

BABCOCK INTERNATIONAL LIMITED

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

for the year ended 31 March 1999

Company number 65805



BABCOCK INTERNATIONAL LIMITED

DIRECTORS AND ADVISORS

DIRECTORS

Dr T J Parker
N R Young
N G Campbell
H M Mahy

SECRETARY

R Martin

REGISTERED OFFICE

Badminton Court
Church Street
Amersham
Buckinghamshire
HP7 0DD

AUDITORS

Arthur Andersen
1 Surrey Street
London
WC2R 2PS

BABCOCK INTERNATIONAL LIMITED

DIRECTORS' REPORT for the year ended 31 March 1999

FINANCIAL STATEMENTS

The directors present their report and financial statements for the year ended 31 March 1999.

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 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 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 continues to be 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 profit after taxation for the year was £504,000 (1998: £2,239,000). The directors do not propose a dividend (1998 : NIL).

BABCOCK INTERNATIONAL LIMITED

DIRECTORS' REPORT (continued) for the year ended 31 March 1999

DIRECTORS

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

Dr T J Parker
N R Young
N G Campbell (appointed 16 February 1999)
H M Mahy (appointed 16 February 1999)

None of the directors had any beneficial interest in the company's shares. At 31 March 1999, Dr. TJ Parker and Mr NR 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 of the company's ultimate parent company were as follows:

	Ordinary shares	Ordinary shares	Share options	Share options
	31 March 1999	31 March 1998 or on appointment	31 March 1999	31 March 1998 or on appointment
HM Mahy	4,289	4,289	117,738	117,738
NG Campbell	-	-	119,354	119,354

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

In accordance with Section 385 of the Companies Act 1985, a resolution 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 2nd September 1999



R Martin
Secretary

AUDITORS' REPORT
to the shareholders of Babcock International Limited

We have audited the financial statements on pages 6 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of the 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 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 1999 and of its profit 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

2nd September 1999

BABCOCK INTERNATIONAL LIMITED**PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1999**

	Notes	1999	1998
		£000	£000
Administrative expenses	4,5	4,475	(3,626)
Income from fixed asset investments	2	-	9,171
Operating profit		4,475	5,545
Profit on ordinary activities before interest		4,475	5,545
Net interest	3	(4,469)	(3,940)
Profit on ordinary activities before taxation	4	6	1,605
Tax credit on ordinary activities	7	498	634
Profit on ordinary activities after taxation		504	2,239
Transferred to reserves	16	504	2,239

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 this profit and loss account.

BABCOCK INTERNATIONAL LIMITED

BALANCE SHEET as at 31 March 1999

	Notes	1999	1998
		£000	£000
FIXED ASSETS			
Tangible assets	8	320	217
Investments	9	51,025	43,297
		51,345	43,514
CURRENT ASSETS			
Debtors	10	29,444	43,162
Cash at bank and in hand		193	3,008
		29,637	46,170
CREDITORS: amounts falling due within one year	11	(60,865)	(69,962)
Net current liabilities		(31,228)	(23,792)
Total assets less current liabilities		20,117	19,722
CREDITORS: amounts falling due after more than one year	12	(18,469)	(18,578)
Net assets		1,648	1,144
CAPITAL AND RESERVES			
Called up share capital	15	10,000	10,000
Share premium account		4,632	4,632
Profit and loss account	16	(12,984)	(13,488)
Shareholders' funds - equity interests	17	1,648	1,144

The financial statements on pages 6 to 16 were approved by the Board on 2nd September 1999

N R Young
Director



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

1 ACCOUNTING POLICIES

Basis of accounting

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 as it is a wholly owned subsidiary undertaking of another company registered in England and Wales.

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 statement include a consolidated cash flow statement.

Fixed asset investments

Fixed asset investments are stated at cost less provisions for permanent diminution in value.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on a straight line basis to write off the cost or valuation of fixed assets over their estimated useful lives at the following annual rates:

Furniture, fittings and equipment	10% to 33.3%
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Deferred taxation

Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that it is probable that a liability will crystallise in the foreseeable future.

Pension

The company is a member of the Babcock International Group pension scheme and has also contributed to certain employees' personal defined contribution pension schemes. Contributions to the group scheme are based on periodic actuarial calculations and are charged so as to spread the cost of pensions over the expected service lives of the employees who are members of the scheme.

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

BABCOCK INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES *continued*

Hire purchase contracts

Assets acquired under hire purchase contracts are capitalised and the outstanding capital element of instalments is included in creditors. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where they are shorter. Rentals under operating leases are charged to the profit and loss account as incurred.

2	INCOME FROM FIXED ASSET INVESTMENTS	1999	1998
		£000	£000
	Dividend received from group companies	-	9,171
<hr/>			
3	NET INTEREST PAYABLE AND SIMILAR CHARGES	1999	1998
		£000	£000
	Interest receivable	-	(90)
	Interest payable on bank borrowings repayable within 5 years	4,469	4,030
		<hr/>	<hr/>
		4,469	3,940
<hr/>			
4	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		
	is stated after charging:	1999	1998
		£000	£000
	Auditors' remuneration		
	- audit services	10	96
	- other services	75	121
	Depreciation		
	- owned assets	44	33
	- assets under lease/HP agreements	61	68
	Operating lease rentals		
	- land and buildings	116	112
	- short term plant hire	12	13
	Release of provisions against investments	7,727	-
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BABCOCK INTERNATIONAL LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****5 DIRECTORS' REMUNERATION**

The remuneration of the directors was as follows:

	1999	1998
	£000	£000
Emoluments	898	858
Company contributions to money purchase and personal pension schemes	<u>245</u>	<u>146</u>
	<u>1,143</u>	<u>1,004</u>

The above amounts for the remuneration include the following in respect of the highest paid director.

	1999	1998
	£	£
Emoluments	612,562	549,818
Company contributions to pension schemes	<u>202,378</u>	<u>149,462</u>
	<u>814,940</u>	<u>699,280</u>

The number of directors who were members of pension schemes was as follows:

Money purchase schemes	3
Defined benefit scheme	3

The accrued pension entitlement under the company defined benefit scheme of the highest paid director at 31 March 1999 was £8,030 (1998 - £6,300)

6 PARTICULARS OF EMPLOYEES

The average number of persons (including directors) employed by the company during the year was:

	1999	1998
Executive and administration	25	27

Their total remuneration was:	£000	£000
Wages and salaries	1,619	1,476
Social security costs	201	166
Other pension costs	291	252
	<u>2,111</u>	<u>1,894</u>

BABCOCK INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 TAXATION

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.

	1999 £000	1998 £000
UK consortium relief receivable at 31% (1998 - 31%)	475	660
Prior year adjustment	23	(26)
Taxation credit	498	634

8 TANGIBLE FIXED ASSETS

	Furniture, fittings and equipment £000
Cost	
1 April 1998	550
Additions	241
Disposals	(133)
31 March 1999	658
Depreciation	
1 April 1998	333
Charge for the year	105
Disposals	(100)
31 March 1999	338
Net book value	
31 March 1999	320
31 March 1998	217

Included in the above are assets held under finance leases or hire purchase contracts, with a net book value of £nil (1998: £278,000) and a depreciation charge for the year of £61,000 (1998: £68,000).

The company had no capital commitments at 31 March 1999 or at 31 March 1998.

BABCOCK INTERNATIONAL LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****9 FIXED ASSET INVESTMENTS**

	Shares in subsidiary undertakings
	£000
Cost	
1 April 1998	69,451
Disposals	(163)
31 March 1999	69,288
Provision for diminution in value	
1 April 1998	(26,153)
Provisions released no longer required	7,727
Disposals	163
31 March 1999	(18,263)
Net book value	
31 March 1999	51,025
31 March 1998	43,297

Details of the company's principal subsidiary undertakings are given in note 20.

In the opinion of the directors the value of the company's investments in its subsidiary undertakings is not less than the amount at which they are stated in the company's balance sheet.

The company arranged for a number of dormant subsidiaries to be dissolved pursuant to Section 652A of the Companies Act 1995. This process was completed on 17 November 1998.

BABCOCK INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 DEBTORS	1999 £000	1998 £000
Trade debtors	71	-
Amounts owed by parent and subsidiary undertakings	28,785	42,072
Amounts owed by associated undertakings	-	239
Other debtors	2	147
Prepayments and accrued income	111	43
Recoverable taxation	475	662
	29,444	43,163

Included in amounts owed by subsidiary undertakings is £500,000 (1998: £500,000) due after more than one year.

11 CREDITORS: amounts falling due within one year	1999 £000	1998 £000
Corporation tax	-	10
Bank overdraft (note 13)	58,359	64,905
Bank loans (note 13)	-	1,506
Amounts owed to subsidiary undertakings	700	1,695
Other creditors	249	754
Accruals and deferred income	1,557	1,025
Obligations under hire purchase contracts (note 13)	-	67
	60,865	69,962

12 CREDITORS: amounts falling due after more than one year	1998 £000	1997 £000
Obligations under hire purchase contracts (note 13)	-	109
Amounts owed to parent and fellow subsidiary undertakings	18,469	18,469
	18,469	18,578

13 BORROWINGS

The total borrowings of the company are repayable as follows:

	-----1999-----	-----1998-----	
	Bank overdraft £000	Bank overdraft £000	Hire purchase contracts £000
Within one year	58,359	64,905	67
Between two and five years	-	-	109
	58,359	64,905	176
			1,506

BABCOCK INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 DEFERRED TAXATION

	Provided		Potential Asset	
	1999	1998	1999	1998
	£000	£000	£000	£000
Short term timing differences	-	-	283	211

15 CALLED UP SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	Number	£000	Number	£000
31 March 1998 and 31 March 1999				
Ordinary 10p shares	155,000,000	15,500	100,000,000	10,000

16 RESERVES

	Profit and loss account
	£000
1 April 1998	(13,488)
Profit retained for the year	504
31 March 1999	(12,984)

17 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1999	1998
	£000	£000
Retained profit for the year	504	2,239
Shareholders' funds at start of year	1,144	(1,095)
Shareholders' funds at end of year	1,648	1,144

18 FINANCIAL COMMITMENTS

	Land and Buildings	Land and Buildings
	1999	1998
	£000	£000
Operating leases expiring:		
Within five years	116	120

19 CONTINGENT LIABILITIES

- (a) The company has joint and several liability for bank facilities of £20.0 million (1998: £30.0 million) for certain fellow Babcock International Group companies.
- (b) Throughout the Babcock International Group contingent liabilities exist in respect of guarantees, performance bonds and indemnities issued on behalf of group companies by banks and insurance companies in the ordinary course of business. At 31 March 1999 the company had counter-indemnified £47.3 million (1998: £45.4 million).

20 PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

BES Division

BES provides engineering and technology support services to the defence, rail, marine, and 'secure facilities' sectors:

Babcock Facilities Management Limited #
Babcock Rosyth Defence Limited
Rosyth Royal Dockyard Limited
Railcare Limited (60%)
Babcock Defence Systems Limited
Babcock Rosyth Industries Limited
Rosyth 2000 Limited (20%)*
Babcock Rail Limited

Others

Including principally management holding companies and an insurance company

Babcock International Holdings Limited #
Babcock Management Limited #
Cleveland Insurance Limited (Isle of Man)
Babcock Contractors Limited
BMH Limited #

All undertakings are wholly owned unless otherwise stated.

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

All undertakings are incorporated, registered and operated in England and Wales unless otherwise stated. Undertakings located overseas operate principally in the country of incorporation.

Denotes shareholdings held directly by Babcock International Limited

* Denotes associates.

21 PENSION FUNDING

The employees of the company are eligible to join the Babcock Group defined benefit pension scheme. The group scheme is funded by company and employee contributions which are determined with the advice of an independent qualified actuary. Due to the Group scheme being in surplus the Company is currently on a contribution holiday.

Details of the latest valuation of the group pension scheme are contained within the financial statements of Babcock International Group PLC.

22 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption granted to 90% subsidiaries not to disclose transactions with group undertakings. There are no other related party transactions.

23 ULTIMATE PARENT COMPANY

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

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