

BABCOCK HOLDINGS LIMITED
DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006

Company number 2955502



DIRECTORS

P L Rogers
W Tame
F Martinelli

SECRETARY

S A Billiaid

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 2006

The directors present their annual report on the company together with the financial statements and auditors' report of the company for the year ended 31 March 2006.

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 profit of £14,460,000 (2005: £49,213,000). The directors have declared an interim dividend of £15,000,000 (2005: £30,000,000). The retained loss of £540,000 (profit 2005: £19,213,000) will be transferred from/(to) reserves.

Post Balance Sheet Events

The company acquired Alstec Group Limited in June 2006 and also had some intercompany loans waived (note 18).

Key Performance indicators

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development, performance or position of the business.

Qualifying third party indemnity provisions

Under their respective Articles of Association, the directors of the company are, and were during the year to 31 March 2006, entitled to be indemnified by the company against liabilities and costs incurred in connection with the execution of their duties or the exercise of the powers, to the extent permitted by the Companies Act 1985.

Charitable and political donations

During the year the company donated £10,547 (2005: £13,425) to charitable organisations. No donations were made during the year (2005: £nil) for political purposes.

Directors and their interests

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

P L Rogers
W Tame
F Martinelli

None of the directors had any beneficial interest in the shares of the company. At 31 March 2006, 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.

DIRECTORS' REPORT (continued)
for the year ended 31 March 2006

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:

Details of directors' shares are set out in the table below:

	At 31 March 2006	At 1 April 2005
Director		
F Martinelli	724	-

Details of directors' share options are set out in the table below:

Director	Option scheme	Number of shares subject to options at 1 April 2005	Granted during the period	Exercised during the period	Lapsed during the period	Number of shares subject to options at 31 March 2006	Exercise price (p)	Exercisable (subject to vesting where not yet vested) from	Expiry date
F Martinelli	a	28,214	-	-	-	28,214 *	106.33	Nov 2005	Nov 2012
	b	16,786	-	-	-	16,786 *	106.33	Nov 2005	Nov 2012
	b	70,000	-	-	420	69,580 *	115.66	Jun 2006	Jun 2013
	b	35,000	-	-	-	35,000	126.00	Jul 2007	Jul 2014

* All vested

a	Babcock	1999	Approved Executive Share Option Scheme
b	Babcock	1999	Unapproved Executive Share Option Scheme

No directors exercised share options in the period (2005: nil).

Details of share awards made to directors under the Babcock International Group PLC L-TIP scheme are set out in the table below:

Director	Number of shares subject to award at 1 April 2005	Granted during the period	Number of shares subject to award at 31 March 2006	Market value of each share at date of award	Exercisable from	Expiry date
F Martinelli	-	36,873	36,873	169.50p	Jul 2008	Jul 2015

The terms and conditions of the share awards and options can be found in the financial statements of Babcock International Group PLC for the period ended 31 March 2006.

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

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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.

Auditors

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

This report was approved by the Board on 21 August 2006.

S A Billiald
Secretary



Independent auditors' report to the members of Babcock Holdings Limited

We have audited the financial statements of Babcock Holdings Limited for the year ended 31 March 2006 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its 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.

PricewaterhouseCoopers UK

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
21 August 2006

BABCOCK HOLDINGS LIMITED

**PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2006**

	Notes	2006 £000	2005 £000
Loss on disposal of investment	6	-	(23,950)
Provision for impairment	6	(60)	-
Administration expenses		(7,173)	(4,458)
Operating loss	3	(7,233)	(28,408)
Income from fixed asset investments		29,000	91,000
Profit on ordinary activities before interest and tax		21,767	62,592
Interest payable	2	(9,233)	(14,370)
Profit on ordinary activities before taxation		12,534	48,222
Tax on profit on ordinary activities	5	1,926	991
Profit for the financial year		14,460	49,213
Dividends payable	14	(15,000)	(30,000)
Retained (loss)/profit for the financial year	11	(540)	19,213

During the year 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 accompanying notes form an integral part of this profit and loss account.

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

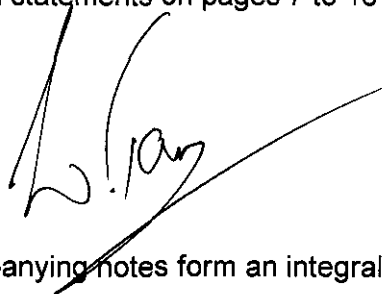
BABCOCK HOLDINGS LIMITED

BALANCE SHEET
as at 31 March 2006

	Notes	2006 £000	2005 £000
FIXED ASSETS			
Investments	6	322,832	322,792
CURRENT ASSETS			
Debtors	7	117,621	150,620
Cash at bank		18,285	-
		135,906	150,620
CREDITORS – amounts due within one year	8	(28,492)	(49,042)
Net current assets		107,414	101,578
Total assets less current liabilities		430,246	424,370
CREDITORS – amounts due after more than one year	8	(264,728)	(258,312)
Net assets		165,518	166,058
CAPITAL AND RESERVES			
Called up share capital - equity interests	10	33,570	33,570
Share premium	11	62,788	62,788
Profit and loss account	11	69,160	69,700
Shareholders' funds – equity interests	11	165,518	166,058

The financial statements on pages 7 to 16 were approved by the Board on 21 August 2006 and signed on its behalf by

W Tame
Director



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

1. ACCOUNTING POLICIES

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

Basis of Accounting

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

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

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. Where the company acts as an agent the employee and administrative cost of Babcock International Limited are reflected in these accounts.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Taxation (continued)

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.

Pension costs

The company operates a multi-employer defined benefit pension scheme. The scheme is accounted for on a defined contribution basis as the company is unable to identify its share of the underlying assets and liabilities.

There is no material difference between the FRS17: "Retirement Benefits" and IAS 19: "Employee Benefits" valuation. Refer to the financial statements note 27 of Babcock International Group PLC for further details.

As a result of the level of surplus the companies compulsory contribution to the Babcock International Group Pension Scheme is currently suspended until at least the results of the next formal valuation are available although voluntary contributions have been made.

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.

Group Financial Statements

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 which prepares consolidated financial statements that are publicly available.

2. NET INTEREST

	2006	2005
	£000	£000
Interest payable on bank overdraft	(137)	(1,349)
Group Interest receivable	6,414	-
Group interest payable	(15,511)	(13,021)
	(9,233)	(14,370)

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. OPERATING LOSS

Is stated after charging/(crediting):	2006	2005
	£000	£000
Management fees	(3,620)	(3,245)
Auditors' remuneration - audit services	114	63
Staff costs	6,462	4,457
Operating lease rentals – land and buildings	190	154

4. DIRECTORS' REMUNERATION AND STAFF COSTS

The remuneration of the directors was as follows:

	2006	2005
	£000	£000
Emoluments	1,184	1,098
Company contributions to money purchase and personal pension schemes	12	11
	1,196	1,109

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 (2005:0). Shares were received or receivable under long-term incentive schemes by 3 directors (2005:3).

The directors report show the relevant directors' interests.

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

	2006	2005
	£000	£000
Emoluments	613	577

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

	2006	2005
	£000	£000
Money purchase schemes	1	1
Defined benefit schemes	2	2

The accrued pension entitlement under the company defined benefit scheme of the highest paid director at 31 March 2006 was £nil (2005: £nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

PARTICULARS OF EMPLOYEES

	2006	2005
The average number of persons (including directors) employed by the company during the year was:		
Executive and administration	26	29
	2006	2005
Their total remuneration was:	£000	£000
Wages and salaries	3,431	3,254
Share based payments	1,076	863
Social security costs	1,906	267
Other pension costs	49	73
	6,462	4,457

5. TAXATION

	2006	2005
	£000	£000
UK corporation tax charge at 30%	-	-
Total current tax charge	-	-
Deferred tax:		
Origination and reversal of timing differences	(1,926)	(991)
Tax credit on profit on ordinary activities	(1,926)	(991)

The difference between the total current year tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2006	2005
	£000	£000
Profit on ordinary activities before tax	12,534	48,222
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2005: 30%)	3,760	14,467
Effects of:		
Non-taxable income from subsidiaries	(8,700)	(27,300)
Timing differences	1,926	991
Group relief surrendered for nil consideration	3,055	4,658
Expenses not deductible for tax purposes	(41)	7,184
Current tax charge	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. FIXED ASSET INVESTMENTS

Investments in subsidiary undertakings

£000

Cost

At 1 April 2005

391,581

Additions

100

At 31 March 2006**391,681**

Provision for impairment at 1 April 2005

(68,789)

Increase in provision for impairment

(60)

Provision for impairment at 31 March 2006**(68,849)**

Net book value 31 March 2005

322,792

Net book value 31 March 2006**322,832**

On 17 February 2006 the company subscribed for 1 ordinary £1 share in Babcock Malta Limited for a consideration of £100,000. Investments have been written down to the carrying value of net assets of subsidiary undertakings.

Details of the principal subsidiary undertakings are set out in note 15.

7. DEBTORS

2006

2005

£000

£000

Amounts due from subsidiary undertakings

114,692

149,617

Deferred tax

2,929

1,003

117,621**150,620**

All amounts are due within one year. Deferred tax is set out in Note 9.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. CREDITORS	2006 £000	2005 £000
Amounts due within one year:		
Amount due to subsidiary undertakings	28,271	18,832
Overdraft	-	177
Other creditors	221	33
Accrued dividend	-	30,000

	28,492	49,042
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Amounts due after more than one year:	2006 £000	2005 £000
Amounts owed to fellow subsidiary undertakings	264,728	258,312

Included in amounts due after more than one year is a Deep Discount Note of £114,728,164 issued on 4 October 2004 and is redeemable in September 2007. The remaining £150,000,000 is repayable between two and five years and bears an interest rate of UK LIBOR six monthly, plus one hundred basis points.

9. DEFERRED TAX

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

	Recognised		Potential Asset	
	2006 £000	2005 £000	2006 £000	2005 £000
Accelerated capital allowances	7	9	7	9
Other short-term differences	2,922	994	2,922	994
	2,929	1,003	2,929	1,003

The movement on the deferred tax asset is as follows:

	2006 £000
Balance at start of year	1,003
Credit to the profit and loss account	1,926
Balance at the end of the year	2,929

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. CALLED UP SHARE CAPITAL

	2006 £000	2005 £000
Authorised		
77,785,000 Ordinary shares of £1 each	77,785	77,785
Allotted, called up and fully paid		
33,570,092 (2005: 33,570,092) Ordinary shares of £1 each	33,570	33,570

11. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND RESERVES

	Share Capital £000	Share premium account £000	Profit and loss account £000	Total £000
At 1 April 2005	33,570	62,788	69,700	166,058
Shares issued	-	-	-	-
Loss for the year	-	-	(540)	(540)
At 31 March 2006	33,570	62,788	69,160	165,518

12. CONTINGENT LIABILITIES

The company has joint and several liability for bank facilities of £10.0 million (2005: £10.0 million) in respect of certain fellow Babcock International Group companies.

13. OPERATING LEASE COMMITMENTS

	Land and Buildings 2006 £000	Land and Buildings 2005 £000
Annual commitments under non-cancellable operating leases are as follows:		
Expiry date:		
- Between two and five years	286	154

14. DIVIDENDS

	2006 £000	2005 £000
Interim dividend 44.68p (2005: 89.37p) per £1 share	15,000	30,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. PRINCIPAL SUBSIDIARY UNDERTAKINGS**Defence Services**

Babcock Naval Services Limited
 Air Power International Limited
 Babcock Support Services Limited
 Hiberna FM Limited
 Acetech Personnel Limited

Technical Services

Babcock Design & Technology Limited
 Babcock Support Services Limited
 Marine Engineering & Fabrications Limited
 Rosyth Royal Dockyard Limited

Rail

First Engineering Limited

Networks

Eve Group Limited

Others

Babcock International Limited
 Babcock Overseas Investments Limited
 Babcock Support Services (Investments) Limited
 Chepstow Insurance Limited (Guernsey)
 Peterhouse Group Limited
 PHG Insurance Limited (Guernsey)

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.

16. 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.

17. ULTIMATE CONTROLLING PARTY

Babcock International Group PLC, a company incorporated in England and Wales, is the company's immediate 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

18. POST BALANCE EVENTS

On 1 June 2006 Babcock UK Finance waived its loans of £8,920,000 to the company. On 7 June 2006 the company acquired the entire share capital of Alstec Group Limited for a total consideration of £50,000,000 funded by way of a Deep Discount Note issued to Babcock Malta Finance Limited.