

**BABCOCK HOLDINGS LIMITED**  
**DIRECTORS' REPORT AND**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2003**

**Company number 2955502**



**BABCOCK HOLDINGS LIMITED**

**DIRECTORS AND ADVISORS**

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**DIRECTORS**

G A Campbell  
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 2003**

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The directors present their report and the audited financial statements of the company for the year ended 31 March 2003.

**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 profit of £70,659,000 (2002: loss £35,532,000). The directors proposed a dividend of £7,000,000 (2002: £nil). The remaining profit of £63,659,000 will be transferred to reserves.

**Directors and their interests**

The directors of the company are listed on page 2.

The directors had no interest in the share capital of any group company.

**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 2003 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.

**BABCOCK HOLDINGS LIMITED**

**DIRECTORS' REPORT (continued)  
for the year ended 31 March 2003**

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**Directors**

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

G A Campbell  
W Tame  
F Martinelli (appointed 23 October 2002)  
N G Campbell (resigned 23 October 2002)

None of the directors had any beneficial interest in the shares of the company. At 31 March 2003, 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 2003</b>	<b>31 March 2002</b>	<b>31 March 2003</b>	<b>31 March 2002</b>
F Martinelli	-	-	45,000	-
N G Campbell	1,000	1,000	140,789	171,985

During the year 45,000 share options were granted to Mr F Martinelli.

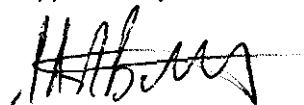
No director had any material interest during the year in any contract with the company or its subsidiaries requiring disclosure under Section 317 of the Companies Act 1985.

**Auditors**

During the year Deloitte & Touche resigned as auditors and PricewaterhouseCoopers LLP were appointed. A resolution to reappoint Pricewaterhouse Coopers LLP as auditors to the company will be proposed at the annual general meeting.

This report was approved by the Board on 26 June 2003.

S A Billiald  
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 2003 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers*

**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
London

26 June 2003

**BABCOCK HOLDINGS LIMITED**

**PROFIT AND LOSS ACCOUNT**  
for the year ended 31 March 2003

	Notes	2003 £000	2002 £000
Impairment in the value of subsidiaries	6	-	(35,574)
Administration expenses		(5,596)	-
<b>Operating loss</b>	3	<b>(5,596)</b>	<b>(35,574)</b>
Income from shares in subsidiaries	6	84,000	-
<b>Profit/(loss) on ordinary activities</b>		<b>78,404</b>	<b>(35,574)</b>
Net interest	2	(7,745)	42
<b>Profit/(loss) before and after tax</b>		<b>70,659</b>	<b>(35,532)</b>
Dividend payable		(7,000)	-
<b>Retained profit/(loss) for the financial year</b>		<b>63,659</b>	<b>(35,532)</b>

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.

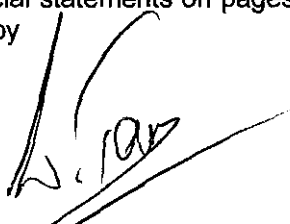
**BABCOCK HOLDINGS LIMITED**

**BALANCE SHEET  
as at 31 March 2003**

	Notes	2003 £000	2002 £000
<b>FIXED ASSETS</b>			
Investments	6	225,242	53,449
<b>CURRENT ASSETS</b>			
Debtors	7	84,009	16
Cash at bank and in hand		-	968
		84,009	984
<b>CREDITORS – amounts due within one year</b>	8	<b>(19,862)</b>	<b>(3)</b>
<b>Net current assets</b>		<b>64,147</b>	<b>981</b>
<b>Total assets less current liabilities</b>		<b>289,389</b>	<b>54,430</b>
<b>CREDITORS – amounts due after more than one year</b>	8	<b>(215,750)</b>	<b>(44,450)</b>
<b>Net assets</b>		<b>73,639</b>	<b>9,980</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital - equity interests	9	7,782	77,782
Profit and loss account	10	65,857	(67,802)
<b>Shareholders' funds – equity interests</b>	10	<b>73,639</b>	<b>9,980</b>

The financial statements on pages 7 to 14 were approved by the Board on 26 June 2003 and signed on its behalf by

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

**Cashflow**

A cashflow 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.

2. NET INTEREST	2003 £000	2002 £000
Interest receivable on cash at bank	-	42
Interest payable on bank overdraft	(11)	-
Group interest payable	(7,734)	-
	(7,745)	42
3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		
Is stated after charging:	2003 £000	2002 £000
Auditors' remuneration		
- audit services	-	-
- other services	150	-
Depreciation	-	-
Operating lease rentals		
- land and buildings	-	-

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**4. STAFF COSTS**

No remuneration was paid to any director for their services to the company. There were no employees during the year.

**5. TAXATION**

	2003 £'000	2002 £'000
Tax charge/(credit) at statutory rate	21,198	(10,660)
Non-taxable income from subsidiaries	(25,200)	-
Non-deductible impairment write down	-	10,672
Group relief for nil consideration	3,889	(12)
Other disallowable expenditure	113	-
Actual tax charge	-	-

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

**6. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS**

	Shares in subsidiary undertakings £000
<b>Cost</b>	
31 March 2002	122,241
Additions	293,590
Disposals	(121,800)
Cost at 31 March 2003	294,031
<b>Provision for diminution in value</b>	
At 1 April 2002	(68,789)
Additions	-
Disposals	-
At 31 March 2003	(68,789)
<b>Net book value at 31 March 2003</b>	<b>225,242</b>
Net book value at 31 March 2002	53,449

During the year the company increased its investments in Babcock Ireland Finance Limited, Babcock Luxembourg Finance S.a.r.l and Babcock Support Services (Investments) Limited by a total of £293,590,000. The company sold its investment in Babcock Ireland Finance Limited to a fellow subsidiary in September 2002.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**6. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS** *continued*

During the year the company received £84 million of dividends from subsidiary undertakings.

Details of the principal subsidiary undertakings are set out in note 10.

<b>7. DEBTORS</b>	<b>2003</b>	<b>2002</b>
	<b>£000</b>	<b>£000</b>
Amounts due from subsidiary undertakings	84,009	13
Other debtors	-	3
	<b>84,009</b>	<b>16</b>

All amounts are due within one year.

<b>8. CREDITORS</b>	<b>2003</b>	<b>2002</b>
	<b>£000</b>	<b>£000</b>
<b>Amounts due within one year:</b>		
Amount due to subsidiary undertakings	6,106	3
Overdraft	6,606	-
Accrual	150	-
Proposed dividend	7,000	-
	<b>19,862</b>	<b>3</b>

**Amounts due after more than one year:**

	<b>2003</b>	<b>2002</b>
	<b>£000</b>	<b>£000</b>
Amounts owed to fellow subsidiary undertakings	215,750	44,450
The amounts owed to fellow subsidiary undertakings are interest bearing loans with a 5 year maturity date.		

**9. CALLED UP SHARE CAPITAL**

	<b>2003</b>	<b>2002</b>
	<b>£000</b>	<b>£000</b>
<b>Authorised</b>		
77,785,000 Ordinary shares of £1 each	77,785	77,785
<b>Allotted, called up and fully paid</b>		
7,782 (2002: 77,782,000) Ordinary shares of £1 each	7,782	77,782

A capital reduction of £70,000,000 took place on 19 February 2003 in order to eliminate negative reserves.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**10. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND RESERVES**

	Equity Shareholders' Funds £000	Profit and loss account £000
At 1 April 2002	9,980	(67,802)
Capital reduction	-	70,000
Profit for the year	63,659	63,659
<b>At 31 March 2003</b>	<b>73,639</b>	<b>65,857</b>

**11. CONTINGENT LIABILITIES**

The company has joint and several liability for bank facilities of £10.0 million (2002: £10.0 million) in respect of certain fellow Babcock International Group companies.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**12. PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS****Technical Services**

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

Air Power International Limited  
 Armstrong Technology Associates Limited  
 Babcock Defence Systems Limited  
 Babcock Engineering Services Limited  
 Babcock Support Services Limited  
 Babcock Design & Technology Limited  
 Babcock Rosyth Industries Limited  
 FBM Babcock (Lairdside) Limited  
 FBM Babcock Marine Holdings (UK) Limited  
 FBM Babcock Marine Limited  
 FBMA Babcock Marine Inc. (50%) (Philippines)\*  
 Rosyth Royal Dockyard Limited  
 MEF (Holdings) Limited (year end 2 August)

**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

**Others**

Babcock HSPS Trustees Limited  
 Babcock International Holdings Limited  
 Babcock International Limited  
 Babcock Overseas Investments Limited  
 Chepstow Insurance Limited (Guernsey)  
 Rosyth Royal Dockyard Pension Trustees Limited  
 Babcock Support Services (Investments) Limited  
 Babcock Luxembourg Finance S.a.r.l (Luxembourg)  
 Babcock Luxembourg S.a.r.l (Luxembourg)  
 Babcock Ireland Finance Limited  
 Babcock UK Finance Limited  
 Babcock Defence Systems Australia (Australia)

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 associated undertakings.

**12. 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.

**13. 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