

BABCOCK HOLDINGS LIMITED
DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2001

Company number 2955502



BABCOCK HOLDINGS LIMITED

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
Bucks HP7 ODD

AUDITORS

Arthur Andersen
Chartered Accountants
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 to 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 loss for the period was £10,171,000 (2000: £23,084,000). The directors do not propose a dividend (2000: £Nil).

BABCOCK HOLDINGS LIMITED

DIRECTORS' REPORT (continued) for the year ended 31 March 2001

DIRECTORS

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

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:

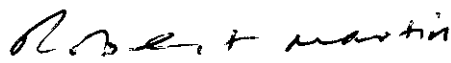
	Ordinary shares Number	Ordinary shares Number	Share options Number	Share options Number
	31 March 2001	31 March 2000	31 March 2001	31 March 2000
H M Mahy	14,596	4,289	180,904	168,350
N G Campbell	14,022	-	130,709	158,537

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. The company has maintained insurance to cover directors' and officers' liabilities as permitted under Section 310(3)a, Companies Act 1985 as amended.

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 Holdings Limited

We have audited the financial statements on pages 4 to 10 which have been prepared under the historical cost convention and the accounting policies set out 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.

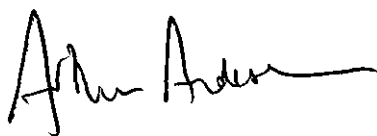
Basis of opinion

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 state of the company's affairs as at 31 March 2001 and of its loss 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 HOLDINGS LIMITED**PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2001**

	Notes	2001 £000	2000 £000
Impairment in the value of fixed asset investments	4	(10,168)	(23,047)
Loss on ordinary activities before interest		(10,168)	(23,047)
Interest payable	2	(3)	(37)
Retained loss for the financial year	8	(10,171)	(23,084)

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 2001**

	Notes	2001	2000
		£000	£000
FIXED ASSETS			
Investments	4	89,016	99,184
CURRENT ASSETS			
Debtors	5	-	1,000
Cash at bank and in hand		946	-
CREDITORS: amounts falling due within one year	6	(44,450)	(44,501)
Net current liabilities		(43,504)	(43,501)
Net assets		45,512	55,683
CAPITAL AND RESERVES			
Called up share capital - equity interests	7	77,782	77,782
Profit and loss account	8	(32,270)	(22,099)
Shareholders' funds - equity interests	8	45,512	55,683

The financial statements on pages 4 to 10 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 Babcock International Group PLC, another company registered in Great Britain.

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.

Fixed asset investments

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

2. INTEREST PAYABLE	2001	2000
	£000	£000
Interest payable on bank overdraft	3	37

3. STAFF COSTS AND DIRECTORS' REMUNERATION

There were no staff employed during the year (2000: None) and none of the directors received remuneration in respect of their services to the company during the year under review (2000: £Nil). The directors are remunerated by other group companies.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Cost	Shares in subsidiary undertakings £000
31 March 2000 and 2001	122,231
Provision for diminution in value	
At 1 April 2000	(23,047)
Impairment loss	(10,168)
At 31 March 2001	(33,215)
Net book value at 31 March 2001	89,016
Net book value at 31 March 2000	99,184

Details of the principal subsidiary undertakings are set out in note 9.

5. DEBTORS

	2001 £000	2000 £000
Amounts due from subsidiary undertakings	-	1,000

All amounts are due within one year.

6. CREDITORS: amounts falling due within one year

	2001 £000	2000 £000
Bank overdraft	-	51
Amounts owed to fellow subsidiary undertakings	44,450	44,450
	44,450	44,501

The amounts owed to fellow subsidiary undertakings are interest free and no date has been fixed for their repayment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. CALLED UP SHARE CAPITAL

	2001 £000	2000 £000
Authorised		
77,785,000 Ordinary shares of £1 each	77,785	77,785
Allotted, called up and fully paid		
77,782,000 Ordinary shares of £1 each	77,782	77,782

8. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND RESERVES

	Equity Shareholders' Funds £000	Profit and loss account £000
At 1 April 2000	55,683	(22,099)
Loss for the year	(10,171)	(10,171)
At 31 March 2001	45,512	(32,270)

9. CONTINGENT LIABILITIES

- (a) The company has joint and several liability for bank facilities of £5.0 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 (1999: £64.6 million) in respect of these contingent liabilities.

10. PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

BMH

Materials processing technologies and engineered systems:

Babcock Africa (Pty) Limited (South Africa)
 Babcock Africa Contracting (Pty) Limited (South Africa)
 Babcock Holdings (Finland) Oy (Finland)
 Babcock Holdings (Sweden) AB (Sweden)
 Babcock Holdings (USA), Inc (USA)
 BMH AKI Dryers Inc (USA)
 BMH Americas Inc (USA)
 BMH Asia Pacific (Pte) Limited (Singapore)
 BMH China Ltd (Hong Kong)
 BMH Claudius Peters GmbH (Germany)
 BMH do Brazil Ltda (Brazil)
 BMH Eagleton Inc (USA)
 BMH Iberica SA (Spain)
 BMH Italiana Srl (Italy)
 BMH Kellve AB (90%) (Sweden)
 BMH Limited
 BMH Marine AB (Sweden)
 BMH SA (France)
 BMH Technologies GmbH (Germany)
 BMH Wood Technology AB (Sweden)
 BMH Wood Technology Oy (Finland)

Others

Babcock Holdings Limited
 Babcock HSPS Trustees Limited
 Babcock International Holdings BV (Netherlands)
 Babcock International Holdings Limited
 Babcock International Limited (*)
 Babcock Overseas Investments Limited (*)
 Chepstow Insurance Limited (Guernsey)
 Rosyth Royal Dockyard Pension Trustees Limited

BES

Engineering, technology support services and facilities management to the defence, rail, marine and 'secure facilities' sectors:

Acetech Personnel Limited
 Air Power International Limited
 Armstrong Technology Associates Limited
 Babcock Defence Systems Limited
 Babcock Engineering Services Limited
 Babcock New Zealand Holdings Limited (New Zealand)
 Babcock New Zealand Limited (New Zealand)
 Babcock Rosyth Defence Limited
 Babcock Rosyth Engineering Limited
 Babcock Rosyth Industries Limited
 CMR Consultants Limited
 FBM Babcock (Lairdside) Limited
 FBM Babcock Marine Holdings (UK) Limited
 FBM Babcock Marine Limited
 FBMA Marine Inc. (50%) (Philippines) ++
 Hiberna FM Limited
 Prime Serve Scotland Limited
 Railcare Limited (60%)
 Rosyth Regeneration Limited (20%) +
 Rosyth Royal Dockyard Limited

All undertakings are wholly owned unless otherwise stated. All group undertakings are owned by subsidiary undertakings except those marked (*) which are owned directly by the company. 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.

The group disposed of its 60% interest in Railcare Ltd on 23 May 2001.

+ Denotes undertakings recognised and accounted for as associated undertakings.

++ Denotes undertakings recognised and accounted for as joint ventures.

11. 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.

12. ULTIMATE PARENT COMPANY

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

Company Secretary
Babcock International Group PLC
Badminton Court
Church Street
Amersham
Buckinghamshire
HP7 0DD