

BABCOCK SUPPORT SERVICES (INVESTMENTS) LIMITED

**DIRECTORS' REPORT AND FINANCIAL
STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2005

Company number: 4393168



BABCOCK SUPPORT SERVICES (INVESTMENTS) LIMITED

DIRECTORS AND ADVISORS

DIRECTORS

P L Rogers
W Tame

SECRETARY

S A Billiald

REGISTERED OFFICE

2 Cavendish Square
London
W1G 0PX

AUDITORS

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

BABCOCK SUPPORT SERVICES (INVESTMENTS) LIMITED

DIRECTORS' REPORT for the year ended 31 March 2005

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

Principal Activity

The principal activity of the company is that of an investment holding company. There are no plans to alter significantly the business of the company.

Results and dividends

The retained profit for the year is £743,000 (2004: £339,000) which will be transferred to reserves. A dividend of £26,000,000 was paid in the year (2004: £nil).

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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 year. The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 March 2005 and that applicable accounting standards have been followed.

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.

Directors and their interests

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

P L Rogers
W Tame

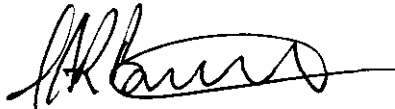
None of the directors had any beneficial interest in the shares of the company. At 31 March 2005, Mr P L Rogers and Mr W Tame were also directors of the ultimate parent company and their interest in the shares and share options of that company are disclosed in that company's accounts.

No director had any material interest during the year in any contract with the company or its subsidiaries requiring disclosure under Section 317 of the Companies Act 1985.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

This report was approved by the Board on 18 October 2005.



S A Billiald
Secretary

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

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or 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.

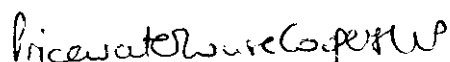
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

BABCOCK SUPPORT SERVICES (INVESTMENTS) LIMITED

Independent auditors' report to the members of Babcock Support Services (Investments) Limited (continued)

Opinion

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



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

18 October 2005

BABCOCK SUPPORT SERVICES (INVESTMENTS) LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2005

Notes		2005 £000	2004 £000
Administration expenses		(4)	(6)
Operating loss		(4)	(6)
Income from fixed asset investments		32,446	5,189
Profit on ordinary activities		32,442	5,183
Interest payable	3	(5,699)	(4,844)
Profit on ordinary activities before tax		26,743	339
Taxation	4	-	-
Profit on ordinary activities after taxation		26,743	339
Dividend	11	(26,000)	-
Retained profit for the year		743	339

There are no material differences between profit on ordinary activities before tax and the retained profit for the year stated above and their historical cost equivalent.

All of the above results derive from continuing activities.

There are no other recognised gains or losses other than those shown in the profit and loss account.

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

BABCOCK SUPPORT SERVICES (INVESTMENTS) LIMITED

BALANCE SHEET
as at 31 March 2005

	Notes	2005 £000	2004 £000
FIXED ASSETS			
Investments in group companies	5	150,000	150,000
CURRENT ASSETS			
Debtors	6	9,417	7,841
Cash at bank		3	2
CREDITORS			
Amounts due within one year	7	(7,766)	(6,932)
Net Current Assets		1,654	911
Total assets less current liabilities		151,654	150,911
CREDITORS – amounts due after more than one year	8	(100,000)	(100,000)
NET ASSETS		51,654	50,911
CAPITAL AND RESERVES			
Called-up equity share capital	9	5	5
Share premium	10	49,995	49,995
Profit and loss account	10	1,654	911
Equity Shareholders funds	12	51,654	50,911

The financial statements on pages 6 to 12 were approved by the Board on 18 October 2005 and signed on its behalf by:


W Tame
Director

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

1 ACCOUNTING POLICIES

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

Basis of Accounting

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards.

The company has taken advantage of Section 228 of the Companies Act 1985 and has not prepared group financial statements. The company is a wholly owned subsidiary undertaking of another company incorporated in England and Wales, which prepares consolidated financial statements that are publicly available.

Cash flow

A cash flow statement has not been prepared as the company has taken advantage of the exemption under FRS1 available to wholly owned subsidiaries of a company incorporated in the EU whose consolidated financial statements include a consolidated cash flow statement.

Fixed asset investments

Fixed asset investments are stated at cost less provision for impairment.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the year end exchange rates. Any exchange differences arising are dealt with in the profit and loss account.

Taxation

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

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

1. ACCOUNTING POLICIES *continued*

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.

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

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

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.

During the year the Babcock International Group has continued its policy of surrendering tax losses and advance corporation tax to group undertakings for no consideration except where there is a minority interest in the subsidiary.

2 STAFF COSTS

No remuneration was paid to any director in respect of their services to the company. There were no employees during the year (2004:none). Auditors' remuneration in respect of audit services is borne by Babcock International Group PLC.

3 INTEREST PAYABLE

	2005 £000	2004 £000
Group interest payable	5,699	4,844

BABCOCK SUPPORT SERVICES (INVESTMENTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. TAXATION

The corporation tax charge during the period is nil (2004:nil). The profit before taxation is principally made up of non-taxable dividend income from subsidiaries. The remaining loss before tax is surrendered to fellow group companies for nil consideration, in line with group policy. There is no provided or unprovided deferred tax at the year end (2004:nil)

5. FIXED ASSET INVESTMENTS

	2005 £000	2004 £000
COST AND NET BOOK VALUE		
INVESTMENTS IN GROUP COMPANIES (note 13)		
At 31 March 2004 and 2005	150,000	150,000

6. DEBTORS	2005 £000	2004 £000
Amounts owed by parent and fellow subsidiary undertakings	9,417	7,841

7. CREDITORS: amounts falling due within one year

	2005 £000	2004 £000
Amounts owed to fellow subsidiary undertakings	7,766	6,932

8. CREDITORS: amounts falling due after more than one year

	2005 £000	2004 £000
Amounts owed to fellow subsidiary undertakings	100,000	100,000

This debt matures in between two and four years. This debt bears an interest rate of UK LIBOR six monthly rate plus one hundred basis points.

BABCOCK SUPPORT SERVICES (INVESTMENTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

CALLED UP SHARE CAPITAL

	2005 £000	2004 £000
Authorised:		
10,000 Ordinary shares of £1	10	10
Allotted, called-up and fully paid:		
5,000 Ordinary shares of £1	5	5

10 RESERVES

	Share Premium Account £000	Profit & Loss £000
As at 1 April 2004	49,995	911
Retained profit for the year	-	743
At 31 March 2005	49,995	1,654

11 DIVIDENDS

	2005 £000	2004 £000
Equity		
Interim dividend £5,200 per £1 share (2004: £nil)	26,000	-

12 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2005 £000	2004 £000
Opening shareholders' funds	50,911	50,572
Profit for the year	743	339
Closing shareholders' funds	51,654	50,911

13 PRINCIPAL SUBSIDIARY UNDERTAKINGS

Defence Services

Babcock Naval Services Limited
Air Power International Limited

Technical Services

Babcock Design & Technology Limited
Babcock Engineering Services Limited
Babcock Support Services Limited
Chepstow Insurance Limited
Hiberna FM Limited
Marine Engineering & Fabrications Limited
Rosyth Royal Dockyard Limited

All undertakings are wholly owned unless otherwise stated.

Except as otherwise stated, all shares held comprise ordinary share capital.

All undertakings are incorporated, registered and operated in Great Britain unless otherwise stated.
Undertakings located overseas operate principally in the country of incorporation.

14 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption granted to 90% subsidiaries, by FRS8 Related Party Disclosures, not to disclose transactions with group undertakings.

15 ULTIMATE CONTROLLING PARTY

The company's immediate parent company is Babcock Holdings Limited and the ultimate controlling company is Babcock International Group PLC. Both companies are 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 the Babcock International Group PLC accounts are available from the following address:

Babcock International Group PLC
2 Cavendish Square
London
W1G 0PX