

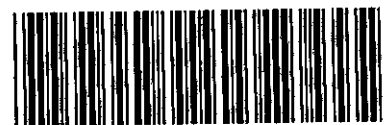
Babcock Support Services Limited

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2008

Registered Number: SC099884

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COMPANIES HOUSE

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

Independent Auditors

PricewaterhouseCoopers LLP
Chartered accountants and Registered auditors
Embankment Place
London
WC2N 6RH

Babcock Support Services Limited

Directors' report

The directors present the audited financial statements of the company, for the year ended 31 March 2008

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 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.

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 ("MOD")

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 continuing businesses have a positive outlook

On 30 November 2007 the Company disposed of its Marine division to another Group company, Babcock Marine (Rosyth) Limited, for £140,000,000 creating a profit of £169,249,000. BSSL continues to employ Marine personnel who perform a service agreement for Babcock Marine (Rosyth) Limited

On 14 August 2007 the Company disposed of its investment in Babcock Marine Clyde Limited (formerly Babcock Naval Services Limited) to another Group company Babcock Marine Holdings UK Limited. This was held in the balance sheet at £1 and sold for £100,000,000

Financial Review

At £253.6m turnover decreased by 3% (2007 £261.5m). Gross profit decreased by 6% from £33.8m to £31.8m. The gross profit margin has remained constant at 13%.

The company earned an operating profit of £13.3m (2007 £12.0m) after operating exceptional items of £nil (2007 £0.5m) (note 3)

A non operating exceptional item of £169.2m arose on the disposal of the Marine division, and £100m arose on the disposal of the company's investment in Babcock Marine Clyde Limited.

Dividends declared and paid in the current year were £nil (2007 £6.0m)

The net assets of the Company have increased to £361.7m from £89.7m in the previous year

Babcock Support Services Limited

Directors' report (continued)

Safety Policy

The Company recognises the promotion of health and safety at work as an important objective. It is company policy to take steps to ensure, as far as reasonably practical, the health, safety and welfare of the employees of the company.

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.

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.

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 2008, 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 2008 were equivalent to 19 days (2007: 14 days).

3 Charitable and political donations

In the year ended 31 March 2008 the Company made charitable donations of £36,600 (2007: £61,000). There were no political contributions during the year (2007: £nil).

Babcock Support Services Limited

Directors' report (continued)

4 Principal Risk and Uncertainties

The management of the business is subject to a number of risks. Procedures are in place across the Group to identify, assess and mitigate major business risk. The management of risk is an integral part of our operational review process and is supplemented at Group level by independent challenge and review by the Group Risk Manager and the Audit and Risk Committee. Further details can be found in the Babcock International Group PLC Financial Statements pages 26-27.

5 Financial Risk

All treasury transactions are carried out only with prime rated counter parties.

6 Directors

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

7 Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and 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

Babcock Support Services Limited

Directors' report (continued)

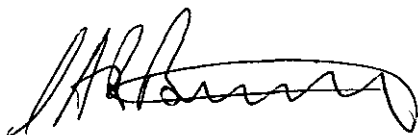
safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

8 Auditors and the disclosure of information

Each director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of this information

A resolution proposing to reappoint PricewaterhouseCoopers LLP as auditors will be put to the members at the Annual General Meeting

By order of the Board



S A R Billiald
Company Secretary

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

3 July 2008

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 2008 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.

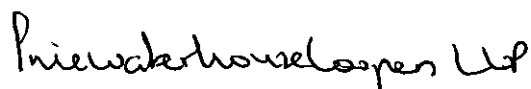
Babcock Support Services Limited

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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 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

3 July 2008

Babcock Support Services Limited

Profit and Loss Account

For the year ended 31 March 2008

	Notes	2008 £'000	2007 £'000
Turnover			
Continuing operations		168,189	149,369
Discontinued	14	85,377	112,121
	2	253,566	261,490
Cost of sales	3	(221,762)	(227,686)
Gross profit		31,804	33,804
Administrative expenses	3	(14,132)	(16,860)
Operating profit (before goodwill amortisation and exceptional items)		17,672	16,944
Amortisation of goodwill	11	(4,376)	(4,376)
Exceptional items	3	-	(519)
Operating profit continuing operations		7,352	5,396
Operating profit disposed of operations		5,944	6,653
Operating profit		13,296	12,049
Exceptional items	3	269,249	
Income from fixed asset investments	4	-	6,973
Profit on ordinary activities before interest		282,545	19,022
Net interest receivable/(payable) and similar income/(charges)	5	4,788	(1,664)
Profit on ordinary activities before taxation	6	287,333	17,358
Tax on profit on ordinary activities	9	(15,360)	(7,123)
Profit for the financial year		271,973	10,235
Dividends	10	-	(6,000)
Retained profit for the financial year	22	271,973	4,235

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 2008

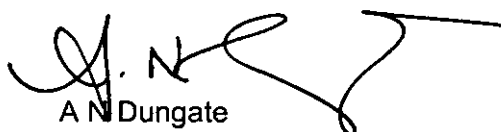
	Notes	2008 £'000	2007 £'000
Profit for the financial year		271,973	10,235
Actuarial gain recognised in the pension scheme	26	-	484
Movement on deferred tax relating to pension liability		-	(139)
Total recognised gains and losses relating to the year		271,973	10,580

Babcock Support Services Limited

Balance Sheet as at 31 March 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Intangible assets goodwill	11	58,873	63,249
Intangible assets – other	11	3,471	9,371
Tangible assets	12	1,181	1,073
Investments	13	1,296	9,042
		<u>64,821</u>	<u>82,735</u>
Current assets			
Stocks	15	66	3,133
Debtors	16	363,275	122,642
Cash at bank and in hand		10,103	10,806
		<u>373,444</u>	<u>136,581</u>
Creditors – amounts due within one year	17	<u>(54,505)</u>	<u>(107,631)</u>
Net current assets		<u>318,939</u>	<u>28,950</u>
Total assets less current liabilities		<u>383,760</u>	<u>111,685</u>
Creditors – amounts due after more than one year	18	(21,300)	(21,300)
Provisions	19	<u>(746)</u>	<u>(644)</u>
Net assets		<u>361,714</u>	<u>89,741</u>
Capital and reserves			
Called up share capital	21	110	110
Share premium account	22	74,990	74,990
Profit and loss account	22	<u>286,614</u>	<u>14,641</u>
Total shareholders' funds	23	<u>361,714</u>	<u>89,741</u>

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


 A N Dungate
 Director
 3 July 2008

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*

These financial statements are prepared under the historical cost convention, the accounting policies set out below, in accordance with applicable accounting standards and on the basis that the company will continue as a going concern.

b) *Tangible fixed assets and depreciation*

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 and 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 and 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 profit and loss account in the year in which they are incurred.

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)

1 Accounting policies (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 1996) 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 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, exceptional items

	2008 £'000	2007 £'000
Cost of sales		
Continuing	146,935	132,506
Discontinued	74,827	95,180
Total	<u>221,762</u>	<u>227,686</u>
Gross profit		
Continuing	21,254	16,863
Discontinued	10,550	16,941
Total	<u>31,804</u>	<u>33,804</u>
Administrative expenses		
Continuing	9,526	8,370
Discontinued	4,606	8,490
Total	<u>14,132</u>	<u>16,860</u>

In the prior year operating exceptional charges of £519,000 relate to the impairment in carrying value of Marine Engineering & Fabrications Limited of £1,798,000 and the settlement gain on the Unicorn Pension Scheme of £1,279,000

Non operating exceptional Items in the current year consists of

- a) £99,999,999 profit on disposal of the company's investment of £1 in Babcock Marine Clyde Limited to Babcock Marine Holdings UK Limited
- b) £169,249,000 profit on disposal of the Marine activities to Babcock Marine (Rosyth) Limited

4 Income from fixed asset investments

	2008 £'000	2007 £'000
Dividends from subsidiary undertakings	-	6,973

Babcock Support Services Limited

Notes to the Financial Statements (continued)

5 Net interest receivable/(payable) and similar income/(charges).

	2008 £'000	2007 £'000
Interest payable and similar charges:		
Bank interest	(236)	(670)
Loan interest payable to group undertakings	(1,651)	(1,739)
Net pension finance cost (note 26)	-	(19)
	<u>(1,887)</u>	<u>(2,428)</u>
Interest receivable and similar income:		
Bank interest	1,373	764
Loan interest receivable from group undertaking	5,302	
	<u>4,788</u>	<u>(1,664)</u>

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging

	2008 £'000	2007 £'000
Depreciation – owned fixed assets (note 12)	379	445
Goodwill amortisation (note 11)	4,376	4,376
Amortisation of other intangible assets (note 11)	1,948	2,343
Impairment of subsidiary undertaking (note 13)	-	1,798
Auditors' remuneration		
audit fees	125	100
other services	12	
Operating lease rentals		
Land and buildings	450	1,202
other	1,098	951
Staff costs (note 7)	63,256	57,477
Staff costs under recharge agreement (note 7)	19,526	29,277
Profit on disposal of fixed assets	(3)	(10)
Profit on disposals (note 14)	269,249	

Babcock Support Services Limited

Notes to the Financial Statements (continued)

7 Staff costs

A former subsidiary undertaking, Rosyth Royal Dockyard Limited, is the employer for a number of Babcock group companies. The Company was charged for the use of personnel up to the disposal date of 30th November 2007. The average monthly number of persons employed under this arrangement was 924 (2007 939). The cost for the year of this arrangement was £19,526,000 (2007 £29,277,000).

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

	2008 Number	2007 Number
Production	1,974	1,677
Administration	392	377
	2,366	2,054

Their aggregate remuneration comprised

	2008 £'000	2007 £'000
Wages and salaries	55,901	51,001
Social security costs	5,456	4,896
Defined contribution pension costs	2,169	1,580
	63,526	57,477

Babcock Support Services Limited

Notes to the Financial Statements (continued)

8 Directors' remuneration

	2008 £'000	2007 £'000
The remuneration of the directors which was paid by the company was as follows		
Emoluments (including benefits in kind)	644	779
	<u>644</u>	<u>779</u>

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

	2008 £'000	2007 £'000
Emoluments (excluding pension and pension contributions)	328	300
Accrued benefit entitlement under the group's defined benefit scheme	<u>10</u>	<u>10</u>

During the year the highest paid director was awarded shares under the Babcock International Group PLC L TIP scheme and did not exercise share options over 60p shares of Babcock International Group PLC

During the year 6 directors (2007 4) exercised options over 60p shares of Babcock International Group PLC

During the year 6 directors (2007 6) were awarded shares under the Babcock International Group PLC L TIP scheme

Retirement benefits are accruing to 6 directors (2007 6) under defined benefit pension schemes

The remuneration of W Tame, P Rogers, A J Marsh, K R Thomas 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 (continued)

9 Tax on profit on ordinary activities

	2008 £'000	2007 £'000
Current tax		
UK Corporation tax on profits of the period	-	
Group relief for consideration	14,970	2,143
Current tax charge for the year	14,970	2,143
Deferred tax:		
Impact of change in UK tax rate		
Deferred tax	91	
ACT recoverable	171	
Origination and reversal of timing differences	464	5,627
Adjustment in respect of prior years	(336)	(647)
Tax charge	15,360	7,123

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

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	287,333	17,358
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2007 30%)	86,200	5,207
Effects of		
Timing differences	(464)	(5,627)
Goodwill amortisation not deductible for tax purposes	1,313	1,313
Non taxable dividends	-	(2,092)
Expenses not deductible for tax purposes	1,039	1,659
Group relief surrendered for consideration	-	1,683
Group relief for nil consideration	7,657	
Non taxable gains	(80,775)	
	14,970	2,143

During the year, as a result of the change in UK Corporation Tax rates which will be effective from 1 April 2008, deferred tax balances have been remeasured. Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2008 is measured at 30% and deferred tax relating temporary differences expected to reverse after 1 April 2008 is measured at the tax rate of 28% as these are the tax rates that will apply on reversal.

Babcock Support Services Limited

Notes to the Financial Statements (continued)

10 Dividends paid and proposed on equity shares

	2008 £'000	2007 £'000
Interim paid of £nil (2007 £54 528) per share	-	6,000

11 Intangible fixed assets

	Purchased goodwill £'000	Intellectual property rights and know how £'000	Total £'000
Cost			
At 1 April 2007	87,519	21,029	108,548
Disposal		(12,929)	(12,929)
At 31 March 2008	87,519	8,100	95,619
Amortisation			
At 1 April 2007	24,270	11,658	35,928
Charge for the year	4,376	1,948	6,324
Disposal		(8,977)	(8,977)
At 31 March 2008	28,646	4,629	33,275
Net book value			
At 31 March 2008	58,873	3,471	62,344
At 31 March 2007	63,249	9,371	72,620

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 2007	43	8,698	8,741
Additions		816	816
Disposals	(43)	(5,319)	(5,362)
At 31 March 2008	-	4,195	4,195
Depreciation			
At 1 April 2007	43	7,625	7,668
Charge for the year		379	379
Disposals	(43)	(4,990)	(5,033)
At 31 March 2008	-	3,014	3,014
Net book value			
At 31 March 2008	-	1,181	1,181
At 31 March 2007		1,073	1,073

13 Fixed assets – Investments in subsidiary undertakings

	Total £'000
Cost	
At 1 April 2007	11,183
Addition	140,000
Disposal	(149,887)
At 31 March 2008	1,296
Provision for impairment	
At 1 April 2007	(2,141)
Disposal	2,141
At 31 March 2008	-
Net book value	
At 31 March 2008	1,296
At 31 March 2007	9,042

The directors believe that the carrying value of the investments is supported by their underlying net assets

Babcock Support Services Limited

Notes to the Financial Statements (continued)

13 Fixed assets – investments in subsidiary undertakings (continued)

On 14 August 2007 the Company disposed of its investment in Babcock Marine Clyde Limited (formerly Babcock Naval Services Limited) of £1 to Marine Holdings UK Limited for £100,000,000

On 30 November 2007 the Company transferred its Marine activities to Babcock Marine (Rosyth) Limited for £140,000,000 consideration being shares at a premium. This included the investments in Rosyth Royal Dockyard Limited held at £7,557,000 and Marine Engineering & Fabrications (holdings) limited held at £189,000

Included in the transfer on 30 November 2007 was the entire share capital of Babcock Design & Technology limited of £2, the entire issued share capital of Marine Engineering & Fabrications (holdings) Limited of £60 and the entire issued share capital of FBM Marine Holdings (UK) Limited to Babcock Marine (Rosyth). The investment in FBM Marine Holdings (UK) Limited had been previously impaired to £Nil

On 4 December 2007 the Company sold Babcock Marine (Rosyth) Limited to Babcock Marine Holdings (UK) Limited for £140,000,000

The Company's principal subsidiary undertakings, all of which are wholly owned, are

<u>Company</u>	<u>Country of Registration</u>	<u>Principal Activities</u>
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
Unicorn Pension Trustees Limited	England and Wales	Pension trust

Babcock Support Services Limited

Notes to the Financial Statements (continued)

14 Disposal of Group activities

On 30 November 2007 the Company disposed of the trade and assets of its Marine division and disposed of its investment in Babcock Investments Limited, Marine Engineering & Fabrications Limited and in Babcock Marine Clyde Limited to other Group companies

The assets and liabilities disposed of are set out below (including Investment in Rosyth Royal Dockyard Limited at cost)

	Book and fair value £'000
Investments	7,747
Intangible assets	3,952
Fixed assets	329
Stocks	3,245
Debtors	29,991
Cash at bank	11,816
Creditors and other liabilities	(86,329)
Net liabilities disposed of	(29,249)
Consideration	240,000

£240,000,000 includes £100,000,000 consideration for the £1 investment in Babcock Marine Clyde Limited

15 Stocks

	2008 £'000	2007 £'000
Raw materials and consumables	66	152
Finished products	-	2,981
	66	3,133

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

Babcock Support Services Limited

Notes to the Financial Statements (continued)

16 Debtors

	2008 £'000	2007 £'000
Due within one year		
Trade debtors	2,226	11,682
Amounts recoverable on contracts	14,195	20,822
Amounts owed by group undertakings	337,050	72,112
Prepayments, other debtors and accrued income	3,804	5,939
ACT recoverable	2,398	2,569
UK corporation tax recoverable	2,732	5,099
Deferred tax (note 20)	870	4,196
VAT	-	223
	<u>363,275</u>	<u>122,642</u>

Amounts owed by Group undertakings includes short term loans of £240m, bearing an interest rate of UK LIBOR six monthly rate, plus one hundred basis point

17 Creditors - amounts due within one year

	2008 £'000	2007 £'000
Bank overdrafts	818	5,626
Trade creditors	7,813	6,032
Contract accruals, other creditors and deferred income	21,377	33,262
Payments received on account of long term contracts	1,761	12,652
Amounts owed to group undertakings	22,435	49,981
VAT	301	
Other taxes and social security costs	-	78
	<u>54,505</u>	<u>107,631</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 24a)

18 Creditors - amounts due after more than one year

	2008 £'000	2007 £'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

Babcock Support Services Limited

Notes to the Financial Statements (continued)

19 Provisions for liabilities and charges

	Property and other Provision £'000
At 1 April 2007	644
Charged to profit and loss account	102
At 31 March 2008	746

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

	2008 Provided £'000	2007 Provided £'000	2008 Full potential £'000	2007 Full potential £'000
Accelerated capital allowances	789	1,310	789	1,310
Accrued pension contribution	-	2,622	-	2,622
Other short term timing differences	81	264	81	264
	870	4,196	870	4,196

The movement on the deferred tax asset is as follows

	£'000
At 31 March 2007 as previously reported	4,196
Current year movement	(464)
Deferred tax asset transferred to a Group undertaking	(3,107)
Adjustment in respect of prior years	336
Impact of change in UK tax rate	(91)
At 31 March 2008	870

Babcock Support Services Limited

Notes to the Financial Statements (continued)

21 Called-up share capital

	Authorised		Allotted, and fully paid	
	2008 £	2007 £	2008 £	2007 £
£1 ordinary shares	1,000,000	1,000,000	110,035	110,035
	Number	Number	Number	Number
£1 ordinary shares	1,000,000	1,000,000	110,035	110,035

22 Reserves

	£'000	£'000
	Share premium	Profit and loss account
At 1 April 2007	74,990	14,641
Profit for the year		271,973
At 31 March 2008	74,990	286,614

23 Reconciliation of movements in shareholders' funds

	2008 £'000	2007 £'000
Opening equity shareholders funds	89,741	10,161
Dividends	-	(6,000)
Profit for the year	271,973	10,235
Actuarial gain recognised in the pension scheme	-	484
Movement in deferred tax relating to pension asset	-	(139)
Proceeds from share issue	-	75,000
Closing Shareholders' funds	361,714	89,741

Babcock Support Services Limited

Notes to the Financial Statements (continued)

24 Guarantees and financial commitments

a) Contingent liabilities

The Company at the year end had guaranteed or had joint and several liabilities for drawn Babcock International Group PLC bank facilities of £375m provided to certain group companies

The Company has given guarantees in the ordinary course of business for £864,000 (2007 £864,000) for which no losses are anticipated

b) Operating lease commitments	2008 Land and buildings £'000	2008 Other £'000	2007 Land and buildings £'000	2007 Other £'000
Annual commitments expiring				
within one year	133	333	14	243
between two and five years	-	1,038	471	959
after five years	159	-	202	
	292	1,371	687	1,202

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.

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 2008. During the year to March 2007 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 was 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)

	2008	2007	2006
Rate of increase of future earnings		n/a	n/a
Discount rate		-	5.05%
Expected pension increases			3.00%
Inflation rate			3.00%

The expected rates of return on the schemes' assets are

	Year to 31 March 2008	Year to 31 March 2007	Year to 31 March 2006
Equities	-	-	8.0
Bonds Government	-	-	4.5
Bonds Corporate	-	-	5.1
Property	-	-	7.5
Cash	-	-	4.5

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

Babcock Support Services Limited

Notes to the Financial Statements (continued)

26 Pension commitments (continued)

Analysis of the amount credited to operating profit:	2008 £'000	2007 £'000
Effect of settlement of Unicorn scheme	-	1,279
Total operating credit	-	1,279

Analysis of the amount charged to other finance income:	2008 £'000	2007 £'000
Expected return on pension scheme assets	-	144
Interest on pension scheme liabilities	-	(163)
Net finance cost	-	(19)

Analysis of amount recognised in Statement of Total Recognised Gains and Losses:	2008 £'000	2007 £'000
Actual cost less expected return on pension scheme assets	-	(83)
Experience gains arising on scheme liabilities	-	41
Changes in assumptions underlying the present value of the scheme liabilities	-	526
Actual gains recognised in statement of recognised gains and losses	-	484

Babcock Support Services Limited

Notes to the Financial Statements (continued)

26 Pension commitments (continued)

Movements in surplus during the year:

	2008 £'000	2007 £'000
Deficit at 1 April	-	(1,744)
Movement in the year		
Net finance cost	-	(19)
Actuarial gain	-	484
Settlement gain	-	1,279
	<hr/>	<hr/>
Deficit at 31 March	-	

History of experience gains and losses:

	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Difference between the expected and actual return on scheme assets:				
Amount	-	(83)	608	192
Percentage of scheme assets	-	n/a	13%	10%
Experience gains and losses on scheme liabilities:				
Amount	-	41	10	(4,941)
Percentage of the present value	-	n/a	0%	78%
Total amount recognised in the statement of total recognised gains and losses				
Amount	-	484	430	(5,334)
Percentage of the present value of scheme liabilities	-	n/a	7%	85%

Babcock Support Services Limited

Notes to the Financial Statements (continued)

27 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