

BABCOCK HOLDINGS LIMITED

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2004

Company number 2955502



DIRECTORS

P L Rogers
W Tame
F Martinelli

SECRETARY

S A Billiald

REGISTERED OFFICE

2 Cavendish Square
London
W1G 0PX

AUDITORS

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

BABCOCK HOLDINGS LIMITED
DIRECTORS' REPORT
for the year ended 31 March 2004

The directors present their report and the audited financial statements of the company for the year ended 31 March 2004.

Principal activity

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

Results and dividends

The result for the year was a loss of £15,370,000 (2003: profit £70,659,000). The directors do not propose a dividend (2003: £7,000,000).

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 year ended 31 March 2004 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' REPORT (continued)
for the year ended 31 March 2004

Directors and their interests

The members of the Board during the year and since the year end were:

P L Rogers (appointed 16 September 2003)
 G A Campbell (resigned 16 October 2003)
 W Tame
 F Martinelli

None of the directors had any beneficial interest in the shares of the company. At 31 March 2004, Mr P L Rogers and Mr W Tame were also directors of the ultimate parent company and their interests in the shares and share options of that company are disclosed in that company's accounts.

The interests of the other directors in the shares and share options of the company's ultimate parent company, Babcock International Group PLC, were as follows:

	Ordinary shares Number	Ordinary shares Number	Share options Number	Share options Number
	31 March 2004	31 March 2003	31 March 2004	31 March 2003
F Martinelli	-	-	115,000	45,000

During the year 70,000 share options were granted to Mr F Martinelli.

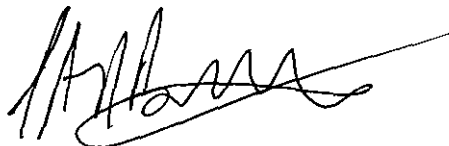
No director had any material interest during the year in any contract with the company or its subsidiaries requiring disclosure under Section 317 of the Companies Act 1985.

Auditors

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

This report was approved by the Board on 12 October 2004.

S A Billfield
 Secretary



Independent auditors' report to the members of Babcock Holdings 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.

Independent auditors' report to the members of Babcock Holdings 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 2004 and of its results 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
London

12 October 2004

BABCOCK HOLDINGS LIMITED

**PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2004**

	Notes	2004 £000	2003 £000
Administration expenses		(6,663)	(5,596)
Operating loss	3	(6,663)	(5,596)
Income from fixed asset investments		-	84,000
(Loss)/profit on ordinary activities before interest and tax		(6,663)	78,404
Net interest	2	(8,719)	(7,745)
(Loss)/profit on ordinary activities before taxation		(15,382)	70,659
Tax on profit on ordinary activities		12	-
(Loss)/profit for the financial year		(15,370)	70,659
Dividend payable	13	-	(7,000)
Retained (loss)/profit for the financial year	10	(15,370)	63,659

During the period there were no recognised gains and losses other than those dealt with in the profit and loss account. All results derive from continuing activities. The retained loss in both the current and prior years represents the only movement in shareholders' funds.

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

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

BABCOCK HOLDINGS LIMITED

**BALANCE SHEET
as at 31 March 2004**

	Notes	2004 £000	2003 £000
FIXED ASSETS			
Investments	6	225,242	225,242
CURRENT ASSETS			
Debtors	7	85,021	84,009
CREDITORS – amounts due within one year	8	(36,244)	(19,862)
Net current assets		48,777	64,147
Total assets less current liabilities		274,019	289,389
CREDITORS – amounts due after more than one year	8	(215,750)	(215,750)
Net assets		58,269	73,639
CAPITAL AND RESERVES			
Called up share capital - equity interests	9	7,782	7,782
Profit and loss account	10	50,487	65,857
Shareholders' funds – equity interests	10	58,269	73,639

The financial statements on pages 7 to 16 were approved by the Board on 12 October 2004 and signed on its behalf by

W Tame
Director

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

1. ACCOUNTING POLICIES

Basis of Accounting

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

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 Babcock International Group PLC, another company registered in Great Britain.

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.

Agency agreement effective 1 April 2003

The company has an agency agreement with Babcock International Limited where Babcock International Limited acts as agent for the company in the management and stewardship of its investments.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

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. NET INTEREST	2004 £000	2003 £000
Interest payable on bank overdraft	(489)	(11)
Group interest payable	(8,230)	(7,734)
	(8,719)	(7,745)

3. OPERATING LOSS	2004 £000	2003 £000
<i>Is stated after charging:</i>		
Auditors' remuneration		
- audit services	20	-
- operating lease rentals – land and buildings	154	-

4. DIRECTORS' REMUNERATION

The remuneration of the directors was as follows:

	2004 £000	2003 £000
Emoluments	936	-
Company contributions to money purchase and personal pension schemes	10	-
	946	-

NOTES TO THE FINANCIAL STATEMENTS

The above amounts do not include any gains made on the exercise of share options or the value of any shares or share options received under long-term incentive schemes. No directors exercised share options in the period (2003:0). Shares were received or receivable under long-term incentive schemes by 3 directors (2003:3).

The directors report show the relevant directors' interests.

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

	2004 £000	2003 £000
Emoluments	342	-
Company contributions to money purchase and personal pension schemes	10	-
	352	-

The number of directors who were members of the pension schemes was as follows:

	2004 £000	2003 £000
Money purchase schemes	1	2
Defined benefit schemes	2	3

The accrued pension entitlement under the company defined benefit scheme of the highest paid director at 31 March 2004 was £25,354 (2003: £19,932).

Contributions to the group scheme are based on periodic actuarial calculations and are charged so as to spread the cost of pensions over the expected service lives of the employees who are members of the scheme.

PARTICULARS OF EMPLOYEES

	2004 £000	2003 £000
The average persons (including directors) employed by the company during the year was:		
Executive and administration	30	-
	2004 £000	2003 £000
Their total remuneration was:		
Wages and salaries	3,188	-
Social security costs	282	-
Other pension costs	35	-
	3,505	-

NOTES TO THE FINANCIAL STATEMENTS

5. TAXATION

	2004 £'000	2003 £'000
Current tax		
UK Corporation tax @30%	-	-
	-	-
Prior year adjustments	-	-
Deferred tax	12	-
	12	-
Tax (credit)/charge at statutory rate	(4,615)	21,198
Non-taxable income from subsidiaries	-	(25,200)
Timing differences	(3)	-
Group relief for nil consideration	4,527	3,889
Other disallowable expenditure	91	113
Actual tax charge	-	-

During the year, the Babcock International Group has continued its policy of surrendering UK tax losses for nil consideration except where there is a minority interest in the subsidiary.

6. FIXED ASSET INVESTMENT
At 31 March 2004 and 2003£'000
225,242

No dividends were received during the year (2003: £84 million) from subsidiary undertakings.

Details of the principal subsidiary undertakings are set out in note 13.

7. DEBTORS

	2004 £000	2003 £000
Amounts due from subsidiary undertakings	85,009	84,009
Deferred tax	12	-
	85,021	84,009

All amounts are due within one year. The deferred tax asset relates to negative accelerated capital allowances.

NOTES TO THE FINANCIAL STATEMENTS

8. CREDITORS	2004	2003
	£000	£000
Amounts due within one year:		
Amount due to subsidiary undertakings	21,719	6,106
Overdraft	14,523	6,606
Other	2	150
Proposed dividend	-	7,000
	36,244	19,862
Amounts due after more than one year:	2004	2003
	£000	£000
Amounts owed to fellow subsidiary undertakings	215,750	215,750
The amounts owed to fellow subsidiary undertakings are interest bearing loans with a 5 year maturity date.		
9. CALLED UP SHARE CAPITAL	2004	2003
	£000	£000
Authorised		
77,785,000 Ordinary shares of £1 each	77,785	77,785
Allotted, called up and fully paid		
7,782,000 (2003 7,782,000) Ordinary shares of £1 each	7,782	7,782

NOTES TO THE FINANCIAL STATEMENTS

10. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND RESERVES

	Equity Shareholders' Funds 2004 £000	Equity Shareholders' Funds 2003 £000	Profit and loss account 2004 £'000
At 1 April	73,639	9,980	65,857
Loss/(profit) for the year	(15,370)	63,659	(15,370)
At 31 March	58,269	73,639	50,487

11. CONTINGENT LIABILITIES

The company has joint and several liability for bank facilities of £10.0 million (2003: £10.0 million) in respect of certain fellow Babcock International Group companies.

12. OPERATING LEASE COMMITMENTS

	Land and Buildings 2004 £000	Land and Buildings 2003 £000
Annual commitments under non-cancellable operating leases are as follows:		
Expiry date:		
- Between two and five years	154	-

13. DIVIDENDS

	2004 £'000	2003 £'000
Final proposed dividend Nil [2003:9p] per £1 share	-	7,000

14. PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

Technical Services

Technical services and secure facilities management for the MoD and related markets:

Armstrong Technology Associates Limited
Babcock Support Services Limited
Babcock Design & Technology Limited
FBM Babcock Marine Holdings (UK) Limited
FBM Babcock Marine Limited
FBMA Babcock Marine Inc. (50%) (Philippines)*
Marine Engineering & Fabrications Limited
Rosyth Royal Dockyard Limited

Training and Support

Training, operating and maintenance services primarily for the MoD:

Acetech Personnel Limited
CMR Consultants Limited
Hiberna FM Limited
Babcock Naval Services Limited
Air Power International Limited

Others

Babcock International Limited
Babcock Overseas Investments Limited
Chepstow Insurance Limited (Guernsey)
Babcock Support Services (Investments) 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.

*Denotes undertakings recognised and accounted for as joint ventures.

15. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption granted to 90% subsidiaries, by FRS 8 - Related Party Disclosures, not to disclose transactions with group undertakings.

16. ULTIMATE CONTROLLING PARTY

The directors' regard Babcock International Group PLC, a company incorporated in England and Wales, as the company's ultimate parent company and ultimate controlling party.

Babcock International Group PLC is the largest and smallest group of which the company is a member and for which group accounts are drawn up. Copies of the financial statements are available from:

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