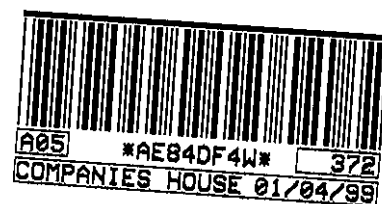


BABCOCK CONTRACTORS LIMITED
DIRECTORS' REPORT AND FINANCIAL
STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1998

Company number 1398475



BABCOCK CONTRACTORS LIMITED

DIRECTORS AND ADVISORS

DIRECTORS

R.W.J. Fletcher
H.M. Mahy
N.G. Campbell

SECRETARY

R.S. Martin

REGISTERED OFFICE

Badminton Court
Church Street
Amersham
Bucks HP7 ODD

AUDITORS

Arthur Andersen
1 Surrey Street
London WC2R 2PS

BABCOCK CONTRACTORS LIMITED

DIRECTORS' REPORT for the year ended 31 March 1998

FINANCIAL STATEMENTS

The directors present their report and financial statements for the year ended 31 March 1998.

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 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 AND REVIEW OF BUSINESS

Following the acquisition of the businesses referred to below the principal activity of the company is that of engineering contracting.

On 12 September 1997 the company acquired the beneficial interest in 50% of the share capital of Babcock Arabia Ltd from Babcock King-Wilkinson Ltd. At that time Babcock King-Wilkinson Ltd was a fellow subsidiary of Babcock International Group PLC. This interest has been disposed of since the year end.

With effect from 12 September 1997 the company also acquired part of the business of Babcock King-Wilkinson Ltd represented by two contracts, Haradh and Bu Hasa.

With effect from 1 October 1997, the company acquired the beneficial interest in the trade and assets of BMH Limited, a fellow subsidiary of Babcock International Group PLC.

RESULTS AND DIVIDENDS

The loss for the year after taxation amounted to £6,656,943 (1997: £nil). The directors do not recommend the payment of a dividend (1997: £nil).

BABCOCK CONTRACTORS LIMITED

DIRECTORS' REPORT (continued)

YEAR 2000

The directors are aware of the significance of year 2000 and are taking steps to ensure that all relevant systems and equipment will be year 2000 compliant. Costs, which are not expected to be significant, are being expensed as they are incurred.

DIRECTORS

The directors of the company during the year and since the year end were:-

R.W.J. Fletcher
C.R. Bates (resigned 19 September 1997)
H.M. Mahy
N.G. Campbell (appointed 20 June 1997)
P. Rose (resigned 20 June 1997)

None of the directors has any beneficial interest in the shares of the company.

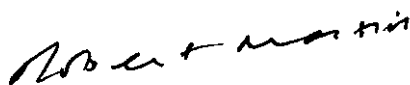
The interests of the director's in the shares of the company's ultimate parent company were as follows:

	Ordinary shares	Ordinary shares on appointment or as at 31 March 1997	Share options 31 March 1998	Share options on appointment or as at 31 March 1997
RWJ Fletcher	-	-	154,362	154,362
HM Mahy	-	-	51,282	-
NG Campbell	-	-	53,254	-

AUDITORS

The company was previously a dormant company within the meaning of section 250 of the Companies Act 1985 and was not required to appoint auditors. During the year the company ceased to be dormant within the meaning of the said section and Arthur Andersen were appointed as auditors of the company. In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Arthur Andersen be re-appointed as auditors of the company will be put to the Annual General Meeting.

By order of the Board



R S Martin
Secretary 22 March 1999

BABCOCK CONTRACTORS LIMITED

AUDITORS' REPORT for the year ended 31 March 1998

AUDITORS' REPORT to the shareholders of Babcock Contractors Limited

We have audited the financial statements on pages 4 to 15 which have been prepared under the historical cost convention and in accordance with 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 the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

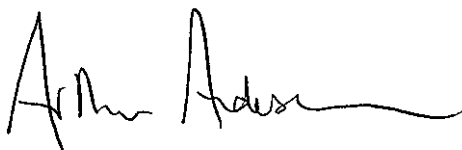
Basis of opinion

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 affairs of the company as at 31 March 1998 and of its loss 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

22 March 1999

BABCOCK CONTRACTORS LIMITED**PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1998**

	Notes	1998	1997
		£	£
Turnover	2	3,727,344	-
Cost of Sales		(9,852,096)	-
Gross Loss		(6,124,752)	-
Administration expenses		(612,346)	-
Operating loss	3	(6,737,098)	-
Net interest and similar charges	4	66,322	-
Loss on ordinary activities before taxation		(6,670,776)	-
Tax on loss on ordinary activities	7	13,833	-
Loss for the financial year		(6,656,943)	-

There were no recognised gains and losses other than the loss for the financial year.

All of the results are derived from acquired operations.

The accompanying notes are an integral part of this profit and loss account.

BABCOCK CONTRACTORS LIMITED

BALANCE SHEET as at 31 March 1998

	Notes	1998	1997
		£	£
Fixed assets			
Tangible assets	8	70,207	-
Investments	9	-	-
		70,207	-
Current assets			
Stocks	10	21,742	-
Debtors	11	5,298,764	100
Cash at bank and in hand		527,547	-
		5,848,053	100
Creditors: amounts falling due within one year	12	(12,290,774)	-
Net current (liabilities) / assets		(6,442,721)	100
Total assets less current liabilities		(6,372,514)	100
Provisions for liabilities and charges	13	(284,329)	-
Net (liabilities) / assets		(6,656,843)	100
Capital and reserves			
Called up share capital	14	100	100
Profit and loss account	15	(6,656,943)	-
Equity shareholders' funds	16	(6,656,843)	100

The financial statements on pages 4 to 15 were approved by the Board on 22 March 1999 and signed on its behalf by:



R.W.J. Fletcher
Director

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

BABCOCK CONTRACTORS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

In considering the appropriateness of adopting the going concern basis in preparing the financial statements the directors have given due consideration to the future financial operating requirements of the company. They expect the company to remain in operational existence for the foreseeable future and are assured of the continued financial support of the ultimate parent company for the twelve months from the date of approval of the financial statements.

In these circumstances, the directors believe that it is appropriate for the financial statements to be prepared on the going concern basis.

Consolidated accounts

The company has not prepared consolidated accounts as it is exempt from the requirement to do so by section 228 of the Companies Act 1985 as it is a subsidiary undertaking of Babcock International Group PLC, a company incorporated in the United Kingdom, and is included in the consolidated accounts of that company.

Turnover

Turnover in respect of long-term contracts represents the amount transferred to cost of sales during the period plus attributed profit. Other turnover comprises the invoiced value of goods and services supplied by the company. Turnover excludes Value Added Tax.

Foreign Currency

Transactions denominated in foreign currencies are recorded in sterling at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated in to sterling at the year end exchange rates or at the rate at which they are hedged, if appropriate. Any exchange differences arising are accounted for in the profit and loss account.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and any provision for any permanent diminution in value. Depreciation is provided on a straight line basis to write off the cost of fixed assets over their estimated useful lives to their estimated residual value over the following periods:

Office equipment	5 years
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Leases

Assets acquired under finance leases 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 obligation. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where these are shorter.

BABCOCK CONTRACTORS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Assets held under operating leases are not capitalised. Operating lease rentals are charged in the profit and loss account in the period to which they relate.

Investments

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

Stocks

Stocks are valued at the lower of cost and net realisable value.

Long term contracts

Long-term contracts are those which extend over more than one accounting period.

Long-term contract balances are valued at costs incurred, less amounts transferred to cost of sales, and after deducting attributable payments on account and providing for foreseeable losses.

Management reviews are conducted at least quarterly to assess the progress of each contract, the costs being incurred and the expected outcome of any disputes with customers or subcontractors. Where the ultimate profitability of a contract can be assessed with reasonable certainty having made prudent allowance for future risks and uncertainties, profit is recognised in proportion to the contract work completed. Immediate provision is made for all foreseeable losses.

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 or asset will crystallise in the foreseeable future.

Cash flow statement

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 statements include a consolidated cash flow statement.

2 Segmental information

All of the company's turnover is attributable to its principal activity of engineering contracting and originates in the UK.

The analysis of turnover by geographical market is as follows:

	1998 £	1997 £
United Kingdom	3,313,023	-
Rest of Europe	126,542	-
Asia	287,779	-
	3,727,344	-

BABCOCK CONTRACTORS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Operating loss is stated after charging / (crediting):-

	1998 £	1997 £
Depreciation – owned assets	10,382	-
Operating lease rentals – land and buildings	18,667	-
Operating lease rentals – other	14,845	-
Auditor's remuneration for audit services	1,700	-
Amounts written-off investments	150,799	-

4 Net interest and similar charges

	1998 £	1997 £
Bank interest receivable	66,322	-

5 Staff costs

The average monthly number of employees was:-

	1998 Number	1997 Number
Engineering and sales	3	-
Administration and management	2	-
	5	-

Their aggregate remuneration comprised:-

	1998 £	1997 £
Wages and salaries	233,318	-
Social security costs	20,286	-
Other pension costs	2,402	-
	256,006	-

BABCOCK CONTRACTORS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Directors' remuneration

All of the directors are employed by other group companies and none of them have service contracts with the company. Since September 1997 one of the directors has received remuneration for services to the company. These costs are recharged to the company and are included in the staff costs disclosed in note 5 above. The total amounts for this director's remuneration and other benefits were as follows:-

	1998 £	1997 £
Emoluments	89,477	-
Company contributions to money purchase pension schemes	2,402	-
	<u>91,879</u>	<u>-</u>

The accrued annual pension entitlement under the Babcock International Group Pension Scheme, a defined benefit scheme, of this director at 31 March 1998 was £ 4,667.

7 Tax on loss on ordinary activities

The tax credit comprises:-

	1998 £	1997 £
UK corporation tax at 31%	13,833	-

The tax credit for the year does not bear a normal relationship to the loss on ordinary activities before taxation because the tax loss for the period will be surrendered as group relief for no consideration.

BABCOCK CONTRACTORS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8	Tangible fixed assets	1998	1997
		£	£
	Office equipment and total		
	Cost		
	At 1 April 1997	-	-
	On acquisition of businesses	347,953	-
	At 31 March 1998	347,953	-
	Depreciation		
	At 1 April 1997	-	-
	On acquisition of businesses	267,364	-
	Charge for the year	10,382	-
	At 31 March 1998	277,746	-
	Net book value		
	At 31 March 1998	70,207	-
	At 31 March 1997	-	-

BABCOCK CONTRACTORS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 Fixed asset investments

Subsidiary undertakings

	1998 £	1997 £
Cost		
At 1 April 1997	-	-
Additions	150,799	-
At 31 March 1998	150,799	-
Amounts written-off		
At 1 April 1997	-	-
Written off	150,799	-
At 31 March 1998	150,799	-
Net book value		
At 31 March 1998	-	-
At 31 March 1997	-	-

On 12 September 1997 the company acquired the beneficial interest in 50% of the share capital of Babcock Arabia Ltd from Babcock King-Wilkinson Ltd, at that time a fellow subsidiary of Babcock International Group PLC, for a total cash consideration of £150,799. The net assets acquired comprised debtors of £966,407, cash at bank of £200,366 and creditors of £1,015,974.

Babcock Arabia Ltd is incorporated and operates as an engineering contractor in the Kingdom of Saudi Arabia.

On 14 September 1998 the company disposed of its beneficial interest in the share capital of Babcock Arabia Ltd to AMEC BKW Ltd for a cash consideration of £1.

10 Stocks

	1998 £	1997 £
Finished goods held for resale	21,742	-

There is no material difference between the balance sheet value of stocks and their replacement cost.

BABCOCK CONTRACTORS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Debtors

	1998 £	1997 £
Trade debtors	3,978,906	-
Amounts recoverable on contracts	936,099	-
Amounts owed by group undertakings	348,776	100
Prepayments and accrued income	34,983	-
	5,298,764	100

12 Creditors: Amounts falling due within one year

	1998 £	1997 £
Trade creditors	756,681	-
Payments in advance of turnover	661,877	-
Amounts owed to group undertakings	10,216,105	-
Taxation and social security	39,972	-
Accruals and deferred income	616,139	-
	12,290,774	-

13 Provisions for liabilities and charges

	Contract Provisions £
At 1 April 1997	-
On acquisition of businesses	286,043
Utilised in year	(1,714)
At 31 March 1998	284,329

The company has no unprovided deferred tax liability.

BABCOCK CONTRACTORS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 Called-up share capital

	1998	1997
	£	£
<i>Authorised</i>		
100 Ordinary shares of £1 each	100	100
<i>Allotted, called-up and fully paid</i>		
100 Ordinary shares of £1 each	100	100

On 18 March 1999 the company increased its authorised share capital to 10,000,000 Ordinary shares of £1 each. On the same date the company issued 6,699,900 Ordinary shares of £1 each to its parent company for a total consideration of £6,699,900.

15 Reserves

	Profit and loss account £
At 1 April 1997	-
Loss for the financial year	(6,656,943)
At 31 March 1998	(6,656,943)

16 Reconciliation of movement in equity shareholders' funds

	£
At 1 April 1997	100
Loss for the financial year	(6,656,943)
At 31 March 1998	(6,656,843)

17 Acquisition of businesses

In addition to the investment in Babcock Arabia Ltd referred to in note 9 the company acquired the following businesses during the year:-

With effect from 12 September 1997 the company acquired part of the business of Babcock King-Wilkinson Ltd represented by two contracts, Haradh and Bu Hasa, for a total consideration of £8,677,026.

With effect from 1 October 1997, the company acquired the beneficial interest in the trade and assets of BMH Limited, a fellow subsidiary of Babcock International Group PLC, at their net book value of £nil.

BABCOCK CONTRACTORS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

The net assets acquired can be summarised as follows:-

	BKWL £	BMH £	Total £
Fixed assets	-	80,589	80,589
Stocks	-	21,389	21,389
Debtors	9,132,138	181,313	9,313,451
Cash at bank and in hand	-	1,008,441	1,008,441
Creditors	(455,112)	(1,005,689)	(1,460,801)
Provisions for liabilities and charges	-	(286,043)	(286,043)
	8,677,026	-	8,677,026

18 Financial commitments

At 31 March 1998 the company had no commitments for capital expenditure (1997 – £nil).

Annual commitments under non-cancellable operating leases are as follows:-

	Land and Buildings		Other	
	1998	1997	1998	1997
	£	£	£	£
Expiry date				
- within one year	-	-	6,904	-
- between two and five years	18,667	-	15,247	-
	18,667	-	22,151	-

19 Contingent liabilities

The company has given an unlimited guarantee as security for bank facilities totalling £20million (1997: £nil) provided to the company and certain fellow subsidiaries of Babcock International Group PLC.

The company has contingent liabilities in respect of guarantees and performance bonds issued on its behalf by third parties in the ordinary course of business. At 31 March 1998 these amounted to £927,342 (1997 – £nil).

20 Related party transactions

The company has taken advantage of the exemption granted to 90% subsidiaries not to disclose transactions with group undertakings.

21 Pension funding

The employees of the company are eligible to join the Babcock International Group Pension Scheme, a defined benefit scheme. The scheme is funded by company and employee contributions which are determined with the advice of an independent qualified actuary. The company is currently enjoying a contribution holiday due to the level of surplus in the scheme.

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

22 Ultimate parent company

The directors' regard Babcock International Group PLC, a company registered in England and Wales, as the company's ultimate parent undertaking.

Babcock International Group PLC is the parent undertaking of the largest and smallest group of which Babcock Contractors Ltd is a member and for which group accounts are drawn up. Copies of those group accounts are available from:

Company Secretary
Babcock International Group PLC
Badminton Court
Church Street
Amersham
Buckinghamshire
HP7 0DD