

Babcock Support Services Limited

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007

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
M Fellowes

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 the financial statements, for the year ended 31 March 2007

1. Business Review

The business review below reviews the Company's activities and likely future developments

Principal activities

The Company operates across a number of support services operations, facilities management, equipment support and training services to the armed forces. It further provides a range of logistic and equipment support services for the Royal Navy, British Army and RAF. It helps customers maintain, operate and improve their estates. Typical customers are public sector organisations with complex infrastructure portfolios to service.

It also supports the activities of customers in the oil and gas, defence, marine and supply chain service markets and it maintains and refits Royal Navy warships and has the contract to provide electrical equipment to all three armed services.

The Company will also apply its engineering capabilities to the design construction, testing and commissioning of specialist modules and systems for major projects, notably as part of the Heathrow Terminal 5 alliance. It also supports the marine business and will have a major part to play in the construction of the new aircraft carrier (CVF).

Operational Review

We were granted an extension for the Single Living Accommodation Modernisation (SLAM II) programme which will further strengthen the company's position along with other Babcock Group company's positions as the leading suppliers of built infrastructure support to the Ministry of Defence.

We continue to obtain additional revenue from our Prime Contracts and are in active negotiation with Defence Estates on a number of additional projects.

The multi activity MOD contracts continued to progress well.

The Company continued to manage the expected temporary decline in warship refit activity at Rosyth and have succeeded in retaining a profitable business. The Design and Technology businesses, Supply Chain Services each made excellent profit contributions during the year and are well placed to deliver future growth. Recent allocations of ship refit work will provide a greater volume of work than had been previously anticipated for the current financial year.

The Secretary of State for Defence has confirmed Rosyth as the site for the final assembly and integration of the CVF and we are participating fully in the Aircraft Carrier Alliance. We have already been awarded an initial contract for the early production design and planning stages of the project. Whilst the Ministry of Defence has not yet indicated a start date for construction, we would expect this to be in 2008/09.

During the year the Company acquired the trade and assets of Marine Engineering & Fabrications Limited business from other Group companies (Note 15). The Company continues to hold an investment in Marine Engineering & Fabrications Limited, and this investment has been impaired down to the value of the remaining assets.

Babcock Support Services Limited

Directors' report (continued)

Financial Review

At £261.5m turnover decreased 9% (2006 £287.1m) Gross profit decreased by 6.8% from £36.1m to £33.8m The gross profit margin has remained constant at 13%

The company earned an operating profit of £12.0m (2006 £9.9m) after exceptional items of £0.5m (2006 £0.9m) (note 3)

Dividends declared and paid in the current year were £6.0m (2006 £15.0m)

The net assets of the Company have increased to £89.7m from £10.2m in the previous year

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 the policy of the Company to communicate regularly with its employees in briefings and discussions, by written communications on specific topics and on more general issues through the bulletin 'The Big Picture'. The company routinely discusses issues affecting its employees directly.

Environment

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. We aim to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate.

Babcock Support Services Limited

Directors' report (continued)

Qualifying third party indemnity provisions

Under their respective Articles of Association, the directors of the Company are, and were during the year to 31 March 2007, entitled to be indemnified by the Company against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 1985

Key performance indicators

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development, performance or position of the business

2. 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 2007 were equivalent to 14 days (2006 39 days)

3. Charitable and political donations

In the year ended 31 March 2007 the company made charitable donations of £61,000 (2006 £28,500). There were no political contributions during the period (2006 £nil)

4. Financial Risk

All treasury transactions are carried out only with prime rated counter parties as are investments of cash and cash equivalents

5. Directors and their interests

The directors who served during the year were as follows

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

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

Babcock Support Services Limited

Directors' report (continued)

6. Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

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

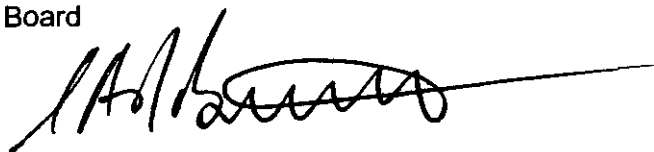
7. Auditors and the disclosure of information

So far as the Directors are aware, there is no relevant audit information, being information required by the auditors in connection with the preparation of the auditors' report, of which the auditors are unaware. Having made enquiries of fellow directors and the Group auditors, each Director has taken all steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

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

S A R Billiald
Secretary



Rosyth Business Park, Rosyth
Dunfermline, Fife, KY11 2YD

31 July 2007

Babcock Support Services Limited

Independent auditors' report to the members of Babcock Support Services Limited

We have audited the financial statements of the company for the year ended 31 March 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

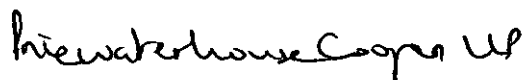
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

31 July 2007

Babcock Support Services Limited

Profit and Loss Account

For the ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Turnover			
Existing operations		259,936	287,129
Acquisitions	14	1,554	
Continuing operations	2	261,490	287,129
Cost of sales	3	(227,686)	(251,018)
Gross profit		33,804	36,111
Administrative expenses	3	(21,236)	(25,257)
Administrative expenses exceptional	3	(519)	(910)
Operating profit existing operations		11,897	9,944
Operating profit acquisitions		152	
Operating profit continuing operations		12,049	9,944
Income from fixed asset investments	4	6,973	10,690
Profit on ordinary activities before interest		19,022	20,634
Net interest payable and similar charges	5	(1,664)	(3,015)
Profit on ordinary activities before taxation	6	17,358	17,619
Tax on profit on ordinary activities	9	(7,123)	5,531
Profit for the financial year		10,235	23,150
Dividends paid on equity shares	10	(6,000)	(15,000)
Retained profit for the financial year	22	4,235	8,150

The accompanying notes form an integral part of these financial statements

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

Statement of Total Recognised Gains and Losses for the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Profit for the financial year		10,235	23,150
Actuarial gain recognised in the pension scheme			
	26	484	430
Movement on deferred tax relating to pension liability		(139)	(129)
Total recognised gains and losses relating to the year		10,580	23,451

Babcock Support Services Limited

Balance Sheet

As at 31 March 2007

	Notes	2007 £'000	2006 £'000
Fixed assets			
Intangible assets goodwill	11	63,249	67,625
Intangible assets – other	11	9,371	11,714
Tangible assets	12	1,073	1,336
Investments	13	9,042	10,840
		<u>82,735</u>	<u>91,515</u>
Current assets			
Stocks	15	3,133	3,652
Debtors	16	122,642	77,960
Cash at bank and in hand		10,806	31
		<u>136,581</u>	<u>81,643</u>
Creditors – amounts due within one year	17	<u>(107,631)</u>	<u>(139,802)</u>
Net current assets/(liabilities)		<u>28,950</u>	<u>(58,159)</u>
Total assets less current liabilities		<u>111,685</u>	<u>33,356</u>
Creditors – amounts due after more than one year	18	(21,300)	(21,300)
Provisions for liabilities and charges	19	(644)	(674)
Net assets excluding pension liability		<u>89,741</u>	<u>11,382</u>
Pension liability	26	-	(1,221)
Net assets including pension liability		<u>89,741</u>	<u>10,161</u>
Capital and reserves			
Called up equity share capital	21	110	100
Share premium	22	74,990	
Profit and loss account	22	14,641	10,061
Equity shareholders' funds	23	<u>89,741</u>	<u>10,161</u>

The financial statements were approved by the board of directors and signed on its behalf by

K Thomas
Director
31 July 2007



The accompanying notes form an integral part of these financial statements

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.

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
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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. The taxation liabilities of certain group companies may be reduced, wholly or in part, by surrender of losses by fellow group companies. The decision to charge group relief is made on a case by case basis.

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. Deferred tax is measured on a non discounted basis.

i) Pensions costs and other post retirement benefits

The Company is a member of a multi employer defined benefit pension scheme. The scheme is accounted for on a defined contribution basis as the Company is unable to identify its share of the underlying assets and liabilities. There is no material difference between the FRS17 "Retirement Benefits" and IAS 19 "Employee Benefits" valuation. Refer to the group financial statements note 27 for further details.

As a result of the level of surplus the Company's compulsory contribution to the Babcock International Group Pension Scheme is currently suspended until at least the results of the next formal valuation are available.

The Company has both defined benefit and defined contribution plans. A defined benefit plan is a pension that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Prior to the year end the existing Unicorn pension scheme was merged with the Babcock International Group scheme.

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.

Babcock Support Services Limited

Notes to the financial statements (continued)

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

Babcock Support Services Limited

Notes to the financial statements (continued)

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

	2007 £'000	2006 £'000
Cost of sales	<u>227,686</u>	<u>251,018</u>
Gross profit	<u>33,804</u>	<u>36,111</u>
Administrative expenses	<u>21,755</u>	<u>26,167</u>

Included within administrative expenses are operating exceptional charges of £519,000 which relate to the impairment in carrying value of a Marine Engineering & Fabrications Limited of £1,798,000 and the settlement gain on the Unicorn Pension Scheme of £1,279,000. The charge of £910,000 in 2006 relates to the writing off of a loan with Armstrong Technology Associates Limited which was consideration for the net liabilities acquired by the company

4 Income from fixed asset investments

	2007 £'000	2006 £'000
Dividends from subsidiary undertakings	<u>6,973</u>	<u>10,960</u>

Babcock Support Services Limited

Notes to the financial statements (continued)

5 Net interest payable and similar charges

	2007 £'000	2006 £'000
Interest payable and similar charges:		
Bank interest	(670)	(2,232)
Loan interest payable to group undertakings	(1,739)	(1,219)
Net pension finance cost (note 26)	(19)	(82)
	<u>(2,428)</u>	<u>(3,533)</u>
Interest receivable and similar income:		
Bank interest	<u>764</u>	<u>518</u>
Total interest charge	<u>(1,664)</u>	<u>(3,015)</u>

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging

	2007 £'000	2006 £'000
Depreciation – owned fixed assets (note 12)	445	972
Goodwill amortisation (note 11)	4,376	4,376
Amortisation of other intangible assets (note 11)	2,343	2,343
Impairment of subsidiary undertaking (note 13)	1,798	
Auditors' remuneration		
audit fees	100	111
Operating lease rentals		
Land and buildings	1,202	957
other	951	757
Impairment of intercompany loan	-	910
Staff costs (note 7)	57,477	56,973
Staff costs under recharge agreement (note 7)	29,277	36,723
(Profit)/loss on disposal of fixed assets	<u>(10)</u>	<u>81</u>

Babcock Support Services Limited

Notes to the financial statements (continued)

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 939 (2006 1,080). The cost for the year of this arrangement was £29,277,000 (2006 £36,723,000).

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

	2007 Number	2006 Number
Production	1,677	1,800
Administration	377	335
	<u>2,054</u>	<u>2,135</u>

Their aggregate remuneration comprised

	2007 £'000	2006 £'000
Wages and salaries	51,001	49,949
Social security costs	4,896	4,848
Other pension costs (note 26)		
Defined benefit schemes	1,121	1,890
Defined contribution schemes	459	286
	<u>57,447</u>	<u>56,973</u>

8 Directors' remuneration

	2007 £'000	2006 £'000
The remuneration of the directors which was paid by the company was as follows		
Emoluments (including benefits in kind)	779	417
	<u>779</u>	<u>417</u>

Babcock Support Services Limited

Notes to the financial statements (continued)

During the year 4 directors (2006 1) exercised options over 60p shares of Babcock International Group PLC

During the year 6 directors (2006 4) were awarded shares under the Babcock International Group PLC L TIP scheme

Retirement benefits are accruing to 6 directors (2006 4) under defined benefit pension schemes

The above amounts for remuneration include the following in respect of the highest paid director:

	2007	2006
	£'000	£'000
Emoluments (excluding pension and pension contributions)	300	216
Accrued benefit entitlement under the group's defined benefit scheme	10	12

During the year the highest paid director was awarded shares under the Babcock International Group PLC L TIP scheme and exercised share options over 60p shares of Babcock International Group PLC

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

Babcock Support Services Limited

Notes to the financial statements

9 Tax on profit on ordinary activities

	2007 £'000	2006 £'000
Current tax		
UK Corporation tax on profits of the period	-	2,399
Group relief claimed for consideration	2,143	
Current tax charge for the year	2,143	2,399
Deferred tax		
Origination and reversal of timing differences	5,627	55
Adjustment in respect of prior years	(647)	(7,985)
Tax charge/(credit)	7,123	(5,531)

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

Babcock Support Services Limited

Notes to the financial statements (continued)

	2007 £'000	2006 £'000
Profit on ordinary activities before tax	17,358	17,619
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2006 30%)	5,207	5,286
Effects of		
Timing differences	(5,627)	(55)
Goodwill amortisation not deductible for tax purposes	1,313	1,313
Non taxable dividends	(2,092)	(3,207)
Expenses not deductible for tax purposes	1,659	682
Group relief surrendered for no consideration	1,683	(1,609)
Deferred tax not provided	-	(11)
	2,143	2,399

10 Dividends paid and proposed on equity shares

	2007 £'000	2006 £'000
Interim paid of £54 528 (2006 £150) per share	6,000	15,000

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 2006	87,519	21,029	108,548
At 31 March 2007	87,519	21,029	108,548
Amortisation			
At 1 April 2006	19,894	9,315	29,209
Charge for the year	4,376	2,343	6,719
At 31 March 2007	24,270	11,658	35,928
Net book value			
At 31 March 2007	63,249	9,371	72,620
At 31 March 2006	67,625	11,714	79,339

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

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 2006	43	9,418	9,461
Additions		198	198
Disposals		(918)	(918)
At 31 March 2007	43	8,698	8,741
Depreciation			
At 1 April 2006	43	8,082	8,125
Charge for the year		445	445
Disposals		(902)	(902)
At 31 March 2007	43	7,625	7,668
Net book value			
At 31 March 2007	-	1,073	1,073
At 31 March 2006		1,336	1,336

13 Fixed assets – investments in subsidiary undertakings

	Total £'000
Cost	
At 1 April 2006	11,183
At 31 March 2007	11,183
Provision	
At 1 April 2006	(343)
Impairment	(1,798)
At 31 March 2007	(2,141)
Net book value	
At 31 March 2007	9,042
At 31 March 2006	10,840

The investment in Marine Engineering & Fabrications Limited has been impaired to the value of its net assets

Babcock Support Services Limited

Notes to the financial statements

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
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
Unicorn Pension Trustees Limited	England and Wales	Pension trust

Babcock Support Services Limited

Notes to the financial statements (continued)

14 Acquisitions

On 29 December 2006 the Company acquired the trade and assets of Marine Engineering & Fabrications Limited. The Company continues to hold an investment in Marine Engineering & Fabrications Limited, and this investment has been impaired down to the value of the remaining assets.

The assets and liabilities acquired are set out below

	Book and fair value £'000
Fixed assets	27
Stocks	12
Debtors	517
Cash at bank	521
Creditors and other liabilities	(887)
Net assets acquired	190
Consideration	190

In the prior year, the Company acquired the trade and assets of Armstrong Technology Associates Limited (ATA Ltd) and Babcock Design & Technology Limited (BD&T Ltd).

The assets and liabilities acquired in the year ended 2007 are set out below

	Book and fair value £'000 ATA Ltd	Book and fair value £'000 BD&T Ltd	Total £'000
Tangible fixed assets	9	144	153
Intangible fixed assets		600	600
Stocks	1		1
Debtors	334	7,155	7,489
Overdraft	(1,128)		(1,128)
Creditors and other liabilities	(126)	(6,902)	(7,028)
Net liabilities acquired	(910)	997	87
Consideration	(910)	997	87

Subsequently the consideration receivable outstanding for Armstrong Technology Associates Limited as an intercompany loan was written off.

Babcock Support Services Limited

Notes to the financial statements (continued)

15 Stocks

	2007 £'000	2006 £'000
Raw materials and consumables	152	732
Finished products	<u>2,981</u>	<u>2,920</u>
	<u><u>3,133</u></u>	<u><u>3,652</u></u>

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

16 Debtors

	2007 £'000	2006 £'000
Due within one year		
Trade debtors	11,682	11,397
Amounts recoverable on contracts	20,822	31,493
Amounts owed by group undertakings	72,112	15,957
Prepayments, other debtors and accrued income	5,939	7,352
ACT recoverable	2,569	2,569
UK corporation tax recoverable	5,099	408
Deferred tax (note 20)	4,196	8,784
VAT	223	
	<u><u>122,642</u></u>	<u><u>77,960</u></u>

17 Creditors - amounts due within one year

	2007 £'000	2006 £'000
Bank overdrafts	5,626	29,615
Trade creditors	6,032	14,916
Contract accruals, other creditors and deferred income	33,262	36,211
Payments received on account of long term contracts	12,652	9,580
Amounts owed to group undertakings	49,981	46,928
VAT	-	1,053
Other taxes and social security costs	78	1,499
	<u><u>107,631</u></u>	<u><u>139,802</u></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

	2007 £'000	2006 £'000
Amounts owed to group undertakings	<u>21,300</u>	<u>21,300</u>

This debt matures in between one to two years

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

19 Provisions for liabilities and charges

	Property and other Provision
At 31 March 2006	674
Utilised during the year	(30)
At 31 March 2007	<u>644</u>

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

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

	2007 Provided £'000	2006 Provided £'000	2007 Full potential £'000	2006 Full potential £'000
Accelerated capital allowances	1,310	1,048	1,310	1,048
Pension liability	-	523	-	523
Accrued pension contribution	2,622	7,571	2,622	7,571
Other short term timing differences	264	165	264	165
	4,196	9,307	4,196	9,307
Less Unicorn pension scheme	-	(523)	-	(523)
	4,196	8,784	4,196	8,784

The movement on the deferred tax asset is as follows

	£'000
At 31 March 2006 as previously reported	9,307
Current year movement	(5,627)
Deferred tax asset created on transfer of trade	8
Adjustment in respect of prior years	647
Amounts charged to Statement of Total Recognised Gains & Losses	(139)
At 31 March 2007	4,196

Babcock Support Services Limited

Notes to the financial statements (continued)

21 Called up equity share capital

	Authorised		Allotted, called up and fully paid	
	2007 £	2006 £	2007 £	2006 £
£1 ordinary shares	1,000,000	1,000,000	110,035	100,000
	Number	Number	Number	Number
	1,000,000	1,000,000	110,035	100,000

During the year the Company issued 10,035 ordinary shares of £1 each to its parent company for a total consideration of £75,000,000. Accordingly an amount of £74,989,965 has been taken to the share premium account.

22 Reserves

	£'000 Share premium	£'000 Profit and loss account
At 1 April 2006		10,061
Profit for the year		4,235
Actuarial gain recognised relating to the pension scheme		484
Movement in deferred tax relating to the pension scheme		(139)
Share issue	74,990	
At 31 March 2007	74,990	14,641

Babcock Support Services Limited

Notes to the financial statements (continued)

23 Reconciliation of movements in shareholders' funds

	2007 £'000	2006 £'000
Opening equity shareholders funds	10,161	1,710
Dividends	(6,000)	(15,000)
Profit for the year	10,235	23,150
Actuarial gain recognised in the pension scheme	484	430
Movement in deferred tax relating to pension asset	(139)	(129)
Proceeds from share issue	75,000	
	<u>89,741</u>	<u>10,161</u>

Babcock Support Services Limited

Notes to the financial statements (continued)

24 Guarantees and financial commitments

a) Capital commitments

	2007 £'000	2006 £'000
Authorised but not contracted	-	

b) Contingent liabilities

The Company at the year end had guaranteed or had joint and several liability for bank facilities of £200m provided to certain group companies of which £190m related to multicurrency revolving credit and working capital facilities

The Company has given guarantees in the ordinary course of business for £864,000 (2006 £900,000) for which no losses are anticipated

c) Operating lease commitments	2007 Land and buildings £'000	2007 Other £'000	2006 Land and buildings £'000	2006 Other £'000
Annual commitments expiring				
within one year	14	243	68	390
between two and five years	471	959	453	804
after five years	202	-	162	
	687	1202	683	1,194

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

Babcock Support Services Limited

Notes to the financial statements (continued)

26 Pension commitments

The Company had both defined benefit and defined contribution plans. In a defined benefit pension scheme, the scheme is funded through payments to trustee administered funds, determined by periodic actuarial calculations. A defined benefit plan is a pension that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity.

The Company contributes to pension schemes operated by other group companies, details of the Babcock International Group PLC pension scheme are set out below.

- (a) Unicorn Pension Scheme operated 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 have been transferred to the Babcock International Group Pension Scheme. The company made no contribution to the scheme during the year to 31 March 2007. During the year the Unicorn Pension Scheme was merged with the Babcock International Group Scheme. This gave rise to a settlement gain of £1,279,000.
- (b) The Company employs members of the Babcock International Group PLC pension scheme which is treated as a multi employer defined benefit pension scheme. The scheme will be accounted for on a defined contribution basis as the company is unable to identify its share of the underlying assets and liabilities. 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. There is no material difference between the FRS17 "Retirement Benefits" and IAS19 "Employee Benefits" valuation. Refer to the Babcock International Group PLC financial statements note 27 for further details.

The Company is the principal employer of the employees who contributed to the Unicorn Pension Scheme which was a defined benefit scheme prior to being merged with the Babcock International Group PLC pension scheme. FRS 17 Retirement Benefits disclosures for this scheme are presented below.

For defined benefit schemes the fair values of pension scheme assets at the year end 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 2006 by qualified independent actuaries using the following assumptions:

Babcock Support Services Limited

Notes to the financial statements (continued)

26 Pension commitments (continued)

	2007	2006	2005
Rate of increase of future earnings	n/a	n/a	n/a
Discount rate	-	5.05%	5.43%
Expected pension increases	-	3.00%	3.00%
Inflation rate	-	3.00%	3.00%

The expected rates of return on the schemes' assets are

	Year to 31 March 2007	Year to 31 March 2006	Year to 31 March 2005
Equities	-	8.0	8.0
Bonds Government	-	4.5	4.7
Bonds Corporate	-	5.1	5.5
Property	-	7.5	7.5
Cash	-	4.5	4.75

The Unicorn Pension Scheme was closed to new members from 30 November 2002 and its assets have been 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 2006 were as follows

	2007 Fair value £'000	2006 Fair value £'000
Equities	-	2,234
Bonds	-	2,601
Cash	-	-
Fair value of assets	-	4,835
Present value of scheme liabilities	-	(6,579)
Recognised pension liability	-	(1,744)
Related deferred tax asset	-	523
Net pension liability	-	(1,221)

Babcock Support Services Limited

Notes to the financial statements (continued)

26 Pension commitments (continued)

Analysis of the amount credited to operating profit:	2007 £'000	2006 £'000
Effect of settlement of Unicorn scheme	1,279	
Total operating credit	1,279	

Analysis of the amount charged to other finance income:

	2007 £'000	2006 £'000
Expected return on pension scheme assets	144	258
Interest on pension scheme liabilities	(163)	(340)
Net finance cost	(19)	(82)

Analysis of amount recognised in Statement of Total Recognised Gains and Losses:

	2007 £'000	2006 £'000
Actual cost less expected return on pension scheme assets	(83)	608
Experience gains arising on scheme liabilities	41	10
Changes in assumptions underlying the present value of the scheme liabilities	526	(188)
Actual gains recognised in statement of recognised gains and losses	484	430

Babcock Support Services Limited

Notes to the financial statements (continued)

26 Pension commitments (continued)

Movements in surplus during the year.

	2007 £'000	2006 £'000
Deficit at 1 April	(1,744)	(2,092)
Movement in the year		
Net finance cost	(19)	(82)
Actuarial gain	484	430
Settlement gain	1,279	
	<hr/>	<hr/>
Deficit at 31 March		(1,744)
	<hr/>	<hr/>

History of experience gains and losses:

	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Difference between the expected and actual return on scheme assets.				
Amount	(83)	608	192	1,388
Percentage of scheme assets	n/a	13%	10%	34%
Experience gains and losses on scheme liabilities				
Amount	41	10	(4,941)	2
Percentage of the present value	n/a	0%	78%	0%
Total amount recognised in the statement of total recognised gains and losses				
Amount	484	430	(5,334)	751
Percentage of the present value of scheme liabilities	n/a	7%	85%	100%

Babcock Support Services Limited

Notes to the financial statements (continued)

27 Post balance sheet events

After the year end the Company guaranteed or had joint and several liability for a new bank facility of £600m which superseded the previous £190m facility provided to certain group companies

28 Ultimate parent undertaking

The Company's immediate parent company is Babcock2 Limited (formerly 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:

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