

BABCOCK HOLDINGS LIMITED

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2007

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 2007

The directors present the financial statements and auditors' report of the company for the year ended 31 March 2007

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 £9,754,000 (2006 profit £14,460,000). The directors do not propose a dividend (2006 £15,000,000). The retained loss of £9,754,000 (2006 loss £540,000) will be transferred from reserves.

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 2007, 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 £8,800 (2006 £10,547) to charitable organisations. No donations were made during the year (2006 £nil) for political purposes.

Directors

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

P L Rogers
W Tame
F Martinelli

**DIRECTORS' REPORT (continued)
for the year ended 31 March 2007**

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period.

- 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 company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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.

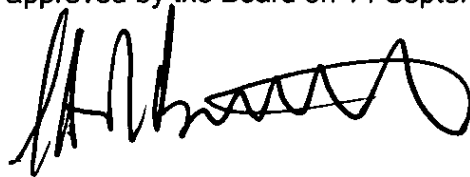
Auditors and the disclosure of information

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

So far as the Directors are aware, there is no relevant audit information, being information required by the auditors in connection with the preparation of the auditors' report, of which the auditors are unaware. Having made enquiries of fellow directors of the Group auditors, each Director has taken all steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

This report was approved by the Board on 14 September 2007.

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 2007 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 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.

In addition we 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 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 2007 and of its loss 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 LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

14 September 2007

BABCOCK HOLDINGS LIMITED**PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2007**

	Notes	2007 £000	2006 £000
Loan waiver	8	8,920	-
Provision for impairment	6	(333)	(60)
Administration expenses		(8,864)	(7,173)
Operating loss	3	(277)	(7,233)
Income from fixed asset investments		-	29,000
(Loss)/profit on ordinary activities before interest and tax		(277)	21,767
Interest payable	2	(12,365)	(9,233)
(Loss)/profit on ordinary activities before taxation		(12,642)	12,534
Tax on (loss)/profit on ordinary activities	5	2,888	1,926
(Loss)/profit for the financial year		(9,754)	14,460
Dividends payable	14	-	(15,000)
Retained loss for the financial year	11	(9,754)	(540)

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 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 2007

	Notes	2007 £000	2006 £000
Fixed Assets			
Investments	6	372,499	322,832
Current Assets			
Debtors	7	123,454	117,621
Cash at bank		4,981	18,285
		128,435	135,906
Creditors— amounts due within one year	8	(142,745)	(28,492)
Net current (liabilities)/assets		(14,310)	107,414
Total assets less current liabilities		358,189	430,246
Creditors – amounts due after more than one year	8	(202,425)	(264,728)
Net assets		155,764	165,518
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	59,406	69,160
Shareholders' funds – equity interests	11	155,764	165,518

The financial statements on pages 6 to 16 were approved by the Board on 14 September 2007 and signed on its behalf by



F Martinelli
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, 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. The taxation liabilities of certain group companies may be reduced, wholly or in part, by the surrender of losses by fellow group companies. The decision to charge group relief is made on a case by case basis.

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 (continued)

Taxation (continued)

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.

Pension costs

The company is part of 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. NET INTEREST

	2007	2006
	£000	£000
Interest receivable/(payable) on bank balance	339	(137)
Group Interest receivable	6,481	6,414
Group interest payable	(19,185)	(15,510)
	(12,365)	(9,233)

3. OPERATING LOSS

Is stated after charging/(crediting)	2007	2006
	£000	£000
Management fees	(4,717)	(3,620)
Auditors' remuneration - audit services	70	114
Staff costs	7,654	6,462
Operating lease rentals – land and buildings	286	190

4. DIRECTORS' REMUNERATION AND STAFF COSTS

The remuneration of the directors was as follows

	2007	2006
	£000	£000
Emoluments	1,541	1,184
Company contributions to money purchase and personal pension schemes	2	12
	1,543	1,196

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. One director exercised share options in the period (2006 0). Shares were received or receivable under long-term incentive schemes by 3 directors (2006 3).

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

	2007	2006
	£000	£000
Emoluments	848	613

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	2007 £000	2006 £000
Money purchase schemes	-	1
Defined benefit schemes	2	2

The accrued pension entitlement under the company defined benefit scheme of the highest paid director at 31 March 2007 was £nil (2006 £nil)

PARTICULARS OF EMPLOYEES

	2007	2006
The average number of persons (including directors) employed by the company during the year was		
Executive and administration	28	29
	2007 £000	2006 £000
Their total remuneration was		
Wages and salaries	4,506	3,431
Share based payments	1,679	956
Social security costs	1,469	2,046
Other pension costs	-	49
	7,654	6,482

5. TAXATION

	2007 £000	2006 £000
UK corporation tax charge at 30%	-	-
Total current tax charge	-	-
Deferred tax		
Origination and reversal of timing differences	(2,888)	(1,926)
Tax credit on profit on ordinary activities	(2,888)	(1,926)

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	2007 £000	2006 £000
(Loss)/profit on ordinary activities before tax	(12,642)	12,534
Tax on (loss)/profit on ordinary activities at standard UK corporation tax rate of 30% (2006 30%)	(3,793)	3,760
Effects of		
Non-taxable income from subsidiaries	-	(8,700)
Timing differences	2,888	1,926
Group relief surrendered for nil consideration	3,481	3,055
Income and expenses not applicable for tax purposes	(2,576)	(41)
Current tax charge	-	-

6. FIXED ASSET INVESTMENTS

Investments in subsidiary undertakings

£000

Cost

At 1 April 2006

391,681

Additions

50,000

At 31 March 2007

441,681

Provision for impairment at 1 April 2006

(68,849)

Impairment Charge

(333)

Provision for impairment at 31 March 2007

(69,182)

Net book value 31 March 2007

372,499

Net book value 31 March 2006

322,832

On 8 June 2006 the company acquired the entire share capital of Alstec Group Limited for a total consideration of £50,000,000 from the company's ultimate parent company Babcock International Group PLC. The acquisition was funded by way of a deep discount note issued to Babcock Malta Finance Limited. Refer note 8 for further details.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. DEBTORS	2007 £000	2006 £000
Amounts due from subsidiary undertakings	117,637	114,692
Deferred tax	5,817	2,929
	123,454	117,621

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

8. CREDITORS	2007 £000	2006 £000
Amounts due within one year		
Amount due to subsidiary undertakings	142,374	28,271
Other creditors	371	221
	142,745	28,492

On 1 June 2006 Babcock UK Finance waived its loans of £8,920,000 to the company

Included in amounts due within one year is a deep discount note of £121,795,556 issued on 5 October 2004 and redeemable on 5 October 2007

	2007 £000	2006 £000
Amounts due after more than one year		
Amounts owed to fellow subsidiary undertakings	202,425	264,728

The loan of £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

Included in amounts due after more than one year are deep discount notes of £52,425,090 issued on 8 June 2006 and redeemable on June 8 2008 (2006 114,728,164 issued on 5 October 2004 and redeemable on 5 October 2007)

9. DEFERRED TAX

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

	Recognised		Potential Asset	
	2007 £000	2006 £000	2007 £000	2006 £000
Accelerated capital allowances	5	7	5	7
Other short-term differences	5,812	2,922	5,812	2,922
	5,817	2,929	5,817	2,929

NOTES TO THE FINANCIAL STATEMENTS (continued)

The movement on the deferred tax asset is as follows

	2007 £000
Balance at start of year	2,929
Credit to the profit and loss account	2,888
Balance at the end of the year	5,817

10. CALLED UP SHARE CAPITAL

	2007 £000	2006 £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 2006	33,570	62,788	69,160	165,518
Loss for the year	-	-	(9,754)	(9,754)
At 31 March 2007	33,570	62,788	59,406	155,764

12. CONTINGENT LIABILITIES

The company has joint and several liability for bank facilities of £10.0 million (2006 £10.0 million) in respect of certain fellow Babcock International Group companies

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. OPERATING LEASE COMMITMENTS

	Land and Buildings 2007 £000	Land and Buildings 2006 £000
Annual commitments under non-cancellable operating leases are as follows		
Expiry date		
- Between two and five years	-	286
- Between one and two years	286	-

14. DIVIDENDS

	2007 £000	2006 £000
Dividend nil (2006 44 68p) per £1 share	-	15,000

15. PRINCIPAL SUBSIDIARY UNDERTAKINGS**Defence Services**

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

Technical Services

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

Rail

First Engineering Limited

Networks

Babcock Networks 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

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

The company's immediate parent company is Babcock UK Holdings Limited and the ultimate controlling company is Babcock International Group PLC. Both companies incorporated in England and Wales. The only group in which the results of the company are consolidated is that headed by Babcock International Group PLC.

Copies of the Babcock International Group PLC financial statements are available from

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