

BABCOCK MANAGEMENT LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006

Company number 107414



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

The directors present their annual report on the company together with the financial statements and auditors' report of the company for the year ended 31 March 2006.

Principal activity

The principal activity of the company is that of a 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 on ordinary activities after taxation was £1,085,000 (2005: loss £988,000). The directors do not propose a dividend (2005: £nil). The retained loss for the year has been transferred from reserves. The results for the year ended 31 March 2006 are set out on pages 7 to 13.

Post Balance Sheet Events

The company increased its investment in Babcock Malta Holdings Limited by £50,000,000 and also issued 100 ordinary £1 shares for a total consideration of £50,000,000. (Note 17)

Key Performance indicators

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development, performance or position of the business.

Qualifying third party indemnity provisions

Under their respective Articles of Association, the directors of the company are, and were during the year to 31 March 2006, entitled to be indemnified by the company against liabilities and costs incurred in connection with the execution of their duties or the exercise of the powers, to the extent permitted by the Companies Act 1985.

Directors and their interests

The directors who served during the year were as follows:

P L Rogers
W Tame
F Martinelli

None of the directors had any beneficial interest in the shares of the company. At 31 March 2006, 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:

DIRECTORS' REPORT
for the year ended 31 March 2006

Details of directors' shares are set out in the timetable below:

	At 31 March 2006	At 1 April 2005
Director		
F Martinelli	724	-

Details of directors' share options are set out in the table below:

Director	Option scheme	Number of shares subject to options at 1 April 2005	Granted during the period	Exercised during the period	Lapsed during the period	Number of shares subject to options at 31 March 2006	Exercise price (p)	Exercisable (subject to vesting where not yet vested) from	Expiry date
F Martinelli	a	28,214	-	-	-	28,214 *	106.33	Nov 2005	Nov 2012
	b	16,786	-	-	-	16,786 *	106.33	Nov 2005	Nov 2012
	b	70,000	-	-	420	69,580 *	115.66	Jun 2006	Jun 2013
	b	35,000	-	-	-	35,000	126.00	Jul 2007	Jul 2014

* All vested

a	Babcock	1999	Approved Executive Share Option Scheme
b	Babcock	1999	Unapproved Executive Share Option Scheme

No directors exercised share options in the period (2005: nil).

Details of share awards made to directors under the Babcock International Group PLC L-TIP scheme are set out in the table below:

Director	Number of shares subject to award at 1 April 2005	Granted during the period	Number of shares subject to award at 31 March 2006	Market value of each share at date of award	Exercisable from	Expiry date
F Martinelli	-	36,873	36,873	169.50p	Jul 2008	Jul 2015

The terms and conditions of the share awards and option can be found in the financial statements of Babcock International Group PLC for the period ended 31 March 2006

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

**DIRECTORS' REPORT (continued)
for the year ended 31 March 2006**

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, 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 confirm that they have complied with the above requirements in preparing the financial statements.

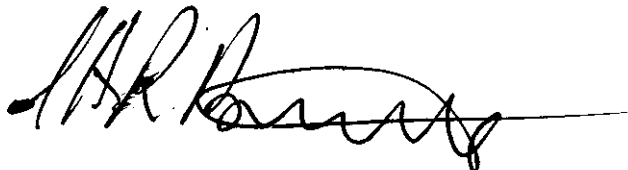
The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 21 August 2006

S A Billiald
Secretary



Independent auditors' report to the members of Babcock Management Limited

We have audited the financial statements of Babcock Management Limited for the year ended 31 March 2006 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 into 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 report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions 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 audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
21 August 2006

BABCOCK MANAGEMENT LIMITED**PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2006**

	Notes	2006	2005
		£000	£000
Administration expenses		(122)	-
Administrative income		-	30
Provision for impairment on fixed asset investments		-	(1,937)
Operating loss	2	(122)	(1,907)
Loss on ordinary activities before interest		(122)	(1,907)
Net interest (payable)/receivable	3	(963)	919
Loss on ordinary activities before taxation		(1,085)	(988)
Taxation on ordinary activities	5	-	-
Loss for the financial year		(1,085)	(988)
Retained loss for financial year	11	(1,085)	(988)

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

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

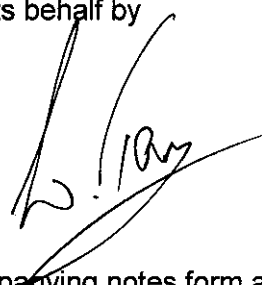
BABCOCK MANAGEMENT LIMITED

**BALANCE SHEET
as at 31 March 2006**

	Notes	2006	2005
		£000	£000
FIXED ASSETS			
Investments	6	196,591	196,591
CURRENT ASSETS			
Debtors	7	5	9
Cash at bank and in hand		302	1,301
		307	1,310
CREDITORS: amounts falling due within one year	8	(17,226)	(17,144)
Net current liabilities		(16, 919)	(15,834)
Net assets		179,672	180,757
CAPITAL AND RESERVES			
Called up share capital	10	48,000	48,000
Share premium account	11	132,858	132,858
Profit and loss account	11	(1,186)	(101)
Shareholders' funds - equity interests		179,672	180,757

The financial statements on pages 7 to 13 were approved by the Board on 21 August 2006 and signed on its behalf by

W Tame
Director



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

1 ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of Accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and the Companies Act 1985. Babcock International Group PLC has undertaken to give such financial assistance as is necessary to the company for a period of not less than twelve months from the date of approval of these financial statements. On the strength of this assurance, the financial statements have been prepared on the basis that the company is a going concern.

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.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the year-end exchange rates. Any exchange differences arising are dealt with in the profit and loss account.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Taxation (continued)

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.

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.

Group Financial Statements

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.

2 OPERATING LOSS

Operating loss is stated after charging/(crediting):

	2006 £000	2005 £000
Auditors' remuneration	2	2
Provision for impairment of investment	-	1,937
Exchange losses/(gains)	118	(38)

3 NET INTEREST (PAYABLE)/RECEIVABLE

	2006 £000	2005 £000
Bank interest receivable	51	45
Interest receivable from fellow group subsidiaries	-	909
Interest payable to fellow group subsidiaries	(1,014)	(35)
	(963)	919

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 STAFF COSTS AND DIRECTORS' REMUNERATION

There were no staff employed during the year (2005: none) and none of the directors (2005: none) received remuneration in respect of their services to the company during the year under review. The directors are remunerated by other group companies.

5 TAXATION

	2006 £000	2005 £000
United Kingdom corporation tax charge at 30%	-	-
Total tax charge for the year	-	-

The difference between the total current year tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2006 £000	2005 £000
Loss on ordinary activities before tax	(1,085)	(988)
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2005: 30%)	(326)	(296)
Effects of:		
Expenses not deductible for tax purposes	-	588
Group relief surrendered/(claimed) for nil consideration	326	(292)
Current tax charge for the year	-	-

6 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	Shares in subsidiary undertakings £000
As at 31 March 2005 and 31 March 2006	204,328
Provision for impairment	
As at 31 March 2005 and 31 March 2006	(7,737)
Net book value at 31 March 2005 and 31 March 2006	196,591

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 DEBTORS

	2006	2005
	£000	£000
Amounts owed by subsidiary undertakings	5	9

8 CREDITORS: amounts falling due within one year

	2006	2005
	£000	£000
Amounts owed to parent and fellow subsidiary undertakings	17,226	17,144

9 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.

10 CALLED UP SHARE CAPITAL

	2006	2005
	£000	£000
Authorised:		
50,000,000 (2005: 50,000,000) ordinary shares of £1	50,000	50,000
Allotted, called up and fully paid:		
48,000,175 (2005: 48,000,175) ordinary shares of £1	48,000	48,000

11 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND RESERVES

	Share Capital £000	Share Premium Account £000	Profit/ Loss Account £000	Total £000
At 1 April 2005	48,000	132,858	(101)	180,757
Loss for the year	-	-	(1,085)	(1,085)
At 31 March 2006	48,000	132,858	(1,186)	179,672

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 CONTINGENT LIABILITIES

The company has joint and several liability for bank facilities of £10.0 million (2005: £10.0 million) in respect of certain fellow Babcock International Group companies.

The company has guaranteed the liabilities of Babcock International (Guarantee Company) Limited, on winding up, to a maximum of £100,000 (2005: £100,000).

13 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 UNDERTAKINGS

Babcock Malta Holdings Limited
Babcock Holdings (USA) Inc

Registered in Malta
Registered in the USA

All undertakings are wholly owned unless otherwise stated.
Except as other stated, all shares held comprise ordinary share capital.

16 ULTIMATE CONTROLLING PARTY

The company's immediate parent company is Babcock Investments Limited and the ultimate controlling company is Babcock International Group PLC. Both companies are 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

17 POST BALANCE SHEET EVENTS

On 7 June 2006 the company increased its investment in Babcock Malta Holdings Limited by £50,000,000 and also issued 100 ordinary £1 shares for a total consideration of £50,000,000.