

Babcock Support Services Limited

**Financial statements for the year ended 31 March 2005
together with directors' and auditors' reports**

Registered Number: SC099884



Babcock Support Services Limited

Directors and Advisors

Directors

A N Dungate
A J Marsh
P Rogers
W Tame
K R Thomas
N Russell

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 2005.

Principal activities

The company has three principal business streams. Babcock Engineering Services ("BES") includes fully integrated businesses engaged in the provision of engineering support services across a wide range of markets. Activities include the repair and refit of warships, the provision of leading edge design, engineering and technical support services, the design and manufacture of modular units and the provision of innovative supply chain solutions.

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 Royal Armoured Corps at Bovington.

Babcock Infrastructure Services ("BIS") 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.

Review of business and future developments

Following significant reorganisation at BES the Rosyth based businesses have moved from a position two years ago when they were wholly dependent on the warship refitting programme to a position where the Supply Chain Services, Design and Technology, Engineered Products and nuclear businesses are all profitable in their own right. The Marine business has performed well in winning competitive bids as the allocated work programme comes to an end and BES continues to be well positioned to participate in the programme for the construction of the new aircraft carriers. It is expected that Rosyth will be confirmed as the assembly and integration site for the carrier programme as a result of both the excellent facilities and the skills of the workforce.

BIS had an excellent year with the new South West Regional Prime contract starting well. This contract requires BIS to maintain and upgrade a significant element of the Ministry Estate in the South West of England for the next six years.

BDS had another encouraging year and the announcement of Holdfast (48% owned by BDS) as the preferred bidder for the Royal School of Military Engineering contract helps to secure the future.

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Directors' report (continued)

Results and dividends

The audited financial statements for the year ended 31 March 2005 are set out on pages 11 to 33. The profit for the year after taxation was £16,645,000 (2004: £16,734,000).

An interim dividend of £33.3 million was paid during the year (2004: £nil) and the directors do not recommend the payment of a final dividend (2004: £2,860,000). The retained loss for the year of £16,655,000 (2004: profit of £13,874,000) has been transferred from (2004: to) reserves.

Directors and their interests

The directors who served during the year were as follows:

P H Kay (resigned 1 April 2004)
R B Stewart (resigned 27 July 2004)
N Russell (appointed 18 May 2004)
W Tame
A N Dungate
P Rogers
A J Marsh
K R Thomas

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 2005 and their immediate families have the following shares in and options to subscribe for shares in Babcock International Group PLC:

	1 April 2004	Movement during the year	31 March 2005
A J Marsh	1,022	-	1,022
K R Thomas	-	4,561	4,561

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Directors' report (continued)

Directors and their interests (continued)

Details of Directors' share options are set out in the table below:

Director	Option scheme	Number of shares subject to options at 1 April 2004	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to options at 31 March 2005	Exercise price (p)	Exercisable (subject to vesting where not yet vested) from	Expiry date
A N Dungate	a	112,449	-	-	-	112,449	124.50	Jun 2002	Jun 2005
	b	28,846	-	-	-	28,846	104.00	Feb 2002	Feb 2012
	a	105,769	-	-	-	105,769	104.00	Feb 2002	Feb 2012
A J Marsh	a	75,000	-	-	19,500	55,500	99.00	Jun 2001	Jun 2011
	a	81,664	-	-	-	81,664	99.33	Jun 2000	Jun 2016
	a	60,625	-	-	-	60,625	122.5	Jul 1999	Jul 2009
	c	81,011	-	81,011	-	-	89.00	Jul 1998	Jan 2005
	d	50,000	-	-	-	50,000	151.00	Jan 1996	Jan 2006
	e	27,000	-	-	27,000	-	132.50	Dec 1994	Jan 2005
K R Thomas	b	28,214	-	-	-	28,214	106.33	Nov 2002	Nov 2005
	d	46,786	-	-	-	46,786	106.33	Nov 2002	Nov 2005
N Russell	b	25,000	-	-	-	25,000	115.66	Jun 2003	Jun 2006
a	Babcock	1999	Unapproved Executive Share Option Scheme						
b	Babcock	1999	Approved Executive Share Option Scheme						
c	Babcock	1998	Unapproved Executive Share Option Scheme						
d	Babcock	1996	Approved Executive Share Option Scheme						
e	Babcock	1994	Approved Executive Share Option Scheme						

The mid-market closing price for the shares on the date that A J Marsh exercised the options during the year was 144.5p.

During the year 3 directors (2004:1) exercised options over 60p shares of Babcock International Group PLC.

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Directors' report (continued)

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 2004	Granted during the year	Number of shares subject to award at 31 March 2005	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
	-	124,603	124,603	126.0p	Jul 2007	Jul 2014
A J Marsh	145,374	-	145,374	113.5p	Jul 2006	Jul 2013
	-	134,921	134,921	126.0p	Jul 2007	Jul 2014
K R Thomas	105,726	-	105,726	113.5p	Jul 2006	Jul 2013
	-	100,000	100,000	126.0p	Jul 2007	Jul 2014
N Russell	-	79,365	79,365	126.0p	Jul 2007	Jul 2014

None of the awards have so far vested.

The terms and conditions of the share awards and option can be found in the financial statements of Babcock International Group PLC for the year ended 31 March 2005.

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 2005 were equivalent to 37 (2004: 23) 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.

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Directors' report (continued)

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 bulletin 'The Big Picture'. 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 £26,735 (2004: £10,972). There were no political contributions (2004: £nil).

Post balance sheet event

The company acquired the net assets of Babcock Design & Technology Limited (note 27).

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;
- 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.

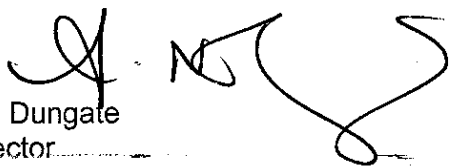
Auditors

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.

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Directors' report (continued)

By order of the Board



A N Dungate
Director

Rosyth Business Park
Rosyth
Dunfermline
Fife
KY11 2YD

25 July 2005

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.

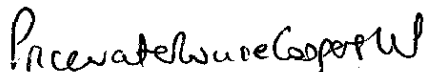
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Babcock Support Services Limited

Independent auditors' report to the members of Babcock Support Services 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 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

~~Date~~ 25 July 2005

Babcock Support Services Limited

Profit and Loss Account

For the year to 31 March 2005

	Notes	2005 £'000	2004 £'000
Turnover	2	269,192	214,678
Cost of sales	3	<u>(236,679)</u>	<u>(183,422)</u>
Gross profit		32,513	31,256
Administrative expenses	3	(21,524)	(16,903)
Administrative expenses - exceptional	3	<u>(3,209)</u>	-
Operating profit		7,780	14,353
Income from fixed asset investments	4	<u>11,500</u>	<u>5,500</u>
Profit on ordinary activities before interest		19,280	19,853
Net interest payable and similar charges	5	<u>(1,011)</u>	<u>(1,417)</u>
Profit on ordinary activities before taxation	6	18,269	18,436
Tax on profit on ordinary activities	9	<u>(1,624)</u>	<u>(1,702)</u>
Profit for the financial year		16,645	16,734
Dividends paid and proposed on equity shares	10	<u>(33,300)</u>	<u>(2,860)</u>
Retained (loss)/profit for the financial year	22	(16,655)	13,874
Retained profit at beginning of year		19,259	5,385
Retained profit at end of year	22	2,604	19,259

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 2005

	Notes	2005 £'000	2004 £'000
Fixed assets			
Intangible assets - goodwill	11	69,001	73,237
Intangible assets - other	11	13,457	3,082
Tangible assets	12	1,856	2,611
Investments	13	10,840	11,183
		<u>95,154</u>	<u>90,113</u>
Current assets			
Stocks	15	3,865	2,505
Debtors	16	68,905	40,635
Cash at bank and in hand		352	6,208
		<u>73,122</u>	<u>49,348</u>
Creditors – amounts due within one year	17	<u>(143,054)</u>	<u>(95,720)</u>
Net current liabilities		<u>(69,932)</u>	<u>(46,372)</u>
Total assets less current liabilities		25,222	43,741
Creditors – amounts due after more than one year	18	<u>(21,300)</u>	<u>(21,300)</u>
Provisions for liabilities and charges	19	<u>(1,218)</u>	<u>(3,082)</u>
Net assets		<u>2,704</u>	<u>19,359</u>
Capital and reserves			
Called-up equity share capital	21	100	100
Profit and loss account	22	2,604	19,259
Equity shareholders' funds	23	<u>2,704</u>	<u>19,359</u>

Signed on behalf of the Board


A N Dugate
Director

25 July 2005

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*

The premium paid on the intellectual property rights licence from Babcock International Limited is being amortised over the life of the agreement of 7 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. Provision is made for any impairment.

d) *Investments*

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

Babcock Support Services Limited

Notes to the financial statements (continued)

1 Accounting policies (continued)

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.

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.

Babcock Support Services Limited

Notes to the financial statements (continued)

1 Accounting policies (continued)

h) Taxation (continued)

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 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 2003. 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 2005. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

Babcock Support Services Limited

Notes to the financial statements (continued)

1 Accounting policies (continued)

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.

l) 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.

Babcock Support Services Limited

Notes to the financial statements (continued)

3 Cost of sales, gross profit and administration expenses

	Existing operations £'000 2005	Existing operations £'000 2004
Cost of sales	<u>236,679</u>	<u>183,422</u>
Gross profit	<u>32,513</u>	<u>31,256</u>
Administrative expenses	<u>24,733</u>	<u>16,903</u>

Included within administrative expenses are operating exceptional charges of £3,209,000 which relate to the impairment of intellectual property rights of £2,866,000 (note 11) and the impairment in carrying value of its subsidiary undertaking of £343,000 (note 13).

4 Income from fixed asset investments

	2005 £'000	2004 £'000
Dividends from subsidiary undertakings	<u>11,500</u>	<u>5,500</u>

5 Net interest payable and similar charges

	2005 £'000	2004 £'000
Interest payable and similar charges:		
Bank interest	(156)	(541)
Loan interest payable to group undertakings	(1,226)	(1,045)
Other	<u>(1)</u>	<u>(41)</u>
	(1,383)	(1,627)
Interest receivable and similar income:		
Bank interest	<u>372</u>	<u>210</u>
Total interest charge	<u>(1,011)</u>	<u>(1,417)</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:

	2005 £'000	2004 £'000
Depreciation – owned fixed assets	1,096	1,363
Depreciation – leased fixed assets	16	9
Goodwill amortisation	4,236	4,147
Amortisation of other intangible assets (note 11)	2,459	432
Impairment of intangible fixed assets (note 11)	2,866	-
Impairment of subsidiary undertaking (note 13)	343	-
Auditors' remuneration		
- audit fees	109	81
- other services	-	7
Operating lease rentals		
- plant and machinery	672	1,141
- other	797	883
Loss on disposal and write-off of fixed assets	70	12

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 1,432 (2004: 1,647). The cost for the year of this arrangement was £43,274,000 (2004: £46,606,000).

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

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

	2005 Number	2004 Number
Production	1,596	1,480
Administration	278	101
	<u>1,874</u>	<u>1,581</u>

Babcock Support Services Limited

Notes to the financial statements (continued)

7 Staff costs (continued)

Their aggregate remuneration comprised:

	2005 £'000	2004 £'000
Wages and salaries	42,434	31,152
Social security costs	3,986	2,965
Other pension costs (note 26)	1,798	319
	<u>48,218</u>	<u>34,436</u>

8 Directors' remuneration

	2005 £'000	2004 £'000
Emoluments (including benefits in-kind)	525	764
Amounts paid as compensation for loss of office	-	140
	<u>525</u>	<u>904</u>

	2005 £'000	2004 £'000
Highest paid director:		
Total (excluding pension and pension contributions)	200	201
Accrued benefit entitlement under the group's defined benefit scheme	9	96

The remuneration of W Tame, P Rogers, A J 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 4 directors (2004:8) under defined benefit pension schemes.

Babcock Support Services Limited

Notes to the financial statements (continued)

9 Tax on profit on ordinary activities

	2005 £'000	2004 £'000
Current		
UK Corporation tax on profits of the period	2,056	2,172
Adjustment in respect of prior years	(526)	(796)
	<u>1,530</u>	<u>1,376</u>
Deferred tax:		
Origination and reversal of timing differences	120	326
Adjustment in respect of prior years	(26)	-
	<u>1,624</u>	<u>1,702</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	<u>18,269</u>	<u>18,436</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2004: 30%)	5,480	5,531
Effects of:		
Capital allowance in excess of depreciation	(118)	(263)
Movement on short term timing differences	349	867
Goodwill amortisation not deductible for tax purposes	2,196	1,244
Non-taxable dividends	(3,450)	(1,650)
Expenses not deductible for tax purposes	180	220
Group relief surrendered for no consideration	(2,581)	(3,777)
Adjustment in respect of prior years	(526)	(796)
	<u>1,530</u>	<u>1,376</u>

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

10 Dividends paid and proposed on equity shares

	2005 £'000	2004 £'000
Interim paid of £333.00 (2004: £nil) per share	33,300	-
Final proposed of £nil (2004: £28.60) per share	-	2,860
	<u>33,300</u>	<u>2,860</u>

Babcock Support Services Limited

Notes to the financial statements (continued)

11 Intangible fixed assets

	Purchased goodwill £'000	Intellectual property rights and know how £'000	Total £'000
Cost			
At 1 April 2004	84,519	4,729	89,248
Additions (Note 14)	1,350	15,700	17,050
Disposals (Note 14)	(1,350)	-	(1,350)
At 31 March 2005	84,519	20,429	104,948
Amortisation			
At 1 April 2004	11,282	1,647	12,929
Charge for the year	4,236	2,459	6,695
Impairment (Note 3)	-	2,866	2,866
At 31 March 2005	15,518	6,972	22,490
Net book value			
At 31 March 2005	69,001	13,457	82,458
At 31 March 2004	73,237	3,082	76,319

The know how and Intellectual property rights impaired relate to design rights and production processes for fast ferries and other crafts purchased with the acquisition of FBM Babcock Marine Holdings (UK) Limited and FBM Lairdsid Limited on 16 March 2000 (Note 3). The investment in FBM Babcock Marine Holdings (UK) Limited has also been fully impaired during the year (Note 13).

The intellectual property rights and know how consists of the right to use the Babcock name.

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Notes to the financial statements (continued)

12 Tangible fixed assets

	Short leasehold property £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 April 2004	46	11,216	11,262
Additions	-	484	484
Disposals	(3)	(1,489)	(1,492)
At 31 March 2005	43	10,211	10,254
Depreciation			
At 1 April 2004	25	8,626	8,651
Charge for the year	16	1,096	1,112
Disposals	(1)	(1,364)	(1,365)
At 31 March 2005	40	8,358	8,398
Net book value			
At 31 March 2005	3	1,853	1,856
At 31 March 2004	21	2,590	2,611

13 Fixed assets – investments in subsidiary undertakings

	£'000
At 1 April 2004	11,183
Impairment	(343)
At 31 March 2005	10,840

During the year the investment in the subsidiary undertaking FBM Babcock Marine Holdings (UK) Limited was fully impaired.

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 Limited	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)
Unicorn Pension Trustees Limited	England and Wales	Pension trust

Babcock Support Services Limited

Notes to the financial statements (continued)

14 Acquisitions and disposals

On 10 September 2004 the company purchased the trade and certain of the assets of Turners & Partners Property Consultants partnership for £1,435,000 which included goodwill of £1,350,000. It subsequently disposed of the trade and assets of Turners & Partners on 6 October 2004 to Eve Group Limited, a Babcock International Group company. This disposal was made at cost.

15 Stocks

	2005 £'000	2004 £'000
Raw materials and consumables	1,035	1,463
Finished products	<u>2,830</u>	<u>1,042</u>
	<u>3,865</u>	<u>2,505</u>

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

16 Debtors

	2005 £'000	2004 £'000
Due within one year:		
Trade debtors	6,871	8,528
Amounts recoverable on contracts	45,527	17,022
Amounts owed by group undertakings	6,710	8,181
VAT	-	469
Prepayments, other debtors and accrued income	5,896	2,440
ACT recoverable	3,769	3,769
Deferred tax (note 20)	132	226
	<u>68,905</u>	<u>40,635</u>

Babcock Support Services Limited

Notes to the financial statements (continued)

17 Creditors - amounts due within one year

	2005 £'000	2004 £'000
Bank overdrafts	22,808	4,460
Trade creditors	16,362	7,351
Contract accruals, other creditors and deferred income	45,116	34,635
Payments received on account of long term contracts	6,453	5,216
Amounts owed to group undertakings	47,159	37,120
VAT	773	-
Dividends payable	1,300	2,860
UK corporation tax	471	1,378
Other taxes and social security costs	2,612	2,700
	<u>143,054</u>	<u>95,720</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).

18 Creditors - amounts due after more than one year

	2005 £'000	2004 £'000
Amounts owed to group undertakings	<u>21,300</u>	<u>21,300</u>

This debt matures in between two to four years.

This debt bears an interest rate of UK LIBOR six monthly rate, plus one hundred basis points.

Babcock Support Services Limited

Notes to the financial statements (continued)

19 Provisions for liabilities and charges

	Pension Provision (a) £'000	Property and other Provision (b)	Deferred consideration £'000	Total £'000
At 1 April 2004	473	609	2,000	3,082
Charged to profit and loss account	30	421	-	451
Utilised during the year	(33)	(282)	(2,000)	(2,315)
At 31 March 2005	470	748	-	1,218

(a) Provision for pension liabilities, payable within two to five years.

(b) The remaining liability relates to specific provisions raised in respect of onerous contracts, litigation and property issues, which are not expected to become payable within the next two years.

20 Deferred taxation

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

	2005 Provided £'000	2004 Provided £'000	2005 Full potential £'000	2004 Full potential £'000
Accelerated capital allowances	102	225	102	225
Pension asset	-	-	7,239	6,759
Other short term timing differences	30	1	199	1
	132	226	7,540	6,985

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 2004	226
Current year charge	(120)
Adjustment in respect of prior years	26
At 31 March 2005	132

Babcock Support Services Limited

Notes to the financial statements (continued)

21 Called-up equity share capital

	Authorised		Allotted, called-up and fully paid	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
£1 ordinary shares	1,000	1,000	100	100
	Number	Number	Number	Number
	1,000,000	1,000,000	100,000	100,000

22 Reserves

	Profit and loss account £'000
At 1 April 2004	19,259
Retained loss for the year	(16,655)
At 31 March 2005	2,604

23 Reconciliation of movements in shareholders' funds

	2005 £'000	2004 £'000
Profit for the financial year	16,645	16,734
Dividends paid and proposed on equity shares	(33,300)	(2,860)
Net (decrease)/increase to shareholders' funds	(16,655)	13,874
Opening shareholders' funds	19,359	5,485
Closing shareholders' funds	2,704	19,359

Babcock Support Services Limited

Notes to the financial statements (continued)

24 Guarantees and financial commitments

a) Capital commitments

	2005 £'000	2004 £'000
Contracted for but not provided	-	97
Authorised but not contracted	19	5

b) Contingent liabilities

The company has guaranteed or has joint and several liability for bank facilities of £170 million provided to certain group companies.

The company has given guarantees in the ordinary course of business for £805,000 (2004: £1,579,000) for which no losses are anticipated.

c) Operating lease commitments	2005 Land and buildings £'000	2005 Other £'000	2004 Land and buildings £'000	2004 Other £'000
Annual commitments expiring:				
- within one year	78	216	108	127
- between two and five years	203	523	77	486
- after five years	395	-	404	-
	676	739	589	613

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 £1,798,000 (2004: £319,000). The accrued contribution relating to the Rosyth Royal Dockyard Scheme at the year end of £23,137,000 (2004: £22,484,000) is included within amounts owed to other group undertakings in note 17. The accrued contribution relating to the Unicorn Scheme at year end of £470,000 (2004: £473,000) 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 2005 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 2005 by qualified independent actuaries using the following assumptions:

	2005	2004	2003
Rate of increase of future earnings	n/a	n/a	n/a
Discount rate	5.43%	5.54%	5.54%
Expected pension increases	3.00%	2.83%	2.50%
Inflation rate	3.00%	2.83%	2.50%

The scheme was closed to new members from 30 November 2002 and its assets are being merged with those of Babcock International Group Scheme and accordingly no expected rates of increase of future earnings are presented. The fair value of the assets at 31 March were as follows:

	2005	2004
	Fair value	Fair value
	£'000	£'000
Equities	1,886	1,781
Bonds	2,330	2,200
Cash	4	58
Fair value of assets	4,220	4,039
Present value of scheme liabilities	(6,312)	(751)
Recognised pension (liability)/asset	(2,092)	3,288
Related deferred tax asset/(liability)	628	(986)
Net pension (liability)/asset	(1,464)	2,302

Babcock Support Services Limited

Notes to the financial statements (continued)

26 Pension commitments (continued)

If the defined benefit and post-retirement benefit schemes had been accounted for under FRS17, the following amounts would have been recorded in the profit and loss account and statement of recognised gains and losses for the year ended 31 March 2005.

Analysis of the company's net assets:	2005 £'000	2004 £'000
Net assets	2,704	19,359
Reversal of SSAP 24 accrual	23,607	22,957
Net pension (liability)/asset	(1,464)	2,302
Net assets including net pension asset	24,847	44,618

Analysis of the company's profit and loss reserve:	2005 £'000	2004 £'000
Profit and loss reserve	2,604	19,259
Reversal of SSAP 24 accrual	23,607	22,957
Net pension (liability)/asset	(1,464)	2,302
Profit and loss reserve	24,747	44,518

Babcock Support Services Limited

Notes to the financial statements (continued)

26 Pension commitments (continued)

Analysis of the amount credited to operating profit:

	2005 £'000	2004 £'000
Current service cost	-	-
Effect of settlement	-	6,380
Total operating credit	-	6,380

Analysis of the amount charged to other finance income:

	2005 £'000	2004 £'000
Expected return on pension scheme assets	263	560
Interest on pension scheme liabilities	(309)	(715)
Net Return	(46)	(155)

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

	2005 £'000	2004 £'000
Actual return less expected return on pension scheme assets	192	1,388
Experience (losses)/gains arising on scheme liabilities	(4,941)	2
Changes in assumptions underlying the present value of the scheme liabilities	(585)	(639)
Actual (losses)/gains recognised in statement of recognised gains and losses	(5,334)	751

Babcock Support Services Limited

Notes to the financial statements (continued)

26 Pension commitments (continued)

Movements in surplus during the year:

	2005 £'000	2004 £'000
Surplus/(deficit) at 1 April	3,288	(3,688)
Movement in the year:		
Credited to operating profit	-	6,380
Contributions paid	-	-
Other finance income	(46)	(155)
Actuarial (loss)/gain	(5,334)	751
(Deficit)/surplus at 31 March	(2,092)	3,288

History of experience gains and losses:

	2005 £'000	2004 £'000	2003 £'000
Difference between the expected and actual return on scheme assets:			
Amount	192	1,388	(1,503)
Percentage of scheme assets	10%	34%	16%
Experience gains and losses on scheme liabilities:			
Amount	(4,941)	2	(1,507)
Percentage of the present value	78%	0%	16%
Total amount recognised in the statement of total recognised gains and losses:			
Amount	(5,334)	751	(3,653)
Percentage of the present value of scheme liabilities	85%	100%	27%

Babcock Support Services Limited

Notes to the financial statements (continued)

27 Post balance sheet event

At close of business on 31 March 2005 the company acquired the net assets of Babcock Design & Technology Limited.

The assets and liabilities acquired are set out below:

	Book value
	£'000
Tangible fixed assets	144
Intangible fixed assets	600
Debtors	7,155
Creditors and other liabilities	(6,902)
Net assets acquired	997
Consideration satisfied by intercompany loan	997

28 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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Babcock International Group PLC
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London W1G 0PX