

BABCOCK INTERNATIONAL LIMITED

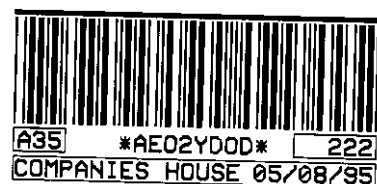
DIRECTORS' REPORT AND

FINANCIAL STATEMENTS

for the year ended 31 March 1995

Company number 65805

BINDER HAMLYN



BABCOCK INTERNATIONAL LIMITED

DIRECTORS AND ADVISORS

DIRECTORS

Dr TJ Parker
NR Salmon
Sir Frank Gibb
EAS Porter

SECRETARY

J Allen

REGISTERED OFFICE

Badminton Court
Church Street
Amersham
Buckinghamshire
HP7 0DD

AUDITORS

Binder Hamlyn
Chartered Accountants
20 Old Bailey
London
EC4M 7BH

BABCOCK INTERNATIONAL LIMITED

DIRECTORS' REPORT for the year ended 31 March 1995

FINANCIAL STATEMENTS

The directors present their report and financial statements for the year ended 31 March 1995.

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 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 ACTIVITIES

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 loss after taxation for the year was £37,926,000 (1994: loss £13,582,000). The directors do not propose a dividend and the retained loss of £37,926,000 (1994: loss £13,582,000) has been transferred from reserves.

SIGNIFICANT EVENTS DURING THE YEAR

During the year the company acquired a 25% holding in Rosyth 2000 Limited and a 100% holding in Babcock Energy Management Limited. On 10 June 1994 the company acquired the remaining 35% of Babcock Rosyth Defence Limited for a consideration of £4.5 million.

During the year the company reduced its issued share capital by the cancellation of 345,000,000 £1 ordinary shares. Approval from the High Court of Justice, Chancery Division, was granted on 10 November 1994.

BABCOCK INTERNATIONAL LIMITED

DIRECTORS' REPORT for the year ended 31 March 1995

FIXED ASSETS

Details of the changes in fixed assets are given in notes 10 and 11 to the financial statements. The principal reductions in fixed asset investments relates to provisions of £40,000,000 (1994: £46,176,000) made to reflect the directors' estimates of the permanent diminution in value of Babcock Energy Limited, Babcock Energy Services Limited and Babcock Energy Management Ltd which acquired Babcock Energy Ltd and Babcock Energy Services Ltd, as part of Babcock International Group's reorganisation of the UK based subsidiaries. The company also sold 40% of its holding in Tickford Rail Limited to Babcock King Wilkinson Limited.

DIRECTORS

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

The Rt Hon Lord King of Wartnaby (resigned 21 July 1994)
Dr TJ Parker
NR Salmon
Sir Frank Gibb
EAS Porter

None of the directors had any beneficial interest in the company's shares. All of the directors are also directors of the ultimate parent company and their interests in the shares of group companies are shown in that company's financial statements. The company has maintained insurance to cover directors' and officers' liabilities as permitted under Section 310(3)a Companies Act 1985 as amended.


TAX STATUS

As far as the directors are aware, the company is not a close company within the meaning of Section 414 of the Income and Corporation Taxes Act 1988.

AUDITORS

On 1 October 1994 our auditors, BDO Binder Hamlyn, joined the Arthur Andersen worldwide organisation and now practise in the name, Binder Hamlyn. They have signed their audit report in their new name. 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 was approved by the Board on 30 June 1995.


Secretary

BINDER HAMLYN

20 Old Bailey
London EC4M 7BH

AUDITORS' REPORT

to the members of Babcock International Limited

We have audited the financial statements on pages 4 to 16 which have been prepared on the basis of the accounting policies set out on pages 6 and 7.

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.

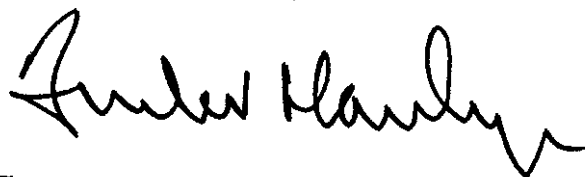
Basis of opinion

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 state of the company's affairs as at 31 March 1995 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

30 June 1995

BABCOCK INTERNATIONAL LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1995

	Notes	1995	1994
		£000	£000
Turnover	2	123	101
Cost of sales		(150)	(113)
Gross loss		(27)	(12)
Administrative expenses		(4,459)	(5,556)
Other operating income	6	1,658	3,520
Income from fixed asset investments	3	9,876	36,454
Profit on ordinary activities before interest		7,048	34,406
Exceptional items	4		
- write down in fixed asset investments		(40,000)	(46,181)
- loss on sale of investments		-	(202)
Interest payable and similar charges	5	(1,503)	(2,962)
Loss on ordinary activities before taxation	6	(34,455)	(14,939)
Tax charge on loss on ordinary activities	9	(3,471)	1,357
Loss on ordinary activities after taxation		(37,926)	(13,582)
Transferred from reserves	18	(37,926)	(13,582)

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.

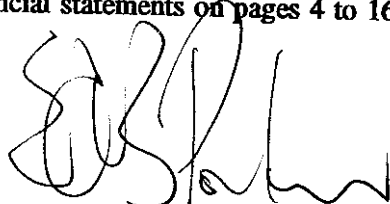
BABCOCK INTERNATIONAL LIMITED

BALANCE SHEET as at 31 March 1995

	Notes	1995	1994
		£000	£000
FIXED ASSETS			
Tangible assets	10	206	208
Investments	11	35,497	70,854
		35,703	71,062
CURRENT ASSETS			
Debtors	12	15,195	24,876
Cash at bank and in hand		10	43,013
		15,205	67,889
CREDITORS: amounts falling due within one year	13	(31,699)	(73,767)
Net current liabilities		(16,494)	(5,878)
Total assets less current liabilities		19,209	65,184
CREDITORS: amounts falling due after more than one year	14	(20,585)	(28,634)
Net assets		(1,376)	36,550
CAPITAL AND RESERVES			
Called up share capital	17	10,000	44,500
Share premium account	18	4,632	4,632
Special reserve	18	34,500	-
Profit and loss account	18	(50,508)	(12,582)
Shareholders' funds		(1,376)	36,550

The financial statements on pages 4 to 16 were approved by the Board on 30 June 1995.

Director



BABCOCK INTERNATIONAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS

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 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.

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

1 ACCOUNTING POLICIES *continued*

Turnover

The turnover of the company, derived from the provision of patent registration services, excludes VAT.

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 SEGMENTAL INFORMATION

	1995 £000	1994 £000
The analysis of turnover by geographical market is as follows:		
United Kingdom	101	84
North America	3	5
Rest of Europe	19	12
	123	101

3 INCOME FROM FIXED ASSET INVESTMENTS

Dividend received from group companies	9,857	36,412
Dividend received from listed companies	-	1
Dividend received from associated undertakings	19	41
	9,876	36,454

4 EXCEPTIONAL ITEMS

Loss on disposal of investment in Atlantic Power & Gas (Holdings) Limited	-	(208)
Profit on disposal of other investments	-	6
	-	(202)
Write down of investments in		
- subsidiary undertakings	(40,000)	(46,176)
- other	-	(5)
	(40,000)	(46,181)

BABCOCK INTERNATIONAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS

5 INTEREST PAYABLE AND SIMILAR CHARGES	1995 £000	1994 £000
Interest receivable	(257)	-
Interest payable on bank borrowings repayable within 5 years	294	1,803
Interest payable on group loans	1,466	1,159
	1,503	2,962

6 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION
is stated after charging:

Directors' emoluments (see note 7)		
- remuneration as executives	955	777
- pensions	194	235
Auditors' remuneration	50	37
Depreciation		
- owned assets	36	38
- assets under lease/HP agreements	47	36
Operating lease rentals		
- plant and machinery	22	93
- land and buildings	108	108
- short term plant hire	10	10
Foreign exchange differences	(100)	(175)

Other operating income represents income from group companies.

7 DIRECTORS' EMOLUMENTS

The emoluments, excluding pension contributions, of directors of the company were as follows:

Highest paid director	£370,013	£200,914
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Directors' emoluments fall within the following bands:	Number	Number
£20,001 - £25,000	-	1
£55,001 - £60,000	1	-
£75,001 - £80,000	1	1
£145,001 - £150,000	1	1
£180,001 - £185,000	-	1
£190,001 - £195,000	-	1
£200,001 - £205,000	-	1
£295,001 - £300,000	1	-
£370,001 - £375,000	1	-
	5	6

BABCOCK INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8 PARTICULARS OF EMPLOYEES

	1995 Number	1994 Number
The average number of persons (including directors) employed by the company during the year was:		
Executive and administration	24	32
Their total remuneration was:	£000	£000
Wages and salaries	1,311	1,548
Social security costs	143	158
Other pension costs	260	235
	1,714	1,941

9 TAXATION

During the year the Babcock International Group has adopted a policy of tax losses and advance corporation tax to group undertakings for £nil consideration except where there surrendering is a minority interest in the subsidiary. As a result prior year tax balances relating to the surrender of tax losses and advance corporation tax have been written off through the profit and loss account.

	1995 £000	1994 £000
UK group relief receivable at 33% (1994 - 33%)	217	1,324
UK deferred tax	8	(147)
	225	1,177
(Under)/over provision in prior periods	(3,696)	180
Taxation (charge)/credit	(3,471)	1,357

BABCOCK INTERNATIONAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS

10 TANGIBLE FIXED ASSETS

	Furniture, fittings and equipment £000
Cost	
31 March 1994	386
Additions	106
Disposals	(62)
31 March 1995	430
Depreciation	
31 March 1994	178
Charge for the year	84
Disposals	(38)
31 March 1995	224
Net book value	
31 March 1995	206
31 March 1994	208

Included in the above are assets held under finance leases or hire purchase contracts, with a net book value of £120,000 (1994: £85,000) and a depreciation charge for the year of £45,000 (1994: £36,000).

The company had no capital commitments at 31 March 1995 or at 31 March 1994.

11 FIXED ASSET INVESTMENTS

	Shares in subsidiary undertakings £000	Shares in associated undertakings Unlisted £000	Other investments Unlisted £000	Total £000
Cost				
31 March 1994	134,502	-	5	134,507
Additions	49,639	100		49,739
Disposals	(121,944)	-	(5)	(121,949)
31 March 1995	62,197	100	-	62,297
Provision for diminution in value				
31 March 1994	63,648	-	5	63,653
Charge for year	40,396		-	40,396
Disposals	(77,244)	-	(5)	(77,249)
31 March 1995	26,800	-	-	26,800
Net book value				
31 March 1995	35,397	100	-	35,497
31 March 1994	70,854	-	-	70,854

BABCOCK INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. FIXED ASSET INVESTMENTS (continued)

As part of the reorganisation of the UK subsidiaries of Babcock International Group PLC, the company disposed of its investments in Babcock Energy Limited and Babcock Energy Services Limited at book value to its new subsidiary Babcock Energy Management Limited, 40% of the company's holding in Tickford Rail Limited was sold to Babcock King Wilkinson Limited at book value during the year. On 10 June 1994 the company acquired the remaining 35% of Babcock Roslyn Defence Limited for a consideration of £4.5 million. (X)

Details of the company's principal subsidiary undertakings is given in note 23.

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.

12. DEBTORS

	1995 £000	1994 £000
Trade debtors	44	44
Amounts owed by subsidiary undertakings	14,596	20,221
Other debtors	-	108
Prepayments and accrued income	269	484
Recoverable taxation	217	3,958
Deferred tax asset (note 16)	69	61
	15,195	24,876

13. CREDITORS: amounts falling due within one year

Bank overdraft (note 15)	19,145	52,862
Bank loans (note 15)	-	19,500
Amounts owed to parent and fellow subsidiary undertakings	10,000	-
Amounts owed to subsidiary undertakings	1,872	-
Other creditors	258	754
Accruals and deferred income	360	619
Obligations under hire purchase contracts (note 15)	64	32
	31,699	73,767

14. CREDITORS: amounts falling due after more than one year

Obligations under hire purchase contracts (note 15)	85	70
Amounts owed to parent and fellow subsidiary undertakings	20,500	28,564
	20,585	28,634

BABCOCK INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15 BORROWINGS

The total borrowings of the company are repayable as follows:

	1995			1994	
	Bank overdraft £000	Hire purchase contracts £000		Bank overdraft £000	Hire purchase contracts £000
Within one year	19,145	64	19,500	52,862	32
Between two and five years	-	85	-	-	70
	19,145	149	19,500	52,862	102

The bank overdraft is guaranteed by certain other Babcock International Group companies as a part of a group composite account system.

16 PROVISION FOR LIABILITIES AND CHARGES

	Deferred taxation asset £000
31 March 1994	61
Transferred to profit and loss account	8
31 March 1995	69

The deferred tax balance is made up as follows:

	Provided		Potential	
	1995 £000	1994 £000	1995 £000	1994 £000
Short term timing differences	(69)	(61)	(243)	(245)

The deferred tax asset at 31 March 1995 of £69,000 (1994: £61,000) has been included in debtors (see note 12).

BABCOCK INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17 CALLED UP SHARE CAPITAL

	Authorised Number	£000	Allotted, issued and fully paid Number	£000
31 March 1994				
Ordinary 10p shares	500,000,000	50,000	445,000,000	44,500
Share capital reduction	(345,000,000)	(34,500)	(345,000,000)	(34,500)
31 March 1995	155,000,000	15,500	100,000,000	10,000

The company reduced its share capital by the cancellation of 345,000,000 ordinary shares. Approval from the High Court of Justice, Chancery Division, was granted on 10 November 1994.

18 RESERVES

	Share premium account £000	Special reserve £000	Profit and account £000
31 March 1994	4,632	-	(12,582)
Share capital reduction	-	34,500	-
Loss retained for the year	-	-	(37,926)
31 March 1995	4,632	34,500	(50,508)

The special reserve which is non-distributable, arose from the reduction in share capital (note 17)

19 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS

	1995 £000	1994 £000
Retained loss for the year	(37,926)	(13,582)
Shareholders' funds at start of year	36,550	50,132
Shareholders' funds at end of year	(1,376)	36,550

20 FINANCIAL COMMITMENTS

	Land and Buildings £000	1995 Plant and Machinery £000	Land and Buildings £000	1994 Plant and Machinery £000
Operating leases expiring:				
Within one year	-	10	-	53
Within two to five years	109	35	109	15
	109	45	109	68

BABCOCK INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20 FINANCIAL COMMITMENTS (continued)

At 31 March 1995, the directors had authorised but not contracted capital expenditure of £3.6 million relating to the acquisitions of two British Rail Heavy Maintenance Depots. These depots were acquired by Railcare Limited, a 60% subsidiary undertaking with effect from 6 June 1995.

21 CONTINGENT LIABILITIES

- (a) The company has joint and several liability for bank facilities of £60.0 million (1994: £10.0 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 1995 the company had counter-indemnified £55.1 million (1994: £22.5 million).

22 ULTIMATE PARENT COMPANY

The company's ultimate parent company is Babcock International Group PLC, a company registered in England. 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

BABCOCK INTERNATIONAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS

23 PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

Process

Babcock King- Wilkinson Limited*
Babcock Woodall- Duckham (Overseas) Limited
Babcock Contractors Limited
Babcock Arabia Limited (Saudi Arabia) (50%)
Babcock Contractors (West Africa) Limited (Nigeria)
King-Wilkinson (Nigeria) Limited (Nigeria) (60%)
Foster Wheeler Babcock (Pty) Limited (South Africa) (50%)●
Saha Woodall-Duckham Pte Ltd (India) (40%)
Babcock Water Engineering Limited (50%)●

Energy

Babcock Energy (Management) Limited*
Babcock Energy Limited
Babcock Energy Services Limited
Babcock Calorizing Limited
Babcock Power (Overseas Projects) Limited
Babcock Welding Products Limited (Scotland)
Diamond Power Specialty Limited (38%)●
Volund Babcock Energy A/S (Denmark) (50%)
BPA Joint Venture (66.7%)
5a Hospital Street, Nantwich, Cheshire
Babcock Flow Control Limited (Scotland)

Facilities Management

Babcock Rosyth Defence Limited (Scotland)*
Rosyth Royal Dockyard Plc (Scotland)
Tickford Rail Limited*
Babcock Rail Limited*
Railcare Limited (60%)*
Babcock OGL Joint Venture (50%)
Laing Oil & Gas
Belmont House
1 Berry Street
Aberdeen, AB1 1DL
Rosyth 2000 Limited (25%)●

Others

Babcock International Holdings Limited*
Cleveland Insurance Limited (Isle of Man)

- indicates associated undertakings
* indicates directly owned subsidiary

BABCOCK INTERNATIONAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS

23. PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS (continued)

All companies are wholly owned unless otherwise stated.

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

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

24. PENSION FUNDING

The company is a member of the Babcock Group defined benefit pension scheme and has also contributed to certain employees' personal defined contribution pension schemes. The group scheme is funded by company and employee contributions which are determined with the advice of an independent qualified actuary.

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