Notes to the financial statements (continued)

26 Pension commitments (continued)

Analysis of the company's net assets:

	2004	2003
	£'000	£'000
Net assets	19,359	5,485
Reversal of SSAP 24 accrual	22,957	19,429
Net pension asset/(liability)	2,302	(2,582)
Net assets including net pension asset/(liability)	44,618	22,332

Analysis of the company's profit and loss reserve:

	2004	2003
	£'000	£'000
Profit and loss reserve	19,259	5,385
Reversal of SSAP 24 accrual	22,957	19,429
Net pension asset/(liability)	2,302	(2,582)
Profit and loss reserve	44,518	22,232

Babcock Support Services Limited

Notes to the financial statements (continued)

26 Pension commitments (continued)

Analysis of the amount credited/(charged) to operating profit:

	2004 £'000	2003 £'000
Current service cost	-	(332)
Effect of settlement	6,380	-
Total operating credit/(charge)	6,380	(332)

Analysis of the amount charged to other finance income:

	2004 £'000	2003 £'000
Expected return on pension scheme assets	560	545
Interest on pension scheme liabilities	(715)	(555)
Net Return	(155)	(10)

Analysis of amount recognised in statement of recognised gains and losses:

	2004 £'000	2003 £'000
Actual return less expected return on pension scheme assets	1,388	(1,503)
Experience gains/(losses) arising on scheme liabilities	2	(1,507)
Changes in assumptions underlying the present value of the scheme liabilities	(639)	(643)
Actual gains/(losses) recognised in statement of recognised gains and losses	751	(3,653)

Babcock Support Services Limited

Notes to the financial statements (continued)

26 Pension commitments (continued)

Movements in surplus during the year:

	2004 £'000	2003 £'000
Deficit at 1 April	(3,688)	-
Movement in the year:		
Credited/(charged) to operating profit	6,380	(332)
Contributions paid	-	307
Other finance income	(155)	(10)
Actuarial gain/(loss)	751	(3,653)
Surplus/(deficit) at 31 March	3,288	(3,688)

History of experience gains and losses:

	2004 £'000	2003 £'000
Difference between the expected and actual return on scheme assets:		
Amount	1,388	(1,503)
Percentage of scheme assets	34%	16%
Experience gains and losses on scheme liabilities:		
Amount	2	(1,507)
Percentage of the present value	0%	11%
Total amount recognised in the statement of total recognised gains and losses:		
Amount	751	(3,653)
Percentage of the present value of scheme liabilities	100%	27%

27 Ultimate parent undertaking

The company's immediate parent company is Babcock Engineering Services 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 Financial Statements are available from the following address:

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London W1G 0PX