

BABCOCK MANAGEMENT LTD
(formerly Babcock Energy Management Ltd)

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

for the year ended 31 March 1996

Company number 107414



BINDER HAMLYN

BABCOCK MANAGEMENT LTD
(formerly Babcock Energy Management Ltd)

DIRECTORS AND OFFICERS

DIRECTORS

Dr TJ Parker
NR Salmon
EAS Porter

SECRETARY

J Allen

REGISTERED OFFICE

Badminton Court
Church Street
Amersham
Buckinghamshire
HP7 0DD

AUDITORS

Binder Hamlyn
20 Old Bailey
London EC4M 7BH

DIRECTORS' REPORT
for the year ended 31 March 1996

FINANCIAL STATEMENTS

The directors present their report and financial statements for the year ended 31 March 1996.

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 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.

On 29 September 1995 the company disposed of 75% of Babcock Energy Limited to Mitsui Engineering & Shipbuilding Co., Ltd for a cash consideration of £56.0 million. The remaining 25% is subject to put and call options exercisable by either party. These accounts have been prepared on the basis that these options will be exercised, accordingly the 25% holding is accounted for as a deferred consideration discounted to its net present value with a balance sheet value at 31 March 1996 of £9.7 million.

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DIRECTORS' REPORT
for the year ended 31 March 1996

RESULTS AND DIVIDENDS

The loss on ordinary activities was £26,372,000 (1995: £19,000). No dividend is recommended for the year (1995 : £Nil). The loss has been deducted from reserves.

DIRECTORS AND THEIR INTERESTS

The directors who, unless otherwise noted, served during the year were as follows:

Dr TJ Parker Chairman

NR Salmon

EAS Porter

DG Cox (resigned 29 September 1995)

MR Frost (resigned 29 September 1995)

B McKechnie (resigned 29 September 1995)

JR Prosser (resigned 29 September 1995)

GS Cairns (resigned 29 September 1995)

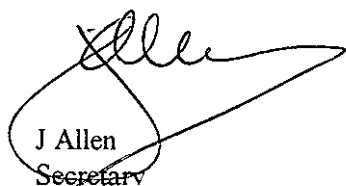
Dr TJ Parker, NR Salmon and EAS Porter were also directors of the ultimate parent company, and their interests in the shares of that company are disclosed in that company's financial statements.

None of the directors had any beneficial interest in the company's own shares.

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Binder Hamlyn be re-appointed as auditors of the company will be put to the Annual General Meeting.

This report approved by the board on 5 July 1996


J Allen
Secretary

BINDER HAMLYN

20 Old Bailey
London EC4M 7BH

AUDITORS' REPORT

to the members of Babcock Management Ltd (formerly Babcock Energy Management Ltd)

We have audited the financial statements on pages 4 to 8 which have been prepared on the basis of the accounting policies set on page 6.

Respective responsibilities of directors and auditors

As described on page 1, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

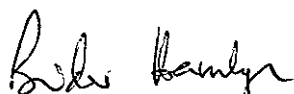
Basis of opinion

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 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.

Opinion

In our opinion the financial statements give a true and fair view of the of the company's affairs as at 31 March 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants
Registered Auditors

25 July 1996

BABCOCK MANAGEMENT LTD
(formerly Babcock Energy Management Ltd)

PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1996

	Notes	1996	1995
		£000	£000
Operating income		-	(3,203)
Administrative expenses		-	3,223
Operating profit		-	20
Exceptional item loss on sale of fixed asset investments	4	(26,746)	-
Loss on ordinary activities before interest		(26,746)	20
Net interest receivable/(payable)	2	374	(39)
Loss on ordinary activities before taxation		(26,372)	(19)
Loss on ordinary activities after taxation		(26,372)	(19)
Transferred from reserves		(26,372)	(19)

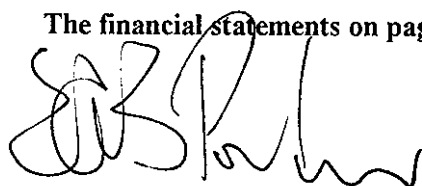
During the year there were no recognised gains and losses other than those dealt with in the profit and loss account. All of the above results derive from continuing activities. The retained result in both the current and prior years represent the only movements in shareholders' funds.

BABCOCK MANAGEMENT LTD
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BALANCE SHEET
as at 31 March 1996

	Notes	1996	1995
		£000	£000
FIXED ASSETS			
Investments	4	-	89,700
CURRENT ASSETS			
Debtors	5	16,781	3,345
Cash at bank and in hand		3,931	2,289
		20,712	5,634
CREDITORS: amounts falling due within one year	6	(2,403)	(50,653)
Net current assets/(liabilities)		18,309	(45,019)
Net assets		18,309	44,681
CAPITAL AND RESERVES			
Called up share capital	8	44,700	44,700
Profit and loss account -	9	(26,391)	(19)
Shareholders' funds - equity interests		18,309	44,681

The financial statements on pages 4 to 8 were approved by the Board on 5 July 1996



EAS Porter
Director

1 ACCOUNTING POLICIES

Accounting convention

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 Great Britain.

A cash flow statement has not been prepared as the company is a wholly owned subsidiary undertaking of a company which published consolidated financial statements which included a consolidated cash flow statement.

Investments

Fixed asset investments are shown at cost less provision for permanent diminution in value.

2 NET INTEREST RECEIVABLE/(PAYABLE)

	1996	1995
	£000	£000
Interest receivable	374	-
Bank and other interest payable	-	(39)
	374	(39)

3 TAXATION

During the year, the Babcock Group has continued its policy of surrendering UK tax losses and advanced corporation tax for no consideration except where there is a minority interest in the subsidiary.

4 INVESTMENTS

The company's investment in Babcock Energy Limited, which was carried at a book value of £89,700,000 was sold on 29 September 1995 to Mitsui Engineering & Shipbuilding Co., Ltd. Further details of the disposal are given in the directors' report on page 1.

	£000
Cash proceeds	56,000
Present value of deferred consideration	9,357
Total consideration	65,357
Net book value of subsidiary undertakings disposed of	(89,700)
Costs of disposal	(2,403)
Loss on disposal	(26,746)

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5 DEBTORS

	1996 £000	1995 £000
Amounts owed by parent undertakings	6,000	3,339
Recoverable taxation	1,050	-
Other debtors	-	6
Deferred consideration receivable on sale of investment	9,731	-
	16,781	3,345

The deferred consideration of £9.7 million, which relates to the disposal of Babcock Energy Ltd is receivable after more than one year.

6 CREDITORS: amounts falling due within one year

	1996 £000	1995 £000
Other creditors	-	102
Amounts owed to other group undertakings	877	418
Amounts owed to parent undertakings	-	50,000
Accruals and deferred income	1,526	133
	2,403	50,653

7 DEFERRED TAXATION

No provision has been made for deferred taxation as the directors are of the opinion that no liability will crystallise in the foreseeable future.

8 SHARE CAPITAL

	1995 and 1996 Called up and fully paid £	1996 Called up and fully paid £
Ordinary shares of £1	44,750,000	44,700,015

9 PROFIT AND LOSS ACCOUNT

	£000
At 31 March 1995	(19)
Loss for the year	(26,372)
<hr/>	
At 31 March 1996	(26,391)
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10 CONTINGENT LIABILITIES

- (a) The Company has joint and several liability for bank facilities of £35.0 million (1995: £60.0 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 1996 the company had counter-indemnified a total of £45.5 million (1995: £55.1 million) in respect of these contingent liabilities. Of these contingent liabilities the company was formally released from £22.5 million during April 1996.

11 ULTIMATE PARENT COMPANY

The company's ultimate parent company is Babcock International Group PLC, a company incorporated in England. Copies of 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
Bucks
HP7 ODD