

BABCOCK MANAGEMENT LIMITED

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2001

Company number 107414



DIRECTORS AND ADVISORS

DIRECTORS

G A Campbell
N R Young
N G Campbell
H M Mahy

SECRETARY

R S Martin

REGISTERED OFFICE

Badminton Court
Church Street
Amersham
Buckinghamshire
HP7 0DD

AUDITORS

Arthur Andersen
1 Surrey Street
London WC2R 2PS

FINANCIAL STATEMENTS

The directors present their report and financial statements for the year ended 31 March 2001.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that 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 are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRINCIPAL ACTIVITY

The principal activity of the company is that of an investment holding company. The directors do not anticipate any change in the nature of the company's activities during the next financial year.

RESULTS AND DIVIDENDS

The profit on ordinary activities after taxation was £1,685,000 (2000: £18,879,000). A dividend of £2,100,000 was paid during the year (2000 : £1,600,000). The results for the year ended 31 March 2001 are set out on pages 4 to 9.

**DIRECTORS' REPORT (continued)
for the year ended 31 March 2001****DIRECTORS AND THEIR INTERESTS**

The directors who served during the year were as follows:

Dr T J Parker (resigned 31 December 2000)
G A Campbell (appointed 31 December 2000)
N R Young
N G Campbell
H M Mahy

None of the directors had any beneficial interest in the shares of the company. At 31 March 2001, Mr G A Campbell and Mr N R Young 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.

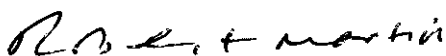
The interests of the other directors in the shares and share options of the company's ultimate parent company, Babcock International Group PLC, were as follows:

	Ordinary shares Number	Ordinary shares Number	Share options Number	Share options Number
	31 March 2001	31 March 2000	31 March 2001	31 March 2000
H M Mahy	14,596	4,289	180,904	168,350
N G Campbell	14,022	-	130,709	158,537

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Arthur Andersen be reappointed as auditors of the company will be put to the Annual General Meeting.

This report was approved by the board on 9 August 2001.


R S Martin
Secretary

AUDITORS' REPORT

To the Shareholders of Babcock Management Limited

We have audited the financial statements on pages 4 to 9 which have been prepared under the historical cost convention and the accounting policies set on page 6.

Respective responsibilities of directors and auditors

As described on page 1, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

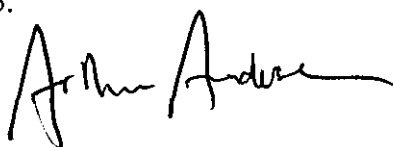
Basis of opinion

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 circumstances of the company, 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 of the company's affairs as at 31 March 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London WC2R 2PS

9 August 2001

BABCOCK MANAGEMENT LIMITED**PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2001**

	Notes	2001	2000
		£000	£000
Income from fixed asset investments		2,100	1,510
Administrative expenses		(9)	(6)
Profit on ordinary activities before interest		2,091	1,504
Exceptional items:			
(Loss)/profit on sale of fixed asset investments	2	(3,437)	170
Loan waiver	2	-	14,402
Interest receivable	3	3,019	2,803
Profit on ordinary activities before taxation		1,673	18,879
Taxation on ordinary activities	5	12	-
Profit on ordinary activities after taxation		1,685	18,879
Dividends paid	6	(2,100)	(1,600)
Retained (loss)/profit for financial year	12	(415)	17,279

During the year there were no recognised gains and losses other than those dealt with in the profit and loss account. All of the above results derive from continuing activities. The retained result in both the current and prior years represent the only movements in shareholders' funds.

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

BABCOCK MANAGEMENT LIMITED**BALANCE SHEET
as at 31 March 2001**

	Notes	2001	2000
		£000	£000
FIXED ASSETS			
Investments	7	-	3,180
CURRENT ASSETS			
Debtors	8	16,637	19,440
Cash at bank and in hand		32,424	27,051
		49,061	46,491
CREDITORS: amounts falling due within one year	9	(1,146)	(1,341)
Net current assets		47,915	45,150
Net assets		47,915	48,330
CAPITAL AND RESERVES			
Called up share capital	11	48,000	48,000
Profit and loss account	12	(85)	330
Shareholders' funds - equity interests		47,915	48,330

The financial statements on pages 4 to 9 were approved by the Board on 9 August 2001 and signed on its behalf by



N R Young
Director

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 under the historical cost convention and in accordance with 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 another company registered in England, which prepares consolidated financial statements that are publicly available.

A cash flow statement has not been prepared as the company has taken advantage of the exemption under FRS1 (revised), available to wholly owned subsidiaries of a company incorporated in the EU whose consolidated financial statements include a consolidated cash flow statement.

Investments

Fixed asset investments are shown at cost less provision for impairment.

2 EXCEPTIONAL ITEMS	2001 £000	2000 £000
(a) (Loss)/profit on sale of fixed asset investments		
Provision for impairment in fixed asset investments	(3,305)	-
Costs of disposals written off	(132)	(14)
Profit on redemption of shares in fellow subsidiary	-	184
	<u>(3,437)</u>	<u>170</u>
(b) Loan waiver by fellow subsidiary company	<u>-</u>	<u>14,402</u>
3 INTEREST RECEIVABLE	2001 £000	2000 £000
Discount on deferred consideration	187	356
Bank interest receivable	1,652	1,314
Interest receivable from fellow group companies	1,180	1,133
	<u>3,019</u>	<u>2,803</u>

4 STAFF COSTS AND DIRECTORS' REMUNERATION

There were no staff employed during the year and none of the directors receive remuneration in respect of their services to the company during the year under review. The directors are remunerated by other group companies.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 TAXATION

During the year, the Babcock International Group has continued its policy of surrendering UK tax losses for no consideration except where there is a minority interest in the subsidiary.

The tax credit of £12,545 represents a refund of overseas tax in respect of investments sold in previous years.

6 DIVIDENDS PAID AND PROPOSED	2001 £000	2000 £000
Dividends paid	2,100	1,600

7 INVESTMENTS

	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Investments in subsidiary undertakings £000
Cost:			
1 April 2000	946	2,234	3,180
Increase in loans	-	125	125
At 31 March 2001	946	2,359	3,305
Provisions:			
At 1 April 2000	-	-	-
Impairment loss	(946)	(2,359)	(3,305)
At 31 March 2001	(946)	(2,359)	(3,305)
Net book amount:			
At 31 March 2000	946	2,234	3,180
At 31 March 2001	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

On 23 May 2001 the company subscribed for 6 'A' ordinary shares in Railcare Limited ("Railcare") for a total price of £2,358,800. The funds previously loaned to Railcare were approved to satisfy the subscription price.

On 23 May 2001 the company exercised its right to subscribe for a further 6 'A' ordinary shares of £1 each and 946,260 ordinary shares of £1 each for an aggregate price of £4,799,999. The price was paid in cash.

On 23 May 2001 the company disposed of its entire shareholding in Railcare to Alstom UK Limited for cash consideration of £4,597,015. The consideration is subject to adjustment based on the net asset value to be shown in the completion accounts.

The post year-end sale of Railcare has given rise to a total loss on disposal of £4,537,103 (including costs). £3,434,118 of this loss on disposal has been reflected in the profit and loss account of the company for the year ended 31 March 2001 and the remaining £1,102,985 will be reflected in the profit and loss account of the company for the year ended 31 March 2002.

8 DEBTORS

	2001 £000	2000 £000
Amounts owed by subsidiary undertakings	16,637	14,627
Deferred consideration receivable on sale of investment	-	4,813
	16,637	19,440

Included in amounts owed by subsidiary undertakings is £14,585,610 due after more than one year.

9 CREDITORS: amounts falling due within one year

	2001 £000	2000 £000
Amounts owed to subsidiary undertakings	-	212
Other creditors	3	3
Accruals and deferred income	1,143	1,126
	1,146	1,341

10 DEFERRED TAXATION

No provision has been made for deferred taxation as the directors are of the opinion that no liability will crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 CALLED UP SHARE CAPITAL

	2001	2000
	£000	£000
Authorised:		
50,000,000 (2000: 50,000,000) ordinary shares of £1	50,000	50,000
Allotted, called up and fully paid:		
48,000,075 (2000: 48,000,075) ordinary shares of £1	48,000	48,000

12 PROFIT AND LOSS ACCOUNT

	£000
At 31 March 2000	330
Loss for the year	(415)
At 31 March 2001	(85)

13 CONTINGENT LIABILITIES

- (a) The company has joint and several liability for bank facilities of £55.0 million (2000: £20.0 million) in respect of certain fellow Babcock International Group companies.
- (b) Throughout the Babcock International Group, contingent liabilities exist in respect of guarantees, issued on behalf of group companies by banks and insurance companies in the ordinary course of business. At 31 March 2001 the company had counter-indemnified a total of £57.3 million (2000: £64.6 million) in respect of these contingent liabilities.

14 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption granted by FRS8 Related Party Disclosures to 90% subsidiaries not to disclose transactions with group undertakings. There are no other related party transactions.

15 ULTIMATE PARENT COMPANY

The company's ultimate parent company is Babcock International Group PLC, a company registered in England. Copies of Babcock International Group PLC financial statements are available to the public at the following address:

Company Secretary
Babcock International Group PLC
Badminton Court
Church Street
Amersham
Bucks
HP7 ODD