

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

Company number 107414



BABCOCK MANAGEMENT LIMITED

DIRECTORS AND ADVISORS

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

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 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 profit on ordinary activities after taxation was £1,915,000 (2002: £1,392,000). The directors do not propose a dividend (2002: £nil). The results for the year ended 31 March 2003 are set out on pages 7 to 12.

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 MANAGEMENT LIMITED

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

Directors and their interests

The directors who served during the year were as follows:

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:

	Ordinary shares Number	Ordinary shares Number	Share options Number	Share options Number
	31 March 2003	31 March 2002	31 March 2003	31 March 2002
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.

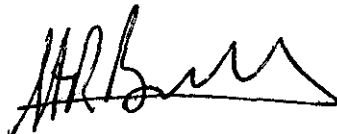
No director had any material interest during the year in any contract with the company or its subsidiaries requiring disclosure under Section 317 of the Companies Act 1985.

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

26 June 2003

BABCOCK MANAGEMENT LIMITED

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

	Notes	2003	2002
		£000	£000
Administrative expenses		(3)	(11)
Loss on ordinary activities before interest		(3)	(11)
Loss on sale of fixed asset investments	2	-	(1,102)
Interest receivable	3	1,918	2,505
Profit on ordinary activities before taxation		1,915	1,392
Taxation on ordinary activities	6	-	-
Profit on ordinary activities after taxation		1,915	1,392
Dividends paid		-	-
Retained profit for financial year	11	1,915	1,392

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.

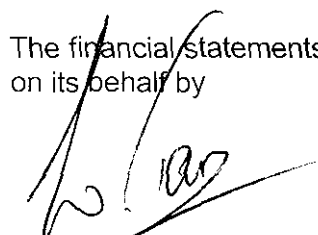
The accompanying notes form an integral part of the profit and loss account.

BABCOCK MANAGEMENT LIMITED

BALANCE SHEET
as at 31 March 2003

	Notes	2003	2002
		£000	£000
CURRENT ASSETS			
Debtors more than one year	7	53,587	14,764
Cash at bank and in hand		557	39,181
		54,144	53,945
CREDITORS: amounts falling due within one year	8	(2,922)	(4,638)
Net assets		51,222	49,307
CAPITAL AND RESERVES			
Called up share capital	10	48,000	48,000
Profit and loss account	11	3,222	1,307
Shareholders' funds - equity interests		51,222	49,307

The financial statements on pages 7 to 12 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.

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 another company registered in England, which prepares consolidated financial statements that are publicly available.

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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 LOSS ON SALE OF FIXED ASSET INVESTMENTS

	2003 £000	2002 £000
Loss and costs of disposal written off	-	1,102
Loss on sale of fixed asset investments	-	1,102

3 INTEREST RECEIVABLE

	2003 £000	2002 £000
Bank interest receivable	900	1,447
Interest receivable from fellow group companies	1,018	1,058
	1,918	2,505

4 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.

BABCOCK MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 OPERATING LOSS
is stated after charging:

	2003	2002
	£000	£000
Auditors remuneration		
- audit services	1	3
- other services	2	8

6 TAXATION

	2003	2002
	£000	£000
Tax charge at statutory rate	575	418
Group relief claimed for nil consideration	(575)	(748)
Non tax deductible loss on disposal	-	330
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 DEBTORS

	2003	2002
	£000	£000
Amounts owed by subsidiary undertakings	53,587	14,764

8 CREDITORS: amounts falling due within one year

	2003	2002
	£000	£000
Other creditors and accruals	2,922	4,638

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.

BABCOCK MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 CALLED UP SHARE CAPITAL

	2003	2002
	£000	£000
Authorised:		
50,000,000 (2001: 50,000,000) ordinary shares of £1	50,000	50,000
Allotted, called up and fully paid:		
48,000,075 (2001: 48,000,075) ordinary shares of £1	48,000	48,000

11 PROFIT AND LOSS ACCOUNT

	£000
At 31 March 2002	1,307
Profit for the year	1,915
At 31 March 2003	3,222

12 CONTINGENT LIABILITIES

The company has joint and several liability for bank facilities of £10.0 million (2002: £10 million) in respect of certain fellow Babcock International Group companies.

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.

14 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