



Annual Report and Financial Statements

for the year ended 31 March 2007



Doosan Babcock Energy



Building & Engineering

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Financial Review

GROWTH PLANS

2006/07 has been a very significant year in the development of the Doosan Babcock Energy Group. Since being acquired in December 2006 by Doosan Heavy Industries, part of a major Korean Group, our ambitions and growth plans have undergone a step change. With a parent that is now closely aligned with our business, we now have huge potential for synergies and significantly increased scope to tackle the worldwide energy market.

Doosan Heavy Industries have made their investment at the perfect time with our Services business performing excellently and a large and increasing market for our New Build business giving us many opportunities to grow this business. With this strong platform the prospect of more than doubling the size of our business within the next 5 years is not an unrealistic goal.

FINANCIAL RESULTS

In the year turnover fell by 5% to £410m. This reflects a short term dip in global New Build orders, which is expected to reverse following the acquisition and renewed emphasis on New Build. There has also been a planned focus in the UK Services business on quality work rather than volume, yielding better returns in terms of the bottom line. Growth in volume has been seen in the area of technology led projects with particular success in BOFA NOx reduction projects.

Group operating profit before exceptional items fell slightly from £9.2m to £8.3m. Underlying this is exceptional performance on the Services side with a near doubling of returns from this business. This has been offset by a drop in activity and performance

on the New Build side. We continue to make significant investments in technology for the future which will yield their benefit in the medium to longer term.

Net interest receivable increased from £0.8m to £3.1m reflecting exceptionally strong cash management in the year, an area of major focus in recent time. This was combined with an increase in our pension assets with the resultant increase in our expected return on assets.

Profit before tax increased by £2.0m to £11.1m, reflecting this growth in interest receivable with operating profit being broadly similar. With a tax charge of £3.6m related in the main to deferred tax on the reduction in pension liability, profit after tax at £7.5m is £1.2m higher than the prior year reflecting a continued growth in the bottom line.

CASH MANAGEMENT

Focus on cash generation has been a key target for Doosan Babcock Energy over recent years, in particular in the labour intensive Services area of the business. 2006/07 has been another very successful year which enabled us to put significant one-off contributions into the pension scheme. The year end cash balance at £51.3m (2006: £56.5m) is after a £11.5m special contribution towards the Pension deficit and reflects strong underlying cash generation.

LOOKING FORWARD

2006/07 was a year of record order intake for Doosan Babcock Energy with orders received in excess of £500m. Combined with the significant boost of the acquisition we are very well placed to take advantage of the

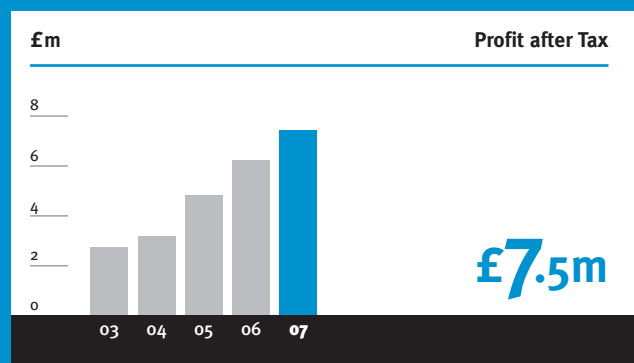
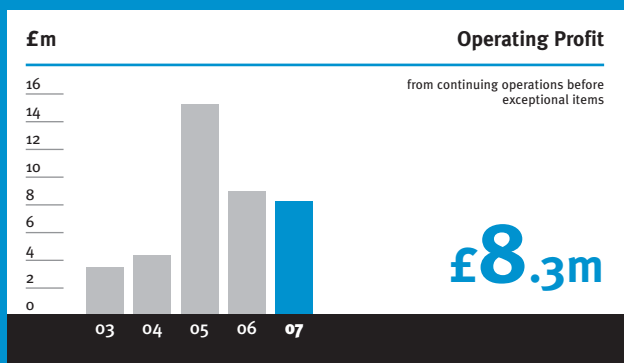
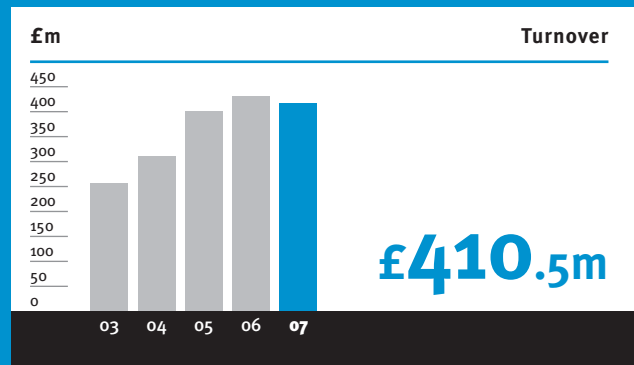
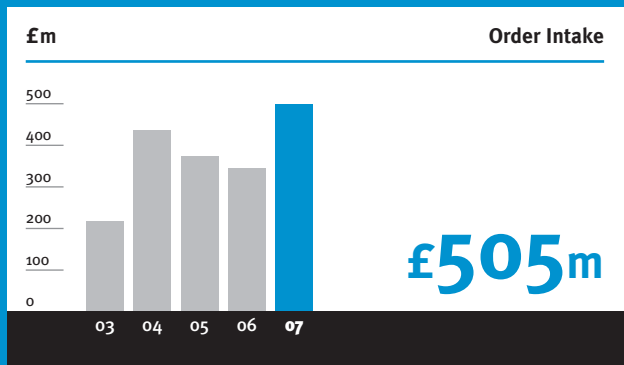
market opportunities available. With our strong home market, overseas presence in our key markets of Europe, Americas and Asia, and the support of our new parent with its major capabilities and facilities in Korea, the future looks very bright for Doosan Babcock Energy.

STEPHEN MOORE
CHIEF FINANCIAL OFFICER

Financial Review

Five Year Summary

	2003	2004	2005	2006	2007
	£m	£m	£m	£m	£m
Order Intake	215	433	375	345	505
Turnover	260.4	306.2	396.0	431.0	410.5
Operating profit from continuing operations before exceptional items	3.6	4.3	15.3	9.2	8.3
Profit on ordinary activities before taxation	3.7	4.2	10.7	9.1	11.1
Profit on ordinary activities after taxation and minority interests	2.8	3.2	4.9	6.3	7.5
Equity shareholders' funds	(4.3)	15.3	20.0	14.9	22.8
Net assets before pension liability	33.6	38.8	41.5	44.4	41.1



Directors' Report

for the year ended 31 March 2007

The directors present their annual report on the affairs of the Group, together with the financial statements, for the year ended 31 March 2007.

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group auditors are aware of that information.

PRINCIPAL ACTIVITIES

The principal activities of the Group are associated with providing high value added energy services and innovative technology led business solutions and coal-fired power plant to the power generation industry and associated markets.

On 13 July 2006 the Group acquired 33⅓% of the issued Share Capital of Connective Energy Limited (registered and located in United Kingdom) for total consideration payable of £1.

On 8 December 2006 the Group acquired Minority Interest shares in Doosan Babcock Polska Sp z.o.o. (registered and located in Poland) increasing the Group's effective holding to 98.37%.

On 3 January 2007 the Group invested a further £51,504 in the share capital of Babcock Power Technologies (Shanghai) Limited (registered and located in the Peoples Republic of China).

Details of subsidiary undertakings are given in note 9.

BUSINESS REVIEW

Trading Performance

2006/07 has been a year of continued steady growth for Doosan Babcock Energy with in particular our UK based Services business outperforming expectation and significantly offsetting a drop in returns from our New Build

business. The major event in the year was the Group's acquisition by Doosan Heavy Industries (UK) Limited, a subsidiary of Doosan Heavy Industries & Construction of Korea. This is a very positive move with a more strategic parent. Increased focus and ambition, particularly in the New Build side, should over time lead to a step change in business growth and performance.

In the year turnover decreased by 5% to £410m, this reflects a short term dip in global New Build orders and a planned focus in the UK Services business on quality work rather than volume, yielding better returns. Growth has been seen in the area of technology led projects with particular success in BOFA NOx reduction projects.

Group operating profit before exceptional items fell slightly from £9.2m to £8.3m with the strong Services performance being offset by a fall on the New Build side. We also continue to make significant investments for the future which will yield their benefit in the medium to long term.

Net interest receivable increased from £0.8m to £3.1m reflecting exceptionally strong cash

management in the year, an area of major focus. This was combined with an increase in our pension assets with the resultant increase in our expected return on assets.

Profit before tax increased by £2.0m to £11.1m, reflecting this growth in interest receivable with operating profit being broadly similar. With a tax charge of £3.6m related in the main to deferred tax on the reduction in pension liability, profit after tax at £7.5m is £1.2m higher than the prior year reflecting a continued growth in the bottom line.

Year end position

The year end cash position of £51.3m shows a decrease of £5.2m impacted by one off contributions to the pension scheme of £11.5m masking underlying cash growth. The high cash balance indicates the strong condition of the underlying balance sheet although the reported balance sheet is significantly impacted by the pension scheme deficit recognised reducing net assets by £18.3m. Year end stock, debtor and creditor balances have increased on 2006 reflecting respective increased trading levels around year end.

Non-financial key performance indicators

The directors consider that the following key performance indicators are the most effective measures of achievement of the Group's objective to provide the highest standards of Quality, Health, Safety and Environment.

These measures are reviewed each month by senior management and highlight excellent performance and identify any areas for improvement. The objectives are supported by initiatives developed to drive forward continuous improvements to procedures and processes.

Key performance indicators and 2006 performance:

• Customer compliments received	– more than 100% increase on previous year
• Lost Time Accidents	– reduced by 42% on previous year
• All Injury Frequency Rate	– improved from 0.15 to 0.09 per 100,000 hours worked
• Recordable Injury Frequency Rate	– improved from 0.96 to 0.51 per 200,000 hours worked
• Health and Safety regulatory breaches	– none
• Environmental issues and compliance with Regulator License	– none

Directors' Report

for the year ended 31 March 2007

Principal Risks and Uncertainties

The directors take the management of risk very seriously and as such all activities are conducted with a framework of policies and guidelines authorised by the Board.

In respect of foreign currencies, the Group's policy is to hedge all significant exposure to movements in exchange rates primarily through the use of the forward market. No trading or speculation in financial instruments is undertaken.

With regard to the recognition of the pension scheme position the Group is exposed to the performance of the assets invested in equities and bonds as well as the impact on liabilities of movements in bond rates and other actuarial assumptions which can vary significantly over time. To tackle these risks the Group has taken a number of actions over the previous years including closing the scheme to new entrants and increasing contributions. There is an investment sub-committee jointly appointed by the Company and Pension Trustees in addition to the financial advisors appointed by the Trustees who aim to optimise the performance of the scheme's assets.

The major uncertainties in the area of new business are in the timing of major new orders. This is relevant in both the global New Build market and in the UK. In the global New Build market, the release of major new orders is often delayed by generators having issues in the areas of permitting or planning with the impact on Doosan Babcock Energy being a potential delay in margin which given the size of the projects can be significant.

Within the UK, the ongoing political debate in the areas of Nuclear and clean coal New Build similarly have a potentially major impact on the activities of Doosan Babcock Energy including our factory in Renfrew. The acquisition by Doosan Heavy Industries in the year will increase the focus in this area both increasing the risk due to the greater proportion of New Build relative to Service and reducing it due to the portfolio approach of having a greater number of these orders in the pipeline or ongoing.

Managing risk is seen as a key attribute of the Group, with a focus on quality in everything we do. The backbone of our business is our people who we make significant efforts to train and develop through our many accredited programmes to ensure that they are amongst the best in their respective field.

RESULTS AND DIVIDENDS

The financial statements represent the audited consolidated financial statements for Doosan Babcock Energy Limited.

The consolidated net profit on ordinary activities after taxation was £7,471,000 (2006: £6,307,000). No dividend was declared in the year (2006: Nil). The profit has been transferred to reserves.

The Group's net assets including the impact of FRS 17 at 31 March 2007 are £22,838,000 (2006: £14,926,000).

DIRECTORS AND THEIR INTERESTS

The names of the directors who, unless otherwise noted, served throughout the year are:

T Bentzen	(resigned 14 December 2006)
I H Miller	
A B Smith	(resigned 27 March 2007)
M Kawai	(resigned 14 December 2006)
H Nemoto	(resigned 14 December 2006)
Y Katoh	(resigned 14 December 2006)
T Kiyota	(resigned 14 December 2006)
G W Park	(appointed 14 December 2006)
S C Nam	(appointed 14 December 2006)
H G Park	(appointed 14 December 2006)
S E Hong	(appointed 14 December 2006)
S N Moore	(appointed 16 February 2007)

RESEARCH AND DEVELOPMENT

The Group is engaged in high technology markets and recognises the need for the continued improvement and development of its products relative to market requirements. The extent of unfunded research programmes in the year was £2,596,000 (2006: £2,825,000). Funded research and development amounted to £915,000 (2006: £1,278,000).

DISABLED EMPLOYEES

The policy and practice of the Group is to seek to encourage and assist the employment of disabled persons, subject to their ability to perform the duties of the job without exposing themselves or other employees to abnormal risk. The training, career development and promotion of disabled persons is similarly encouraged and assisted. Arrangements are made wherever possible for retraining employees who become disabled to enable them to perform work identified as appropriate to their aptitudes and abilities.

EMPLOYEE INVOLVEMENT

The Group's employment policies are designed to meet local conditions and requirements. The board acknowledges the need to encourage employee involvement in the improvement of the Group's performance by supplying information on matters of concern through regular consultation with employees and by participation of employees in joint problem solving activities.

Information is provided by various means including briefing groups, audio/visual presentations, the Group's intranet and other publications.

In many parts of the Group, joint consultative committees are in operation which provide an effective means of consultation with employees on a wide range of issues.

DONATIONS

During the year the Group made charitable donations of £28,207 (2006: £14,450).

CREDITOR PAYMENT POLICY

It is the Group's policy to agree terms of payment for its transactions with its suppliers, and to adhere to such terms, subject to satisfactory completion of the transaction concerned. At 31 March 2007 the amounts due to trade creditors represented approximately 36 days of average daily purchases throughout the year (2006: 25 days) in respect of the Company and approximately 36 days (2006: 29 days) in respect of the Group. This increase on 2006 reflects the higher trade creditor balance arising from increased trading levels around the 2007 year end.

Directors' Report

for the year ended 31 March 2007

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare the Group and Parent Company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

The Group and Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Parent Company and of the profit or loss for that period.

In preparing each of the Group and Parent Company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985.

They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board on
3 July 2007



I MILLER
DIRECTOR

11 The Boulevard
Crawley
West Sussex
RH10 1UX

Independent Auditors' Report

to the members of Doosan Babcock Energy Limited

We have audited the group and parent company financial statements (the "financial statements") of Doosan Babcock Energy Limited for the year ended 31 March 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Directors' Report and the group and parent company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we also 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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.

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 31 March 2007 and of the group's 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.

KPMG LLP

Chartered Accountants
Registered Auditor

1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

3 July 2007

Consolidated Profit and Loss Account for the year ended 31 March 2007

	Notes	2007 £000	2006 £000
Turnover	2	410,451	430,995
Group operating profit		8,124	8,356
Share of operating loss in associates		(168)	–
Group and share of associates operating profit	3	7,956	8,356
Net interest receivable	5	3,100	791
Profit on ordinary activities before tax		11,056	9,147
Tax on profit on ordinary activities	6	(3,585)	(2,837)
Profit on ordinary activities after tax		7,471	6,310
Equity minority interests		–	(3)
Profit for the year	18	7,471	6,307

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

All turnover and operating profit arose from continuing operations.

Consolidated Balance Sheet

as at 31 March 2007

	Notes	2007 £000	2007 £000	2006 £000	2006 £000
Fixed Assets					
Intangible assets					
		1,887		1,998	
		(91)		(415)	
		1,796		1,583	
		6		489	
	7		1,802		2,072
Tangible assets	8		11,564		12,557
			13,366		14,629
Current assets					
Stocks	10	26,342		22,270	
Debtors	11	80,453		55,070	
Investments	12	–		78	
Cash at bank and in hand		51,268		56,500	
		158,063		133,918	
Creditors: amounts falling due within one year	13	(118,738)		(92,282)	
Net current assets			39,325		41,636
Total assets less current liabilities			52,691		56,265
Creditors: amount falling due after more than one year	14		(1,195)		(2,377)
Provisions for liabilities	15		(10,391)		(9,461)
Net assets excluding pension liability			41,105		44,427
Net pension liability	4		(18,267)		(29,501)
Net assets			22,838		14,926
Capital and reserves					
Called up share capital	17		65,000		65,000
Profit and loss account	18		(42,191)		(50,108)
Equity shareholders' funds	24		22,809		14,892
Equity minority interests	25		29		34
			22,838		14,926

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

These financial statements were approved by the Board of Directors on 3 July 2007. Signed on behalf of the Board of Directors.



I MILLER
DIRECTOR

Company Balance Sheet

as at 31 March 2007

	Notes	2007 £000	2007 £000	2006 £000	2006 £000
Fixed assets					
Intangible assets – positive goodwill	7		729		777
Tangible assets	8		9,692		10,729
Investments	9		1,000		1,081
			11,421		12,587
Current assets					
Stocks	10	24,042		21,290	
Debtors	11	68,139		59,940	
Cash at bank and in hand		52,225		52,064	
			144,406		133,294
Creditors: amounts falling due within one year	13	(94,203)		(83,553)	
			50,203		49,741
Net current assets			50,203		49,741
Total assets less current liabilities			61,624		62,328
Creditors: amounts falling due after more than one year	14	(1,176)		(1,806)	
Provisions for liabilities	15	(10,223)		(9,461)	
Net assets excluding pension liability			50,225		51,061
Net pension liability	4		(18,267)		(29,501)
Net assets			31,958		21,560
Capital and reserves					
Called up share capital	17		65,000		65,000
Profit and loss account	18		(33,042)		(43,440)
Equity shareholders' funds	24		31,958		21,560

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

These financial statements were approved by the Board of Directors on 3 July 2007. Signed on behalf of the Board of Directors.



I MILLER
DIRECTOR

Consolidated Cash Flow Statement

for the year ended 31 March 2007

	Notes	2007 £000	2006 £000
Cash flow from operating activities	19(a)	(3,337)	16,886
Returns on investments and servicing of finance	19(b)	1,869	1,248
Taxation	19(c)	(1,339)	(2,463)
Capital expenditure and financial investment	19(d)	(2,640)	(1,623)
Acquisitions and disposals	19(e)	–	(2,416)
Cash (outflow)/inflow before management of liquid resources and financing		(5,447)	11,632
Management of liquid resources	19(f)	9,881	(9,773)
Financing	19(g)	(1,363)	(1,066)
Increase in cash in the year		3,071	793

Reconciliation of Net Cash Flow to Movement in Net Funds

	2007 £000	2006 £000
Increase in cash in the year	3,071	793
Cash (inflow)/outflow from (decrease)/increase in liquid resources	(9,881)	9,773
Cash outflow from financing	1,363	1,066
Change in net funds resulting from cash flows	(5,447)	11,632
Exchange movements	1,604	(1,041)
Short term investments, loans and finance leases acquired	–	(905)
New finance leases	–	(317)
Movement in net funds in the year	(3,843)	9,369
Net funds at beginning of the year	54,252	44,883
Net funds at end of the year (see note 20)	50,409	54,252

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 March 2007

	2007 £000	2006 £000
Profit for the year	7,471	6,307
Currency translation differences on foreign currency net investments	1,551	(759)
	9,022	5,548
Pension actuarial loss in the period (note 4)	(1,579)	(15,201)
Deferred tax credit thereon (note 16)	474	4,560
Total recognised gains and losses relating to the year	7,917	(5,093)

Notes to the Financial Statements

1. ACCOUNTING POLICIES

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

Basis of Preparation

The financial statements have been prepared under the historical cost convention. The financial statements are prepared in accordance with applicable accounting standards, and on the going concern basis.

As the Company is a 100% owned subsidiary of Doosan Corporation Co., Ltd, the Company's voting rights are controlled within the Group. Therefore the Company has taken advantage of the exemption contained in Financial Reporting Standard (FRS) 8 and has not disclosed transactions or balances with entities which form part of the Doosan Corporation Co., Ltd Group. The accounts of Doosan Corporation Co., Ltd are available from the address in Note 27.

Basis of Consolidation

The Group financial statements comprise a consolidation of the accounts of the Company and its subsidiary undertakings at 31 March 2007. The acquisition method of accounting has been adopted. Under this method the profits and losses of the subsidiary undertaking are consolidated from its date of acquisition or up until the date of disposal as appropriate.

The Group financial statements include the appropriate share of the results and net assets of joint ventures and associates accounted for using the gross equity method. Joint ventures are entities in which the Group has a long term interest and shares control with another party or parties. Associates are entities in which the Group has a long term interest and exercises a significant influence with another party or parties.

Joint Arrangements

The Group has certain contractual arrangements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own. The Group includes its share of assets, liabilities and cash flows in such joint arrangements, measured in accordance with the terms of each arrangement, which is usually pro-rata to the Group's interest in the joint arrangement.

Goodwill

Purchased goodwill (both positive and negative) in respect of acquisitions before 1 January 1998, when FRS 10 Goodwill and intangible assets was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over 20 years (or its estimated useful life if shorter).

Negative goodwill in respect of acquisitions after 1 January 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

Foreign Currencies

Transactions in foreign currencies are recorded at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the year end exchange rates. All differences are taken to the profit and loss account.

Assets and liabilities and the trading results of overseas operations are translated into sterling at the rate ruling at the year end. On consolidation exchange adjustments arising from the retranslation of the opening net investment in overseas operations are taken to reserves.

Turnover

Turnover, which excludes sales within the Group and value added and similar taxes, comprises:

- (a) Contract work – amounts transferred to cost of sales plus attributed profit. A major part of the activity of the Group comprises long term contracts. Such contracts are subject to regular detailed financial and technical review to determine the estimated costs to completion. A proportion of profits earned on contracts is credited in the accounts on a prudent basis as work progresses, according to the stage of completion. Full provisions are made in respect of foreseeable losses on uncompleted contracts.
- (b) Sales (other than contract sales) of goods and services at invoiced value.
- (c) Fees for technical aid and other services rendered.

Research and Development

Development expenditure on clearly defined projects, the commercial outcome of which can be assessed with reasonable certainty, is capitalised within intangible fixed assets. Such capitalised expenditure is amortised over the shorter of the project life and seven years. All other research and development expenditure is written off as incurred.

Taxation

The credit or charge for United Kingdom taxation represents the amount which it is estimated will materialise as a receipt or payment of corporation tax on the results of the year. Overseas taxation is based on profits of overseas subsidiaries and on other overseas income.

Except where otherwise required by accounting standards, full provision is made for all timing differences which have arisen but not reversed at the balance sheet date.

A deferred tax asset is recognised to the extent that there are likely to be suitable taxable profits in the future against which the underlying timing differences can be deducted upon reversal.

Notes to the Financial Statements

continued

1. ACCOUNTING POLICIES continued

Fixed Assets

Freehold properties, plant, machinery and equipment are stated at cost less depreciation.

Depreciation is charged on cost on a straight line basis at rates appropriate to the expected useful lives of the assets concerned. The principal rates of depreciation used are:

Freehold land	Not depreciated
Freehold and leasehold buildings	2% to 10%
Plant and machinery	
Heavy production	6 $\frac{2}{3}$ %
Other	10%
Motor vehicles	20% to 25%
Office equipment and furniture	20%
Computers and software	20% to 33 $\frac{1}{3}$ %

Leasing and Hire Purchase Commitments

Assets held under finance leases and hire purchase contracts are capitalised and are depreciated over either the term of the lease or their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Hire charges paid under operating leases are charged against income on a straight line basis over the term of the lease.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Stocks and Work in Progress

Stocks are valued at the lower of cost and net realisable value.

Long-term work in progress is valued at cost less any provisions necessary to reduce it to net realisable value. Cost comprises direct materials, and in the case of work in progress, direct labour and overheads, including depreciation, but excludes selling and administration costs.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Pension Costs

Defined Benefit Scheme

The Group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group. Contributions are based on periodic actuarial calculations and are charged so as to spread the cost of the pensions over the expected services lives of the employees who are members of the scheme. The scheme was closed to new members on 31 March 2001.

Pension scheme assets are measured using market rates. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Defined Contribution Scheme

The Group also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amounts charged against profit represent the contributions payable to the scheme in respect of the accounting period.

Liquid Resources and Cash

Liquid resources comprise short term treasury deposits which have maturity dates of up to one year, government securities and money market funds. Cash comprises cash in hand and on overnight deposit less, for the purpose of the cash flow statement only, overdrafts.

Government Grants

Capital based Government grants are credited to deferred income when received and are released to the profit and loss account over the useful economic lives of the assets to which they relate.

Notes to the Financial Statements

continued

2. GEOGRAPHICAL ANALYSIS

Turnover by destination

	2007 £000	2006 £000
United Kingdom	326,536	323,350
Other EU	25,862	25,800
Rest of Europe	4,216	3,306
East Asia	16,948	68,517
South East Asia	1,728	989
North America	33,441	7,792
South and Central America	502	149
Middle East	402	490
Africa	816	602
	410,451	430,995

Turnover by origin

	2007 £000	2006 £000
United Kingdom	357,651	414,268
United States of America	29,557	3,743
India	263	68
China	153	55
Poland	13,646	9,397
Germany	9,181	3,464
	410,451	430,995

Net assets by location

	2007 £000	2006 £000
United Kingdom	35,608	25,145
United States of America	(15,260)	(12,577)
India	(218)	(227)
China	(449)	(375)
Oceania (incl. Australia)	423	423
Poland	1,866	1,883
Germany	868	654
	22,838	14,926

In the opinion of the directors, the Group's business constitutes a single class of business.

A geographical analysis of profit before tax is not given, as in the opinion of the directors such disclosure would be prejudicial to the interests of the Group.

Notes to the Financial Statements

continued

3. OPERATING PROFIT

(a) Movement between turnover and operating profit

	Notes	2007 £000	2006 £000 As restated
Turnover		410,451	430,995
Cost of sales		(380,019)	(398,495)
Gross profit		30,432	32,500
Net operating expenses:			
Exceptional costs	15	(310)	(830)
Defined benefit pension service cost	4	(6,542)	(5,643)
Research & development		(2,596)	(2,825)
Other administrative expenses		(12,831)	(14,910)
Total administrative expenses		(22,279)	(24,208)
(Loss)/profit on disposal of fixed assets		(29)	64
Share of operating loss in joint venture		(168)	–
Operating profit		7,956	8,356

The classification of certain costs has been changed in 2007 as the directors consider the new classification gives a fairer presentation. The 2006 financials have been restated with direct overheads of £2,658,000 reclassified from administrative expenses to cost of sales. There is no impact on operating profit.

All turnover and profit arose from continuing operations.

Notes to the Financial Statements

continued

3. OPERATING PROFIT continued

(b) Operating profit is shown after charging/(crediting):

	2007 £000	2006 £000
Depreciation of tangible fixed assets:		
Owned	3,195	3,086
Leased	396	248
Amortisation of intangible fixed assets:		
Goodwill	111	86
Negative goodwill	(344)	(267)
Deferred development expenditure	429	824
Loss/(profit) on disposal of fixed assets	29	(64)
Amortisation of Government grants	(312)	(302)
Rentals under operating leases:		
Hire of plant & machinery	1,214	1,274
Land & buildings	3,301	3,366
Exchange loss	41	42
Auditor's remuneration:		
Audit of these financial statements	106	95
Amounts receivable by the auditors and their associates in respect of:		
Audit of Company's subsidiaries, pursuant to legislation	19	19
Other services pursuant to such legislation	30	30
Services relating to taxation	141	135
Pension consultancy	7	21

Notes to the Financial Statements

continued

4. EMPLOYEES AND DIRECTORS

	2007	2006
Average number of persons employed during the year:		
Production	4,164	3,900
Administration	358	377
	4,522	4,277

The average monthly number of persons employed reflects staff levels of the Company and subsidiary undertakings during the year.

	2007 £000	2006 £000
Staff costs during the year:		
Wages & salaries	167,608	153,554
Social security costs	16,327	15,033
Other pension costs	6,864	5,912
	190,799	174,499

Remuneration of directors

	2007 £000	2006 £000
Directors' emoluments	779	874

The aggregate emoluments of the highest paid director were £258,745 (2006: £243,995). He is a member of a Group pension scheme, under which his accrued pension at the year end was £90,957 (2006: £nil). The highest paid director in 2007 is a different individual to that in 2006, that director having resigned in the year.

	2007	2006
Retirement benefits accruing to the following number of directors:		
Defined benefit schemes	2	2

Notes to the Financial Statements

continued

4. EMPLOYEES AND DIRECTORS continued

The Group operates two defined contribution schemes, a Group Personal Pension Plan and a Stakeholder Plan. The charge for the year in respect of these schemes was £322,206, £28,227 of which was outstanding at the year end.

The Group operates a pension scheme providing benefits based on final pensionable pay. This scheme is now closed to new employees. The Group's pension contributions during the year amounted to £22,170,000 which was equal to the regular pension cost calculated by the Scheme's actuary. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 31 March 2004. The assumptions which have the most significant effect on the results of the valuation and the contributions paid by the Group are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 6% per annum, that salary increases would average 3.5% per annum and that present and future pensions would increase at the rate of 2.5% per annum.

The market value of the scheme assets at 31 March 2004 was estimated to be £116.5 million. Based on this, the Scheme is 78% funded. As a result of this the Group contribution level has been increased to 30%.

The actuarial valuation of the scheme at 31 March 2004 was updated to 31 March 2007 by a qualified actuary, using a set of assumptions consistent with those required under FRS17.

The scheme was formally closed to new entrants with effect from 31 March 2001 although late new entrants were permitted to join until 31 January 2002. Under the Projected Unit Method (the method used for the purposes of FRS17), the current service cost will increase (as a percentage of scheme salaries) as members of the scheme approach retirement.

The major assumptions used by the actuary were:

	2007	2006	2005	2004	2003
Rate of increase in pensionable salaries	2.5% - 3.5%	2.5% - 3.5%	2.5% - 3.5%	2.5% - 3.5%	3.5%
Rate of increase in pensions in payment (post May 2002 service)	2.75%	2.5%	2.5%	2.5%	2.5%
Rate of increase in pensions in payment (pre May 2002 service)	3.0%	3.0%	3.0%	3.0%	3.0%
Discount rate	5.1%	5.0%	5.85%	6.0%	6.0%
Inflation assumption (and increases to pension in deferment)	2.75%	2.5%	2.5%	2.5%	2.5%

The rates used have been chosen from a range of possible amounts determined using actuarial assumptions that due to the timescale covered may not necessarily be borne out in practice.

The assets in the scheme and the expected rates of return were:

	2007		2006		2005	
	Expected rate of return %	£m	Expected rate of return %	£m	Expected rate of return %	£m
Equities and property	8.0	-	8.0	123.5	8.0	97.1
Diversified growth fund	8.0	150.8		-		-
Bonds	5.0	49.4	4.5	47.4	5.5	36.1
Cash	4.75	1.2	4.0	2.6	4.0	1.9
Total market value of assets		201.4		173.5		135.1
Present value of liabilities		(227.5)		(215.6)		(165.8)
Deficit in scheme		(26.1)		(42.1)		(30.7)
Related deferred tax asset		7.8		12.6		9.2
Net pension liability		(18.3)		(29.5)		(21.5)

Notes to the Financial Statements

continued

4. EMPLOYEES AND DIRECTORS continued

An analysis of the movement in the deficit during the year to 31 March 2007 follows:

	2007 £m	2006 £m
Deficit in scheme at beginning of the year	(42.1)	(30.7)
Movement in the year:		
Current employee service cost	(6.5)	(5.6)
Employer contributions	22.1	9.1
Other financing credit	2.0	0.3
Actuarial loss	(1.6)	(15.2)
Deficit in scheme at end of the year	(26.1)	(42.1)

Analysis of Actuarial loss:

	2007 £m	2006 £m
Actual return less expected return on plan assets	(0.6)	23.2
Experience losses arising on the plan's liabilities	(2.1)	(2.8)
Changes in assumptions underlying the plan liabilities	1.1	(35.6)
Net actuarial loss recognised in the period	(1.6)	(15.2)

A history of expected gains and losses at 31 March 2007 was as follows:

	2007 £m	2006 £m	2005 £m	2004 £m
Difference between the expected and the actual return on scheme assets:				
Amount	(0.6)	23.2	2.2	13.5
Percentage of scheme assets	0%	13%	2%	12%
Experience losses on scheme liabilities:				
Amount	(2.1)	(2.8)	(6.9)	0.0
Percentage of present value of scheme liabilities	(1%)	(1%)	(4%)	0%
Total amount recognised in statement of total recognised gains and losses:				
Amount	(1.6)	(15.2)	(1.1)	13.5
Percentage of present value of scheme liabilities	(1%)	(7%)	1%	9%

Notes to the Financial Statements

continued

5. NET INTEREST RECEIVABLE

	2007 £000	2006 £000
Interest receivable and similar income	1,882	1,403
Interest payable on bank loans and overdrafts	(59)	(139)
Finance credit of pension scheme	1,999	269
Unwinding of discounting (see note 15)	(722)	(742)
	3,100	791

An analysis of the finance cost of the pension scheme is as follows:

	2007 £000	2006 £000
Expected return on pension scheme assets	12,783	10,017
Interest on pension scheme liabilities	(10,784)	(9,748)
Net credit	1,999	269

Notes to the Financial Statements

continued

6. TAXATION CHARGE

	2007 £000	2006 £000
Current tax:		
UK Corporation tax at 30% (2006: 30%)	259	48
In respect of prior year	(185)	17
	74	65
Overseas taxation	989	1,426
Total current tax	1,063	1,491
Deferred taxation excluding pension	(2,766)	219
Deferred tax on pension charge	5,288	1,127
Total deferred tax (see note 16)	2,522	1,346
Total tax on profit on ordinary activities	3,585	2,837

Factors affecting tax charge for period

The current tax assessed for the period is lower (2006: lower) than the standard rate of corporation tax in the UK (30%).

The differences are explained below:

	2007 £000	2006 £000
Profit on ordinary activities before tax	11,056	9,147
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006: 30%)	3,317	2,744
Overseas losses with no tax relief in year	1,185	360
Group relief claimed	(385)	(12)
Expenses not deductible for tax purposes	(1)	691
Other timing differences	(1,236)	(728)
Timing difference re pension charge	(1,828)	(1,127)
Capital allowances for period (in excess of)/less than depreciation	16	(24)
Utilisation of tax losses	(191)	(548)
Overseas tax	371	118
Adjustment to tax charge in respect of previous period	(185)	17
Current tax charge for period	1,063	1,491

Factors that may affect future tax charges

The Group has UK and US tax losses in the region of £13m, which may significantly reduce future tax payments in these territories.

Notes to the Financial Statements

continued

7. INTANGIBLE FIXED ASSETS

	Positive Goodwill	Negative Goodwill	Deferred Development Expenditure	Total
	£000	£000	£000	£000
Group				
Cost				
At 1 April 2006	2,230	(682)	2,056	3,604
Foreign exchange translation differences	–	14	(230)	(216)
Additions	–	–	2	2
Adjustment (note 9)	–	(34)	–	(34)
At 31 March 2007	2,230	(702)	1,828	3,356
Amortisation				
At 1 April 2006	232	(267)	1,567	1,532
Foreign exchange translation differences	–	–	(174)	(174)
Charge for year	111	(344)	429	196
At 31 March 2007	343	(611)	1,822	1,554
Net book value				
31 March 2007	1,887	(91)	6	1,802
31 March 2006	1,998	(415)	489	2,072

Goodwill
£000

Company

Cost

At 1 April 2006 and 31 March 2007 **972**

Amortisation

At 1 April 2006 195

Charge for year 48

At 31 March 2007 243

Net book value

31 March 2007 729

31 March 2006 777

Notes to the Financial Statements

continued

8. TANGIBLE FIXED ASSETS

	Land and Buildings £000	Plant and Equipment £000	Total £000
Group			
Cost			
At 1 April 2006	4,933	67,302	72,235
Foreign exchange translation differences	(7)	(104)	(111)
Additions	20	2,662	2,682
Disposals	(119)	(6,544)	(6,663)
Reclassifications	(21)	21	-
At 31 March 2007	4,806	63,337	68,143
Depreciation			
At 1 April 2006	2,326	57,352	59,678
Foreign exchange translation differences	(3)	(97)	(100)
Charge for year	183	3,408	3,591
Disposals	(119)	(6,471)	(6,590)
Reclassifications	13	(13)	-
At 31 March 2007	2,400	54,179	56,579
Net book value			
31 March 2007	2,406	9,158	11,564
31 March 2006	2,607	9,950	12,557

Included in the net book value of land and buildings is land costing £297,000 (2006: £297,000) which is not depreciated.

Included in the net book value of plant and equipment is £641,000 (2006: £893,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £261,000 (2006: £248,000).

The net book value of land and buildings comprises:

	2007 £000	2006 £000
Freehold	1,375	1,859
Leasehold – short	1,031	748
	2,406	2,607

Included in the net book value of leasehold land and buildings at 31 March 2007 is £440,000 reclassified from freehold land and buildings.

Notes to the Financial Statements

continued

8. TANGIBLE FIXED ASSETS continued

	Land and Buildings £000	Plant and Equipment £000	Total £000
Company			
Cost			
At 1 April 2006	4,181	63,775	67,956
Additions	17	1,786	1,803
Disposals	(119)	(6,397)	(6,516)
Reclassifications	(91)	91	-
At 31 March 2007	3,988	59,255	63,243
Depreciation			
At 1 April 2006	2,138	55,089	57,227
Charge for year	147	2,683	2,830
Disposals	(119)	(6,387)	(6,506)
At 31 March 2007	2,166	51,385	53,551
Net book value			
31 March 2007	1,822	7,870	9,692
31 March 2006	2,043	8,686	10,729

Included in the net book value of land and buildings is land costing £297,000 (2006: £297,000) which is not depreciated.

Included in the net book value of plant and equipment is £617,000 (2006: 840,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £224,000 (2006: £198,000).

The net book value of land and buildings comprises:

	2007 £000	2006 £000
Freehold	1,181	1,295
Leasehold – short	641	748
	1,822	2,043

Notes to the Financial Statements

continued

9. FIXED ASSET INVESTMENTS

	Shares in subsidiary undertakings £000
Company – Cost	
At 1 April 2006	1,081
Reduction	(81)
At 31 March 2007	1,000

	Shares of net assets £000
Group – Associates	
Upon acquisition	–
Share of loss for the year	(168)
At 31 March 2007	(168)

The share of net liabilities is disclosed in provisions (note 15).

The analysis of the Group's share of associates is set out below:

	2007 £000	2006 £000
Loss before and after tax	168	–
Current assets	90	–
Creditors: amounts falling due within one year	(41)	–
Creditors: amounts falling due after more than one year	(217)	–
Investment in associates	(168)	–

On 13 July 2006 the Group acquired 33⅓% of the issued shared capital of Connective Energy Limited (registered and located in United Kingdom) for total consolidation payable of £1. This investment brings with it 33⅓% of the voting rights of Connective Energy Limited.

On 8 December 2006 the Group acquired Minority Interest shares in Doosan Babcock Polska Sp. z.o.o. (registered and located in Poland) increasing the Group's holding to 98.37%.

On 3 January 2007 the Group invested a further £51,504 in the share capital of Babcock Power Technologies (Shanghai) Limited (registered and located in the Peoples Republic of China).

The Group has reduced the cost of its holding in Doosan Babcock Polska Sp. z.o.o. (registered and located in Poland) due to a reduction in the estimated payment when outstanding deferred consideration falls due.

Notes to the Financial Statements

continued

9. FIXED ASSET INVESTMENTS continued

Principal Group Investments

Doosan Babcock Energy Limited holds 100% of the equity share capital of the undertakings and each of the undertakings is located in Great Britain and is registered in England and Wales (unless otherwise stated). The principal activities of the Group are associated with providing high value-added energy services and innovative technology led business solutions and coal-fired power plant to the power generation industry and associated markets. The following subsidiaries are included within the consolidation.

Principal Subsidiary Undertakings:

Doosan Babcock Energy (India) Private Limited** (registered and located in India)
 Doosan Babcock Overseas Investments Limited
 Doosan Babcock Energy Services (Overseas) Limited
 Babcock (Shanghai) Trading Limited** (registered and located in China) – (year end 31 December)
 Babcock Power Technologies (Shanghai) Limited ** (registered and located in China) – (year end 31 December)
 Doosan Babcock LLC (registered and located in United States of America) – (year end 31 December)
 Doosan Babcock Polska Sp. z.o.o. (98%)** (registered and located in Poland) – (year end 31 December)
 DH Dampfkessel- und Behälterbau Hohenthurm GmbH **** (registered and located in Germany)
 DH Kraftwerksservice Hohenthurm GmbH **** (registered and located in Germany)
 Doosan Babcock Energy GmbH **** (registered and located in Germany)

Other Subsidiary Undertakings:

Doosan Babcock Energy Services Limited * (dormant) – (year end 18 March)
 Babcock Welding Products Limited * (registered in Scotland) – (dormant)
 Babcock Energy Limited (dormant)
 Scottish Energy Services Limited (registered in Scotland)
 Clean Energy Solutions LLC*** (registered and located in United States of America) – (year end 31 December)
 Doosan Babcock Germany GmbH ** (registered and located in Germany)

Joint Ventures and Associates:

VMB Energy Services BV (50%) (registered and located in the Netherlands)** (year end 31 December)
 Connective Energy Limited (33%)

* Denotes agency undertaking

** Indirectly held by Doosan Babcock Overseas Investments Limited

*** Indirectly held by Doosan Babcock LLC

**** Indirectly held by Doosan Babcock Germany GmbH

10. STOCK

	Company		Group	
	2007 £000	2006 £000	2007 £000	2006 £000
Raw materials and consumables	987	1,006	1,227	1,247
Work in progress	23,055	20,284	25,115	21,023
	24,042	21,290	26,342	22,270

Notes to the Financial Statements

continued

11. DEBTORS

	Company		Group	
	2007 £000	2006 £000	2007 £000	2006 £000
Amounts falling due within one year:				
Trade debtors	45,643	36,313	56,861	41,775
Amounts recoverable on contracts	4,454	6,070	12,059	6,223
Amounts owed by Group undertakings	6,224	12,333	990	946
Amounts owed by associates	19	–	19	–
Other debtors	6,450	5,019	6,837	5,491
Prepayments and accrued income	52	97	231	377
Deferred tax asset (see note 16)	917	–	1,020	89
	63,759	59,832	78,017	54,901
Amounts falling due after one year:				
Trade debtors	20	108	348	115
Amounts owed by Group undertakings	2,275	–	–	–
Amounts owed by associates	250	–	250	–
Prepayments and accrued income	–	–	3	54
Deferred tax asset (see note 16)	1,835	–	1,835	–
Total debtors	68,139	59,940	80,453	55,070

12. INVESTMENTS HELD AS CURRENT ASSETS

	Company		Group	
	2007 £000	2006 £000	2007 £000	2006 £000
Investments in government securities and money market funds	–	–	–	78

Notes to the Financial Statements

continued

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Company		Group	
	2007 £000	2006 £000	2007 £000	2006 £000
Bank loans and overdrafts	–	–	236	1,111
Other loans	–	–	–	22
Obligations under finance leases (see note 23)	230	230	244	251
Payments received on account	15,539	3,929	19,915	7,717
Trade creditors	14,799	15,787	19,799	18,442
Amounts owed to Group undertakings	2,483	2,667	368	157
Overseas & Corporation taxation	362	582	423	699
Other creditors, including taxation and social security	43,890	44,731	58,380	46,203
Accruals and deferred income	16,150	14,877	19,373	17,680
Subsidiaries – Called up share capital not paid	750	750	–	–
	94,203	83,553	118,738	92,282

Included within deferred income is an amount of £319,000 (2006: £315,000) for deferred government grants.

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Company		Group	
	2007 £000	2006 £000	2007 £000	2006 £000
Bank loans	–	–	–	319
Obligations under finance leases (see note 23)	379	609	379	623
Trade creditors	–	–	19	207
Other creditors, including taxation and social security	–	–	–	31
Accruals and deferred income	797	1,197	797	1,197
	1,176	1,806	1,195	2,377

Included within deferred income is an amount of £698,000 (2006: £990,000) for deferred government grants.

Notes to the Financial Statements

continued

15. PROVISIONS FOR LIABILITIES

	Onerous leases £000	Other £000	Total £000
Group and Company			
Balance at 1 April 2006	667	8,794	9,461
Profit and loss account charge	–	310	310
Unwinding of discounting	32	690	722
Applied	(88)	(182)	(270)
Amounts arising from investment in associate	–	168	168
Balance at 31 March 2007	611	9,780	10,391

The onerous lease provision includes an amount set aside in respect of lease obligations relating to the manufacturing premises, which are partially vacant following downsizing. This provision will be utilised over the next six years to meet the obligations under the lease.

Other provisions include amounts set aside in the year in respect of known and potential claims for which the Group may be liable together with related legal costs. Due to their nature, it is not possible to predict precisely when these provisions will be utilised, but it is anticipated that if there were to be a liability then, in the majority of cases, it would be in the medium term.

16. DEFERRED TAXATION

	Company		Group	
	2007 £000	2006 £000	2007 £000	2006 £000
Tax losses carried forward	77	–	77	–
Other timing differences	2,675	–	2,778	89
Deferred tax asset as shown in note 11	2,752	–	2,855	89
Deferred tax asset included in net pension liability	7,829	12,643	7,829	12,643
	10,581	12,643	10,684	12,732
Asset at start of period	12,643	9,210	12,732	9,432
Exchange adjustment	–	–	–	5
Asset acquired via acquisition of subsidiary	–	–	–	81
Deferred tax charged to profit and loss account for period	(2,536)	(1,127)	(2,522)	(1,346)
Deferred tax credited to the statement of total recognised gains and losses for the period	474	4,560	474	4,560
Asset at the end of period	10,581	12,643	10,684	12,732

A deferred tax asset has been recognised to the extent that there are expected future taxable profits against which the corporation tax losses will be utilised.

Notes to the Financial Statements

continued

16. DEFERRED TAXATION continued

Deferred taxation which has not been provided for in view of uncertainty over its recoverability is set out as follows:

	2007 £000	2006 £000
Difference between accumulated depreciation and amortisation and capital allowances	–	70
Tax losses	3,838	12,373
Unrecognised deferred tax asset	3,838	12,443

17. SHARE CAPITAL

	2007 £000	2006 £000
Authorised		
67,000,000 ordinary shares of £1	67,000	67,000
Called up, allotted and fully paid		
65,000,000 ordinary shares of £1	65,000	65,000

18. RESERVES

	Company Profit and loss account £000	Group Profit and loss account £000
Balance at 1 April 2006	(43,440)	(50,108)
Profit for the year	11,503	7,471
Currency translation differences on foreign currency net investments	–	1,551
Actuarial loss in the period	(1,579)	(1,579)
Deferred tax credit thereon	474	474
Balance at 31 March 2007	33,042	42,191

In accordance with the concession granted under Section 230(4) of the Companies Act 1985 the profit and loss account of Doosan Babcock Energy Limited has not been separately presented in these accounts. Included in the profit for the year is the profit of £11,503,000 (2006: £6,461,000) dealt with in the financial statements of the Company.

Notes to the Financial Statements

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19. CASH FLOW

(a) Reconciliation of operating profit to net cash flow from operating activities

	2007 £000	2006 £000
Operating profit	7,956	8,356
Depreciation and amortisation	3,787	3,977
Share of operating loss in associates	168	–
Difference between pension charge and cash contribution	(4,094)	(3,488)
One-off cash contribution to defined benefit pension scheme	(11,500)	–
(Increase)/decrease in stocks	(4,072)	4,506
(Increase) in debtors	(22,664)	(5,837)
Increase in creditors and provisions	27,053	9,436
Loss/(profit) on disposal of fixed assets	29	(64)
Net cash (outflow)/inflow from operating activities	(3,337)	16,886

The operating cash flows include an outflow of £182,000 which relates to the £310,000 exceptional costs (see note 3).

(b) Returns on investments and servicing of finance

	2007 £000	2006 £000
Interest received	1,928	1,387
Interest paid	(59)	(139)
	1,869	1,248

(c) Taxation

	2007 £000	2006 £000
Overseas tax paid	(890)	(2,373)
UK tax paid	(449)	(90)
	(1,339)	(2,463)

Notes to the Financial Statements

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19. CASH FLOW continued

(d) Capital expenditure and financial investment

	2007 £000	2006 £000
Payments to acquire tangible fixed assets	(2,682)	(1,763)
Receipts from sales of tangible fixed assets	44	140
Capitalisation of internal development	(2)	-
	(2,640)	(1,623)

(e) Acquisition and disposals

	2007 £000	2006 £000
Payments to acquire business	-	(2,020)
Net cash acquired with subsidiary	-	(396)
	-	(2,416)

(f) Management of liquid resources

	2007 £000	2006 £000
Net decrease/(increase) in short term treasury deposits	9,803	(9,861)
Net decrease in current asset investments	78	88
	9,881	(9,773)

(g) Financing

	2007 £000	2006 £000
Decrease in short term borrowings	(793)	(585)
Decrease in long term borrowings	(319)	(229)
Repayments of finance leases	(251)	(252)
	(1,363)	(1,066)

Notes to the Financial Statements

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20. ANALYSIS OF CHANGES IN NET DEBT

	At 1 April 2006 £000	Cash flow £000	Exchange movements £000	At 31 March 2007 £000
Cash in hand and at bank	46,639	2,977	1,594	51,210
Overdrafts	(340)	94	10	(236)
	46,299	3,071	1,604	50,974
Short term treasury deposits	9,861	(9,803)	–	58
Money market funds	78	(78)	–	–
Other loans	(22)	22	–	–
Bank loans	(1,090)	1,090	–	–
Finance leases	(874)	251	–	(623)
	54,252	(5,447)	1,604	50,409

21. CAPITAL COMMITMENTS

	Company		Group	
	2007 £000	2006 £000	2007 £000	2006 £000
Contracted but not provided	328	365	334	481

22. CONTINGENT LIABILITIES

In the ordinary course of business the Group has guarantees and counter indemnities in respect of bonds relating to performance under contracts. The Group also enters into forward exchange contracts to reduce its risk and exposure to fluctuations in exchange rates, which accrue in the ordinary course of business.

Notes to the Financial Statements

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23. LEASING

(a) Finance leases

The net obligations under finance leases were as follows:

	Company		Group	
	2007 £000	2006 £000	2007 £000	2006 £000
Amounts payable:				
within one year	230	230	244	251
between one and five years	379	609	379	623
Total	609	839	623	874

(b) Operating leases

Annual commitments under non-cancellable operating leases were as follows:

	Company		Group	
	2007 £000	2006 £000	2007 £000	2006 £000
Leases on land and buildings expiring:				
within one year	86	182	250	330
between one and five years	129	244	308	597
after five years	2,813	2,701	2,813	2,701
Leases on other assets expiring:				
within one year	283	328	301	331
between one and five years	696	651	754	676
Total	4,007	4,106	4,426	4,635

The majority of leases on land and buildings are subject to rent reviews.

Notes to the Financial Statements

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24. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Company		Group	
	2007 £000	2006 £000	2007 £000	2006 £000
Opening shareholders' funds	21,560	25,740	14,892	19,985
Profit for the financial year	11,503	6,461	7,471	6,307
Currency translation differences on foreign currency net investments	–	–	1,551	(759)
Pension actuarial loss in the period	(1,579)	(15,201)	(1,579)	(15,201)
Deferred tax credit thereon	474	4,560	474	4,560
Closing shareholders' funds	31,958	21,560	22,809	14,892

25. EQUITY MINORITY INTERESTS

	2007 £000
Balance at 1 April 2006	34
Currency translation difference	(2)
Acquisition of minority interest shares	(3)
Balance at 31 March 2007	29

26. RELATED PARTY TRANSACTIONS

During the year the Group provided and received goods and services in the ordinary course of business with Doosan Heavy Industries & Construction Limited, its parent Company, at a value of £4,000,000 and £793,000 respectively (2006: £nil). Amounts due to Doosan Heavy Industries & Construction Limited are £323,000.

During the year the Group received parental guarantees from Mitsui Engineering and Shipbuilding Co. Ltd, its former parent Company, at a value of £196,000 (2006: £155,000). Amounts due to Mitsui Engineering and Shipbuilding Co. Ltd are £117,000.

During the year the Group provided goods and services in the ordinary course of business to Connective Energy Limited, an associate undertaking, at a value of £163,000 (2006: £nil). The amounts due from this associate undertaking are disclosed in note 11, £19,000 relating to trading and £250,000 in respect of convertible loan notes.

27. ULTIMATE PARENT COMPANY

The directors consider Doosan Corporation Co., Ltd registered in Korea to be the Company's ultimate parent Company. This is the largest Group of companies for which Group financial statements are drawn up and of which the Company is a member. The smallest such Group is Doosan Babcock UK Limited which is registered in England and Wales.

The consolidated financial statements of the Company's ultimate parent Company are available to the public and may be obtained from Euljiro, 6-ga, Jung-gu, Seoul, Korea, 100-730.

The consolidated financial statements of Doosan Babcock UK Limited are available to the public and may be obtained from 11 The Boulevard, Crawley, West Sussex RH10 1UX, United Kingdom.

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