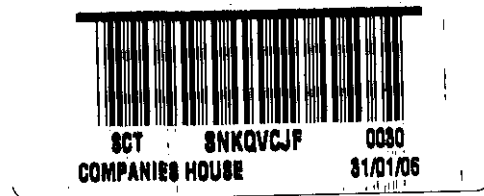


Babcock Design & Technology Limited

Financial statements for the year ended 31 March 2005

together with directors' and auditors' reports

Registered Number: SC173117



Babcock Design & Technology Limited

Directors and advisers

Directors

A A Bethel

T M R Pettigrew

P L Rogers (appointed 04 August 2004)

Joint secretaries

J D T Greig

S A R Billiald

Registered office

Rosyth Business Park

Rosyth

Dunfermline

Fife

KY11 2YD

Independent 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

Babcock Design & Technology Limited

Directors' report

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

Principal activities and review of business

The principal activity of the company is the provision of engineering services and information management to the Ministry of Defence and to other high value, high integrity asset owners.

At close of business on 31 March 2005 the trading assets and liabilities of the company were transferred at market value as a going concern to Babcock Support Services Limited, another group undertaking operating in the United Kingdom.

Results and dividends

The audited financial statements for the year ended 31 March 2005 are set out on pages 7 to 21.

On 21 February 2005, the directors declared a dividend of £5,500,000 (2004: £Nil). The directors recommend that no final dividend is paid (2004: £nil) and the retained loss for the year of £3,068,000 (2004: profit £2,047,000) has been transferred to reserves.

Directors and their interests

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

A A Bethel	
T M R Pettigrew	
P L Rogers	(appointed 04 August 2004)
K G Colquhoun	(resigned 31 March 2005)
I Lindsay	(resigned 31 March 2005)
R V Leach	(resigned 31 March 2005)

The interests of P L Rogers who is a director of the ultimate parent company, Babcock International Group PLC, are shown in that company's financial statements. The interests of A A Bethel are shown in the financial statements of Rosyth Royal Dockyard Limited.

Babcock Design & Technology Limited

Directors' report (continued)

According to the register of directors' interests maintained under the Companies Act, the directors who held office at 31 March 2005 and their immediate families have the following shares in and options to subscribe for shares in Babcock International Group PLC:

	1 April 2004	Movement in year	31 March 2005
Number of ordinary shares			
K G Colquhoun	220	330	550
R V Leach	220	330	550
Ordinary shares held in trust under an employee share participation scheme			
K G Colquhoun	330	(330)	-
R V Leach	330	(330)	-
Number of options over ordinary shares			
T M R Pettigrew	-	30,000	30,000

Supplier payment policy

The company's policy is to settle terms of payment with suppliers by mutual agreement and to abide by the terms of payment. Trade creditors of the company at 31 March 2005 were equivalent to 16 days.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that 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.

Babcock Design & Technology Limited

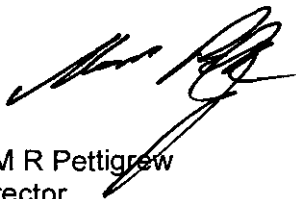
Directors' report (continued)

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

Auditors

The company has elected, pursuant to s386 of the Companies Act 1985, to dispense with the obligation to appoint auditors annually.

By order of the Board



T M R Pettigrew
Director
Babcock Design & Technology Limited

30 June 2005

Babcock Design & Technology Limited

Independent auditors' report

Independent auditors' report to the members of Babcock Design & Technology Limited

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.

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

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

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

Basis of audit opinion

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

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

Babcock Design & Technology Limited

Independent auditors' report (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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow

30 June 2005

Babcock Design & Technology Limited

Profit and loss account

For the year ended 31 March 2005

	Notes	2005 £'000	2004 £'000
		Discontinued	
Turnover	2	17,309	12,690
Cost of sales		(12,434)	(8,761)
Gross profit		4,875	3,929
Administrative expenses		(2,668)	(2,098)
Profit before interest and taxation		2,207	1,831
Net interest receivable and similar charges	3	226	56
Profit on ordinary activities before taxation	4	2,433	1,887
Tax on profit on ordinary activities	7	(1)	160
Profit for the financial year after taxation		2,432	2,047
Dividends on equity shares	12	(5,500)	-
Retained (loss)/ profit for the financial year	15	(3,068)	2,047
Retained profit at beginning of year		4,065	2,018
Retained profit at end of year	15	997	4,065

There is no difference between the profit on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

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

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

Babcock Design & Technology Limited

Balance Sheet

As at 31 March 2005

	Notes	2005 £'000	2004 £'000
Fixed assets			
Tangible fixed assets	8	144	240
Intangible fixed assets	9	<u>600</u>	<u>-</u>
		744	240
Current assets			
Debtors	10	7,155	7,042
Bank and cash		<u>-</u>	<u>4,847</u>
		7,155	11,889
Creditors: amounts falling due within one year	11	<u>(6,902)</u>	<u>(8,064)</u>
Net current assets		<u>253</u>	<u>3,825</u>
Total assets less current liabilities		<u>997</u>	<u>4,065</u>
Net assets		<u><u>997</u></u>	<u><u>4,065</u></u>
Capital and reserves			
Share capital	14	-	-
Profit and loss account	15	<u>997</u>	<u>4,065</u>
Equity shareholders' funds	16	<u><u>997</u></u>	<u><u>4,065</u></u>

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

Signed on behalf of the Board



T M R Pettigrew

Director

30 June 2005

Babcock Design & Technology Limited

Notes to the financial statements

For the year ended 31 March 2005

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

a) *Basis of accounting*

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

b) *Tangible fixed assets*

Fixed assets are stated at cost less depreciation and any provision for impairment. Depreciation is calculated on all fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Leasehold improvements	- over term of lease
Plant and machinery	- 3 to 5 years
Computer equipment	- 3 years (33.3% per annum)

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*

Intellectual property rights in relation to the Babcock name are amortised over seven years over the term of the licence agreement.

d) *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.

e) *Turnover*

Turnover, net of discounts, which excludes value added and similar taxes, comprises:

- (i) Contract work - cost of sales plus profit taken; and
- (ii) Sales (other than contract sales) of goods and services at invoiced value.

Babcock Design & Technology Limited

Notes to the financial statements (continued)

For the year ended 31 March 2005

1 Accounting policies (continued)

f) 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 as at 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 group'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 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.

g) Pensions

- (i) Rosyth Royal Dockyard Limited, a fellow group undertaking, operates a defined benefit pension scheme for the benefit of its employees and employees of other Babcock Group companies. The funds of the scheme are administered by Trustees and are held separately from the company. Independent qualified actuaries complete valuations periodically and, in accordance with their recommendations, annual contributions from employees and employer are paid to the scheme so as to secure the benefits set out in the rules. The cost of these contributions is charged against profits on a systematic basis over the service lives of the employees. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

Babcock Design & Technology Limited

Notes to the financial statements (continued)

For the year ended 31 March 2005

1 Accounting policies (continued)

- (ii) Babcock International Group PLC operates a defined benefit scheme for the benefit of members of the Babcock Group. The fund of the scheme is administered by Trustees and is held separately from the group. Independent qualified actuaries complete valuations periodically and, in accordance with their recommendations, annual contributions from employees and employer are paid to the scheme so as to secure the benefits set out in the rules. The cost of these benefits is reflected in the Babcock International Group PLC financial statements.

h) Cash flow statement

The company has taken advantage of the exemption in FRS 1 (Revised), to dispense with the requirement to prepare a cash flow statement in its accounts, as a consolidated cash flow statement is included in the accounts of the ultimate parent company.

i) Operating leases

The company enters into operating leases. Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis.

2 Turnover

Turnover by destination is as follows:

	2005 £'000	2004 £'000
United Kingdom	17,309	12,639
Rest of Europe	-	9
Rest of World	-	42
	<u>17,309</u>	<u>12,690</u>

Babcock Design & Technology Limited

Notes to the financial statements (continued)

For the year ended 31 March 2005

3 Net interest receivable and similar charges

	2005	2004
	£'000	£'000
Group interest receivable	<u>226</u>	<u>56</u>

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2005	2004
	£'000	£'000
Depreciation - owned fixed assets	128	157
Amortisation - intangible fixed assets	100	-
Auditors' remuneration - audit fees	10	9
- other	5	-
Operating lease rentals:		
- land and buildings	84	10
- other	<u>1</u>	<u>7</u>

5 Staff costs

	2005	2004
	£'000	£'000
The aggregate remuneration of employees comprised:		
Wages and salaries	6,780	5,587
Social security costs	555	446
Other pension costs (note 19)	535	452
	<u>7,870</u>	<u>6,485</u>

	2005	2004
	Number	Number
The average monthly number of employees (including executive directors) was:		
Administration	47	47
Design	187	176
	<u>234</u>	<u>223</u>

Babcock Design & Technology Limited

Notes to the financial statements (continued)

For the year ended 31 March 2005

6 Directors' remuneration

Directors' remuneration was as follows:

	2005 £'000	2004 £'000
Emoluments (including benefits-in-kind)	<u>322</u>	<u>184</u>

The emoluments (excluding pension and pension contributions) of the highest paid Director was £100,603 (2004: £78,987).

The remuneration of P L Rogers and A A Bethel was incurred by other group undertakings. No part of this remuneration could be attributed to services in respect of Babcock Design & Technology Limited.

Retirement benefits for 2 directors (2004: 3) are being accrued by other group undertakings under defined benefit pension schemes.

7 Tax on profit on ordinary activities

	2005 £'000	2004 £'000
UK corporation tax on profit for the period	-	-
Deferred tax current year (note 13)	44	160
Deferred tax under provision in respect of prior year (note 13)	(45)	-
	<u>(1)</u>	<u>160</u>

The differences between the total current 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 Design & Technology Limited

Notes to the financial statements (continued)

For the year ended 31 March 2005

7 Tax on profit on ordinary activities (continued)

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	2,433	1,887
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2004: 30%)	730	566
Effects of:		
Expenses not deductible for tax purposes	4	5
Short term timing differences	44	148
Group relief received for no consideration	(779)	(719)
Current tax credit for the year	(1)	-

Babcock Design & Technology Limited

Notes to the financial statements (continued)

For the year ended 31 March 2005

8 Tangible fixed assets

	Short Leasehold Property	Computer Equipment	Plant & machinery	Total
Cost	£'000	£'000	£'000	£'000
At 1 April 2004	82	391	268	741
Additions	-	3	33	36
Disposals	(82)	-	-	(82)
At 31 March 2005	-	394	301	695
Depreciation				
At 1 April 2004	71	211	219	501
Reclassification	-	52	(52)	-
Charge for the year	7	76	45	128
Written off on disposal	(78)	-	-	(78)
At 31 March 2005	-	339	212	551
Net book value				
At 31 March 2005	-	55	89	144
At 31 March 2004	11	180	49	240

Babcock Design & Technology Limited

Notes to the financial statements (continued)

For the year ended 31 March 2005

9 Intangible fixed assets

	Intellectual property rights £'000
Cost	
At 1 April 2004	-
Additions	700
At 31 March 2005	<u>700</u>
Amortisation	
At 1 April 2004	-
Charge for the year	100
At 31 March 2005	<u>100</u>
Net book value	
At 31 March 2005	<u>600</u>
At 31 March 2004	<u>-</u>

The intellectual property rights relate to the use of the Babcock name.

10 Debtors

	2005 £'000	2004 £'000
Trade debtors	1,904	1,696
Amounts recoverable on contracts	1,959	2,155
Amounts owed by group undertakings	2,495	2,003
Prepayments and accrued income	50	440
Deferred tax asset (note 13)	747	748
	<u>7,155</u>	<u>7,042</u>

Babcock Design & Technology Limited

Notes to the financial statements (continued)

For the year ended 31 March 2005

11 Creditors: amounts falling due within one year

	2005 £'000	2004 £'000
Bank overdraft	377	-
Trade creditors	80	-
Payments on account of long term contracts	2,915	2,129
Amounts owed to group undertakings	3,061	5,078
Other taxes and social security costs	113	215
Other creditors, accruals and deferred income	356	642
	<u>6,902</u>	<u>8,064</u>

12 Dividends paid on equity shares

	2005 £'000	2004 £'000
Interim paid of £2,750,000 (2004: £Nil) per share	<u>5,500</u>	<u>-</u>

Babcock Design & Technology Limited

Notes to the financial statements (continued)

For the year ended 31 March 2005

13 Deferred taxation

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

	2005 Fully Provided	2004 Fully Provided
	£'000	£'000
Accelerated depreciation	55	43
Other short term timing differences	692	705
	<u>747</u>	<u>748</u>

The movement on the deferred tax asset is as follows:

	£'000
At 1 April 2004	748
Credited to profit and loss account	44
Prior year adjustment	(45)
At 31 March 2005	<u>747</u>

There is no unprovided deferred tax liability in the company.

14 Called-up equity share capital

	2005 £	2004 £
Authorised		
1,000,000 ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, called-up and fully-paid		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

15 Reserves

	£'000
At 1 April 2004	4,065
Retained profit for the year	(3,068)
At 31 March 2005	<u>997</u>

Babcock Design & Technology Limited

Notes to the financial statements (continued)

For the year ended 31 March 2005

16 Reconciliation of movements in shareholders' funds

	2005 £'000	2004 £'000
(Loss after distributions)/ profit for the financial year	(3,068)	2,047
Opening shareholders' funds	4,065	2,018
Closing shareholders' funds	997	4,065

17 Guarantees and financial commitments

a) Capital commitments

There were no capital commitments as at 31 March 2005 (2004: £nil).

b) Operating Lease Commitments

	2005		2004	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Annual commitments expiring:				
- within one year	-	-	-	6
- within one to two years	-	-	29	-
- within three to four years	85	-	-	-
	85	-	29	6

c) Guarantees

The company has granted cross-guarantees to secure certain borrowings of fellow group undertakings. The aggregate amount secured at 31 March 2005 was £10m (31 March 2004: £10m).

18 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 transactions with other members of the group headed up by Babcock International Group PLC.

Babcock Design & Technology Limited

Notes to the financial statements (continued)

For the year ended 31 March 2005

19 Pension commitments

Certain employees of the company are entitled to membership of the pension scheme operated by Rosyth Royal Dockyard Limited, a fellow group undertaking. Details of the most recent actuarial valuation for this scheme are disclosed in the financial statements of Rosyth Royal Dockyard Limited. The pension cost, calculated in accordance with SSAP 24, included as a charge in arriving at operating profit was £535,210 (2004: £452,000). Provisions of £1,945,307 (2004: £1,825,654) are carried in the balance sheet, within amounts owed to other group undertakings, in respect of the Rosyth Royal Dockyard Pension Scheme.

Certain employees of the company are entitled to membership of the pension scheme operated by Babcock International Group PLC. Details of the most recent actuarial valuation for this scheme are disclosed in the financial statements of Babcock International Group PLC. As a result of the level of the surplus the company's contributions to the Babcock International Group Pension Scheme are currently suspended until at least the next formal valuation.

20 Post balance sheet events

At close of business on 31 March 2005 the company disposed of its trading assets and liabilities. These assets and liabilities were acquired by Babcock Support Services Limited, the immediate parent company of Babcock Design & Technology Limited.

The assets and liabilities disposed of are set out below:

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

The book value is deemed to be equivalent to the market value.

Babcock Design & Technology Limited

Notes to the financial statements (continued)

For the year ended 31 March 2005

21 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 accounts are available to the public from the following address:

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