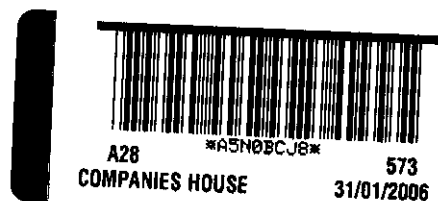


FBM Babcock Marine Holdings (UK) Limited
Annual report
for the year ended 31 March 2005

Registered number: 2530482



FBM Babcock Marine Holdings (UK) Limited

Annual report for the year ended 31 March 2005

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FBM Babcock Marine Holdings (UK) Limited

Directors and advisers

Directors

A Marsh
B Morse (resigned 12 May 2005)
I S Urquhart (appointed 12 May 2005)

Joint secretaries

S A R Billiald
J D T Greig (appointed 14 October 2004)

Registered office

2 Cavendish Square
London
W1G 0PX

Auditors

PricewaterhouseCoopers LLP
Kintyre House
209 West George Street
Glasgow
G2 2LW

Bankers

The Royal Bank of Scotland plc
Dunfermline Branch
52-54 East Port
Dunfermline
KY12 7HB

FBM Babcock Marine Holdings (UK) Limited

Directors' report for the year ended 31 March 2005

Financial statements

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

Principal activity

The principal activity of the company is a holding company for a shipbuilding, design, repairs and marine engineering group.

Review of the business

The profit and loss account for the year is set out on page 7. Following a move in group strategy to change the business to that of a Support Services Group, the investment in FBMA Babcock Marine Inc. was disposed of during the year.

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.

Results and dividends

The loss for the year, after taxation, amounted to £142,000 (2004: loss of £216,000). The directors do not recommend the payment of a dividend (2004: £nil). Accordingly the loss for the year of £142,000 (2004: loss £216,000) has been transferred from reserves.

Directors and their interests

The directors of the company who served during the year were:

A Marsh

B Morse (resigned 12 May 2005)

I S Urquhart (appointed 12 May 2005)

None of the directors had any beneficial interest in the company's shares.

The interests of A Marsh, B Morse and I S Urquhart are shown in the financial statements of Babcock Engineering Services Limited, Rosyth Royal Dockyard Limited and Marine Engineering and Fabrications Limited respectively, fellow group companies.

FBM Babcock Marine Holdings (UK) Limited

Directors' report for the year ended 31 March 2005 (continued)

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the result of the company for that year. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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.

FBM Babcock Marine Holdings (UK) Limited

Directors' report for the year ended 31 March 2005 (continued)

Auditors

The company has elected pursuant to s. 386 of the Companies Act 1985 to dispense with the obligation to appoint auditors annually.

By order of the board

A handwritten signature in black ink, consisting of a stylized 'U' followed by a horizontal line that curves upwards at the end.

I S Urquhart
Director

26 January 2006

**Independent auditors' report to the members of
FBM Babcock Marine Holdings (UK) Limited
For the year ended 31 March 2005**

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 3.

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

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

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

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

**Independent auditors' report to the members of
FBM Babcock Marine Holdings (UK) Limited (continued)**

Opinion

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow

26 January 2006

FBM Babcock Marine Holdings (UK) Limited

Profit and loss account as at 31 March 2005

| | Note | 2005 £'000 | 2004 £'000 |
|--|-------------|---------------|---------------|
| Operating expenses | 2 | (142) | (216) |
| Loss on ordinary activities before and after taxation | 3, 9 | (142) | (216) |

All of the company's activities relate to continuing operations.

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

The company does not have any gains or losses other than the loss for the year.

FBM Babcock Marine Holdings (UK) Limited

Balance sheet as at 31 March 2005

| | Note | 2005 £'000 | 2004 £'000 |
|---|------|---------------|---------------|
| Fixed assets | | | |
| Investments | 5 | 20 | 162 |
| Creditors: amounts falling due within one year | 6 | (932) | (932) |
| Net current liabilities | | (932) | (932) |
| Total assets less current liabilities | | (912) | (770) |
| Net liabilities | | (912) | (770) |
| Capital and reserves | | | |
| Called up share capital | 7 | 2,935 | 2,935 |
| Share premium account | 8 | 49 | 49 |
| Profit and loss account | 8 | (3,896) | (3,754) |
| Equity shareholders' deficit | 9 | (912) | (770) |

The financial statements were approved by the board of directors on 26 January 2006 and were signed on its behalf by:



I S Urquhart
Director

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

FBM Babcock Marine Holdings (UK) Limited

Notes to the Financial Statements for the year ended 31 March 2005

1. Accounting Policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the principal accounting policies is set out below. They have all been applied consistently throughout the year and the preceding year.

a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention.

The directors have prepared the financial statements on the basis that the company is a going concern. Babcock International Group PLC has undertaken to give financial support to the company for a period of not less than twelve months from the date of approval of the financial statements.

The company has taken advantage of the exemption from preparing consolidated accounts afforded by section 228 of the Companies Act 1985 because it is a wholly owned subsidiary of Babcock International Group plc which prepares consolidated accounts which are publicly available. The company is also, on this basis, exempt from the requirement of FRS 1 (Revised), "Cash Flow Statements", to present a cash flow statement.

b) Investments

Investments in subsidiaries, associates and joint ventures are stated at cost less provision for impairment. Additional long term loans advanced to the joint venture are treated as further investments. In considering the carrying value of the investments the underlying trading performance of the entity is taken into consideration.

c) Foreign currencies

Income and expenditure is recognised in the profit and loss account at the exchange rate ruling at the transaction date unless the transaction is subject to contract rates. Monetary assets and liabilities in overseas currencies are translated into sterling at the rates ruling at the balance sheet date. All other foreign exchange differences are taken to the profit and loss account in the period in which they arise.

d) Taxation

UK corporation tax is provided at amounts expected to be paid or recovered using the tax rates enacted by the balance sheet date.

FBM Babcock Marine Holdings (UK) Limited

Notes to the Financial Statements for the year ended 31 March 2005 (continued)

Accounting Policies (continued)

d) Taxation (continued)

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in period 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.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Further information is provided in note 4.

2 Operating expenses (net)

| | 2005 £'000 | 2004 £'000 |
|---|---------------|---------------|
| Amounts written off investment | 148 | 108 |
| Unrealised foreign exchange (gain)/loss of translation of investments | (6) | 108 |
| | 142 | 216 |

3 Loss for the year

The company carried out one class of business, being that of a holding company for a shipbuilding, design, repairs and marine engineering group.

The company had no employees during either year other than the directors. Directors' remuneration was borne by other group companies. None of the directors received any remuneration in respect of their services as a director of the company.

Audit fees are borne by other group companies and are not recharged.

FBM Babcock Marine Holdings (UK) Limited

Notes to the Financial Statements for the year ended 31 March 2005 (continued)

4 Taxation

The corporation tax charge for the period is £nil (2004: £nil).

The differences between the total current tax and the amount calculated by applying the rate of UK corporation tax to the loss before tax is as follows:

| | 2005 £'000 | 2004 £'000 |
|---|---------------|---------------|
| (Loss) on ordinary activities before tax | (142) | (216) |
| Corporation tax at the standard rate of 30% | (43) | (65) |
| Expenses not deductible for tax purposes | 43 | 65 |
| | - | - |

The company does not have any provided or unprovided deferred tax at 31 March 2005 (2004: £nil).

5 Investments in subsidiaries and associates

| | Subsidiaries £'000 | Associates £'000 | Joint Venture Equity Investment £'000 | Loan £'000 | Total £'000 |
|----------------------------|-----------------------|---------------------|--|---------------|----------------|
| Cost | | | | | |
| At 1 April 2004 | 3,231 | 250 | 1,680 | 664 | 5,825 |
| Eliminated on disposal | | | (1,680) | (670) | (2,350) |
| Foreign exchange movement | - | - | - | 6 | 6 |
| At 31 March 2005 | 3,231 | 250 | - | - | 3,481 |
| Amounts written off | | | | | |
| At 1 April 2004 | 3,211 | 250 | 1,680 | 522 | 5,663 |
| Movement in the year | - | - | - | (165) | (165) |
| Eliminated on disposal | - | - | (1,680) | (357) | (2,037) |
| At 31 March 2005 | 3,211 | 250 | - | - | 3,461 |
| Net book value | | | | | |
| At 31 March 2005 | 20 | - | - | - | 20 |
| At 31 March 2004 | 20 | - | - | 142 | 162 |

The foreign exchange movement relates to an unrealised foreign exchange gain arising from translation of loans to a joint venture of US \$1,225,000 at the rates prevailing at 31 March 2004, which was eliminated during the year.

FBM Babcock Marine Holdings (UK) Limited

Notes to the Financial Statements for the year ended 31 March 2005 (continued)

5 Investments (continued)

Interests in group undertakings

| Name of subsidiary undertaking | Country of incorporation and operation | Activity | Description of shares held | Proportion of nominal value of issued shares held by company |
|--|--|--------------|-------------------------------|---|
| <i>Subsidiaries</i> | | | | % |
| FBM Babcock Marine Limited | UK | Shipbuilding | Ordinary £1 shares | 100 |
| FBM Support Services Limited | UK | Dormant | Ordinary £1 shares | 100 |
| FBM Marine International (UK) Limited | UK | Dormant | Ordinary £1 shares | 100 |
| <i>Associated undertakings</i> | | | | |
| FBV Designs Limited | UK | Dormant | Ordinary £1 shares | 50 |

6 Creditors: amounts falling due within one year

| | 2005 £'000 | 2004 £'000 |
|---|---------------|---------------|
| Amounts owed to subsidiary undertakings | 928 | 928 |
| Amounts owed to related undertakings | 4 | 4 |
| | 932 | 932 |

7 Called up share capital

| | 2005 £'000 | 2004 £'000 |
|---|---------------|---------------|
| Authorised | | |
| Ordinary shares of £1 each (5,000,000) shares | 5,000 | 5,000 |
| Allotted, called up and fully paid | | |
| Ordinary shares of £1 each (2,935,244) shares | 2,935 | 2,935 |

FBM Babcock Marine Holdings (UK) Limited

Notes to the Financial Statements for the year ended 31 March 2005 (continued)

8 Share premium account and reserves

| | Share Premium £'000 | Profit and loss account £'000 |
|-----------------------------|---------------------------|-------------------------------------|
| At 1 April 2004 | 49 | (3,754) |
| Loss for the financial year | - | (142) |
| At 31 March 2005 | 49 | (3,896) |

9 Reconciliation of movement in equity shareholders deficit

| | 2005 £'000 | 2004 £'000 |
|--------------------------------------|---------------|---------------|
| Opening equity shareholders' deficit | (770) | (554) |
| Loss for the financial year | (142) | (216) |
| At 31 March 2005 | (912) | (770) |

10 Contingent liabilities

The company is registered for VAT purposes in a group of undertakings which shares a common registration number. As a result, it has jointly guaranteed the liability of the group and failure by other members of the group to meet their VAT liabilities would give rise to additional liabilities for the company. The directors are of the opinion that no additional liability is likely to arise.

11 Related party transactions

The company has taken advantage of the exemption under FRS 8 "Related Parties", not to disclose transactions with group companies.

FBM Babcock Marine Holdings (UK) Limited

Notes to the Financial Statements for the year ended 31 March 2005 (continued)

12 Ultimate parent undertaking

The company's immediate parent company is Babcock Support Services Limited, a company registered in Scotland. 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