

BABCOCK MANAGEMENT LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2004

Company number 107414



BABCOCK MANAGEMENT LIMITED

DIRECTORS AND ADVISORS

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 MANAGEMENT LIMITED

DIRECTORS' REPORT for the year ended 31 March 2004

The directors present their report and the audited financial statements of the company for the year ended 31 March 2004.

Principal activity

The principal activity of the company is the provision of finance to other group companies. 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 on ordinary activities after taxation was £2,335,000 (2003: profit £1,915,000). The directors do not propose a dividend (2003: £nil). The results for the year ended 31 March 2004 are set out on pages 7 to 14.

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 2004 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 MANAGEMENT LIMITED

DIRECTORS' REPORT (continued) for the year ended 31 March 2004

Directors and their interests

The directors who served during the year were as follows:

P L Rogers (appointed 16 September 2003)
G A Campbell (resigned 16 October 2003)
W Tame
F Martinelli

None of the directors had any beneficial interest in the shares of the company. At 31 March 2004, Mr P L Rogers 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:

	Ordinary shares Number	Ordinary shares Number	Share options Number	Share options Number
	31 March 2004	31 March 2003	31 March 2004	31 March 2003
F Martinelli	-	-	115,000	45,000

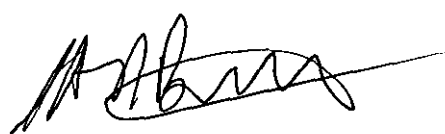
During the year 70,000 share options were granted to Mr F Martinelli.

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

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

This report was approved by the board on 12 October 2004.



S A Billiald
Secretary

Independent auditors' report to the members of Babcock Management 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

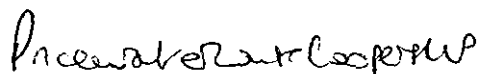
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 Management 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 2004 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

12 October 2004

BABCOCK MANAGEMENT LIMITED**PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2004**

	Notes	2004	2003
		£000	£000
Administrative income/(expenses)		684	(3)
Provision for impairment on fixed asset investments		(5,800)	-
Operating loss	2	(5,116)	(3)
Income from fixed asset investments		30,010	-
Loss on sale of fixed asset investments	3	(28,218)	-
(Loss) on ordinary activities before interest		(3,324)	(3)
Interest receivable	4	989	1,918
(Loss)/profit on ordinary activities before taxation		(2,335)	1,915
Taxation on ordinary activities	6	-	-
(Loss)/profit for the financial year		(2,335)	1,915
Retained (loss)/profit for financial year	12	(2,335)	1,915

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.

There are no material differences between profit on ordinary activities before tax and the retained profit for the year stated above and their historical cost equivalent.

BABCOCK MANAGEMENT LIMITED**BALANCE SHEET
as at 31 March 2004**

	Notes	2004	2003
		£000	£000
FIXED ASSETS			
Investments	7	11,366	-
CURRENT ASSETS			
Debtors (including £53,583(2003: £53,586) due after one year)	8	83,620	53,587
Cash at bank and in hand		1,074	557
		84,694	54,144
CREDITORS: amounts falling due within one year	9	(47,173)	(2,922)
Net assets		48,887	51,222
CAPITAL AND RESERVES			
Called up share capital	11	48,000	48,000
Profit and loss account	12	887	3,222
Shareholders' funds - equity interests		48,887	51,222

The financial statements on pages 7 to 14 were approved by the Board on 12 October 2004 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 on a going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

2 OPERATING LOSS

Operating loss is stated after charging/(crediting):

	2004 £000	2003 £000
Auditors remuneration	2	1
Release of provision	(377)	-
Provision for impairment of investment	5,800	-

3 LOSS ON SALE OF FIXED ASSET INVESTMENTS

	2004 £000	2003 £000
Loss and costs of disposal written off	28,218	-

4 INTEREST RECEIVABLE

	2004 £000	2003 £000
Bank interest receivable	4	900
Interest receivable from fellow group companies	985	1,018
	989	1,918

5 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)

6 TAXATION

	2004 £000	2003 £000
UK corporation tax @ 30%	-	-
Tax on profit on ordinary activities	-	-

The tax charge for the period differs from the standard rate of corporation tax in the UK (30%).
The differences are explained below:

Tax charge/(credit) at statutory rate	(701)	575
Group relief claimed for nil consideration	(413)	(575)
Permanent differences	1,114	-
Actual tax charge	-	-

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.

7 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares in subsidiary undertakings £'000
Cost	
As at 31 March 2003	-
Additions	47,177
Disposals	(30,011)
At 31 March 2004	17,166
Provision for impairment	
31 March 2003	-
Provision	(5,800)
At 31 March 2004	(5,800)
Net book value at 31 March 2004	11,366
Net book value at 31 March 2003	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

On 11 September 2003 the Company acquired the entire share capital of companies Gibraltar Investments (No 3) Limited and Gibraltar Investments (No 7) Limited for £1,026 each and then subsequently increased its investment in Gibraltar Investments (No 3) Limited by £30,010,030.

On 23 September sold Gibraltar Investments (No 3) Limited for a consideration of £1,792,667

On 26 March 2004 the company acquired the entire share capital of Babcock Holdings (USA) Inc. from a fellow subsidiary for a consideration of £17,164,716 this amount has been left outstanding on loan account.

8 DEBTORS

	2004 £000	2003 £000
Amounts owed by subsidiary undertakings less than one year	30,010	-
Amounts owed by subsidiary undertakings more than one year	53,586	53,586
Other debtors less than one year	24	1
	83,620	53,587

9 CREDITORS: amounts falling due within one year

	2004 £000	2003 £000
Amounts owed to subsidiary undertakings	47,154	-
Other creditors and accruals	19	2,922
	47,173	2,922

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. This asset has not been recognised as recovery of the asset cannot be regarded as more likely than not.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 CALLED UP SHARE CAPITAL

	2004 £000	2003 £000
Authorised:		
50,000,000 (2003: 50,000,000) ordinary shares of £1	50,000	50,000
Allotted, called up and fully paid:		
48,000,075 (2003: 48,000,075) ordinary shares of £1	48,000	48,000

12 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND RESERVES

	Equity Shareholder Funds	Equity Shareholder Funds	Profit/ Loss Account
	2004 £'000	2003 £'000	2004 £'000
At 31 March	51,222	49,307	3,222
Loss for the year	(2,335)	1,915	(2,335)
At 31 March	48,887	51,222	887

13 CONTINGENT LIABILITIES

The company has joint and several liability for bank facilities of £10.0 million (2003: £10 million) in respect of certain fellow Babcock International Group companies.

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 PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

Babcock Holdings (USA) Inc
Gibraltar Investments (No 7) Limited

All undertakings are wholly owned unless otherwise stated.

Except as other stated, all shares held comprise ordinary share capital.

All undertakings are incorporated, registered and operated in Great Britain unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 ULTIMATE CONTROLLING PARTY

The company's ultimate parent company is Babcock International Group PLC, a company registered 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 accounts are available from the following address:

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