

**BABCOCK MANAGEMENT LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2002**

**Company number 107414**



**BABCOCK MANAGEMENT LIMITED**

**DIRECTORS AND ADVISORS**

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**DIRECTORS**

G A Campbell  
N G Campbell  
W Tame

**SECRETARY**

R S Martin

**REGISTERED OFFICE**

2 Cavendish Square  
London  
W1G 0PX

**AUDITORS**

Arthur Andersen  
180 Strand  
London  
WC2R 1BL

## **FINANCIAL STATEMENTS**

The directors present their report and financial statements for the year ended 31 March 2002.

## **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 £1,392,000 (2001: £1,685,000). The directors do not propose a dividend (2001: £2,100,000). The results for the year ended 31 March 2002 are set out on pages 5 to 12.

**BABCOCK MANAGEMENT LIMITED**

**DIRECTORS' REPORT (continued)  
for the year ended 31 March 2002**

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**DIRECTORS AND THEIR INTERESTS**

The directors who served during the year were as follows:

G A Campbell  
N G Campbell  
H M Mahy (resigned 31 January 2002)  
W Tame (appointed 22 January 2002)  
N R Young (resigned 30 November 2001)

None of the directors had any beneficial interest in the shares of the company. At 31 March 2002, Mr G A Campbell 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.

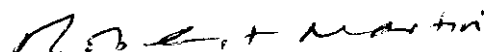
The interests of the other directors in the shares and share options of the company's ultimate parent company, Babcock International Group PLC, were as follows:

	<b>Ordinary shares Number</b>	<b>Ordinary shares Number</b>	<b>Share options Number</b>	<b>Share options Number</b>
	<b>31 March 2002</b>	<b>31 March 2001</b>	<b>31 March 2002</b>	<b>31 March 2001</b>
N G Campbell	1,000	14,022	171,985	130,709

During the year 41,276 share options were granted to N G Campbell.

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.

This report was approved by the board on 25 July 2002.



R S Martin  
Secretary

**Independent auditors' report to the shareholders of Babcock Management Limited**

We have audited the financial statements of Babcock Management Limited for the year ended 31 March 2002, which comprise the Profit and Loss Account, the Balance Sheet and the related notes numbered 1 to 15. 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 annual report and the financial statements in accordance with applicable law and United Kingdom 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.

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 with the company 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.

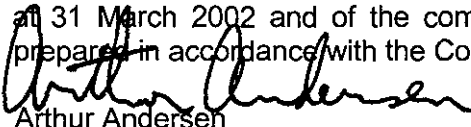
**Basis of opinion**

We conducted our audit in accordance with United Kingdom 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 judgments 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 state of affairs of the company at 31 March 2002 and of the company's 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  
180 Strand  
London  
WC2R 1BL

25 July 2002

**BABCOCK MANAGEMENT LIMITED**

**PROFIT AND LOSS ACCOUNT  
for the year ended 31 March 2002**

	Notes	2002	2001
		£000	£000
Income from fixed asset investments		-	2,100
Administrative expenses		(11)	(9)
<b>(Loss) / profit on ordinary activities before interest</b>		<b>(11)</b>	<b>2,091</b>
Loss on sale of fixed asset investments	2	(1,102)	(3,437)
Interest receivable	3	2,505	3,019
<b>Profit on ordinary activities before taxation</b>		<b>1,392</b>	<b>1,673</b>
Taxation on ordinary activities	5	-	12
<b>Profit on ordinary activities after taxation</b>		<b>1,392</b>	<b>1,685</b>
Dividends paid	6	-	(2,100)
<b>Retained loss for financial year</b>	<b>12</b>	<b>1,392</b>	<b>(415)</b>

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 year represents 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 2002**

	Notes	2002	2001
		£000	£000
<b>FIXED ASSETS</b>			
Investments	7	-	-
<b>CURRENT ASSETS</b>			
Debtors	8	14,764	16,637
Cash at bank and in hand		39,181	32,424
		<b>53,945</b>	<b>49,061</b>
<b>CREDITORS:</b> amounts falling due within one year	9	<b>(4,638)</b>	<b>(1,146)</b>
<b>Net assets</b>		<b>49,307</b>	<b>47,915</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	11	<b>48,000</b>	48,000
Profit and loss account	12	<b>1,307</b>	(85)
<b>Shareholders' funds - equity interests</b>		<b>49,307</b>	<b>47,915</b>

The financial statements on pages 5 to 12 were approved by the Board on 25 July 2002 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 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 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.

**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.

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.



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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.

The adoption of the full provision method of accounting for deferred tax, as set out in FRS19, represents a change in accounting policy. The effect of this change in accounting policy was not material and did not require a prior year adjustment.

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.

<b>2</b>	<b>EXCEPTIONAL ITEMS</b>	<b>2002 £000</b>	<b>2001 £000</b>
	Provision for impairment in fixed asset investments	-	(3,305)
	Loss and costs of disposal written off	(1,102)	(132)
	<b>Loss on sale of fixed asset investments</b>	<b>(1,102)</b>	<b>(3,437)</b>
 <b>3</b>	 <b>INTEREST RECEIVABLE</b>	 <b>2002 £000</b>	 <b>2001 £000</b>
	Discount on deferred consideration	-	187
	Bank interest receivable	1,447	1,652
	Interest receivable from fellow group companies	1,058	1,180
		<b>2,505</b>	<b>3,019</b>

**4 STAFF COSTS AND DIRECTORS' REMUNERATION**

There were no staff employed during the year and none of the directors received 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**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Tax charge at statutory rate	<b>418</b>	502
Non taxable dividends receivable	-	(630)
Group relief claimed for nil consideration	<b>(748)</b>	(903)
Non tax deductible loss on disposal	<b>330</b>	1,031
Overseas tax credit in respect of prior years	-	(12)
Actual tax charge	-	(12)

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 in the previous year represents a refund of overseas tax in respect of investments sold.

**6 DIVIDENDS PAID AND PROPOSED**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Dividends paid	-	2,100

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**7 INVESTMENTS**

	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Investments in subsidiary undertakings £000
<b>Cost:</b>			
1 April 2001	946	2,359	3,305
Loan capitalised	2,359	(2,359)	-
Additions	4,800	-	4,800
Disposals	(8,105)	-	(8,105)
<b>At 31 March 2002</b>	-	-	-
<b>Provisions:</b>			
At 1 April 2001	(946)	(2,359)	(3,305)
Disposals	946	2,359	3,305
<b>At 31 March 2002</b>	-	-	-
<b>Net book amount:</b>			
<b>At 31 March 2002</b>	-	-	-
<b>At 31 March 2001</b>	-	-	-

## 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 used 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 sale of Railcare has given rise to a total loss on disposal of £4,535,779 (including costs). £3,434,118 of this loss on disposal was reflected in the profit and loss account of the company for the year ended 31 March 2001 and the remaining £1,101,661 is reflected in the profit and loss account of the company for the year ended 31 March 2002.

**8 DEBTORS**

	2002 £000	2001 £000
Amounts owed by subsidiary undertakings	14,762	16,508
Other debtors	2	129
	<b>14,764</b>	<b>16,637</b>

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**

	2002 £000	2001 £000
Other creditors and accruals	4,638	1,146

**10 DEFERRED TAXATION**

The Company has no deferred tax liabilities. The company has significant capital losses, which represent an unprovided deferred tax asset in accordance with FRS 19.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**11 CALLED UP SHARE CAPITAL**

	2002 £000	2001 £000
<b>Authorised:</b>		
50,000,000 (2001: 50,000,000) ordinary shares of £1	50,000	50,000
<b>Allotted, called up and fully paid:</b>		
48,000,075 (2001: 48,000,075) ordinary shares of £1	48,000	48,000

**12 PROFIT AND LOSS ACCOUNT**

	£000
At 31 March 2001	(85)
Profit for the year	1,392
<b>At 31 March 2002</b>	<b>1,307</b>

**13 CONTINGENT LIABILITIES**

- (a) The company has joint and several liability for bank facilities of £10.0 million (2001: £5.0 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 2002 the company had counter-indemnified a total of £32.0 million (2001: £57.3 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 CONTROLLING PARTY**

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

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

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