

BABCOCK OVERSEAS INVESTMENTS LIMITED

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2007

Company number 2669327



BABCOCK OVERSEAS INVESTMENTS LIMITED

DIRECTORS AND ADVISORS

DIRECTORS

P L Rogers
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 the financial statements and auditors' report of the company for the year ended 31 March 2007

Principal activity

The principal activity of the company is that of an investment 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 for the year and retained profit for the year was £580,000 (2006 £449,000) which was transferred to reserves. The directors do not propose a dividend (2006 £nil).

Key Performance indicators

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development, performance or position of the business.

Qualifying third party indemnity provisions

Under their respective Articles of Association, the directors of the company are, and were during the year to 31 March 2007, entitled to be indemnified by the company against liabilities and costs incurred in connection with the execution of their duties or the exercise of the powers, to the extent permitted by the Companies Act 1985.

Directors

The following were members of the Board during the year

P L Rogers
W Tame
F Martinelli

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 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 UK 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, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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.

Auditors and the disclosure of information

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

So far as the Directors are aware, there is no relevant audit information, being information required by the auditors in connection with the preparation of the auditors' report, of which the auditors are unaware. Having made enquiries of fellow directors and the Group auditors, each Director has taken all steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

This report was approved by the Board on 10 August 2007.



F Martinelli
Director

Independent auditors' report to the members of Babcock Overseas Investments Limited

We have audited the financial statements of Babcock Overseas Investments Limited for the year ended 31 March 2007 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 into 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 report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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 Overseas Investments Limited
(continued)**

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

10 August 2007

BABCOCK OVERSEAS INVESTMENTS LIMITED**PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2007**

	Notes	2007 £000	2006 £000
Net operating expenses		(17)	(56)
Loss on ordinary activities before interest	3	(17)	(56)
Net interest receivable	2	442	389
Profit on ordinary activities before taxation		425	333
Tax credit on profit on ordinary activities	5	155	116
Retained profit for the year	10	580	449

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 operations

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

There are no material differences between profit on ordinary activities before tax and the retained profit for the year stated above and their historical cost equivalent

BABCOCK OVERSEAS INVESTMENTS LIMITED

**BALANCE SHEET
as at 31 March 2007**

	Notes	2007 £000	2006 £000
CURRENT ASSETS			
Debtors amounts due within one year	6	34,781	12,395
Debtors amounts due greater than one year	6	18,469	18,469
Cash at bank		957	4,047
		54,207	34,911
CREDITORS amounts falling due within one year	7	(42,466)	(23,750)
Net current assets		11,741	11,161
Net assets		11,741	11,161
CAPITAL AND RESERVES			
Called up share capital	9	3,258	3,258
Profit and loss account	10	8,483	7,903
Shareholders' funds - equity interests	10	11,741	11,161

The financial statements on pages 7 to 13 were approved by the Board on 10 August 2007



F Martinelli
Director

The accompanying notes form an integral part of this balance sheet

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards.

Cash flow

A cash flow 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.

Fixed asset investments

Fixed asset investments are stated at cost less provision for impairment.

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.

Taxation

Current tax, including UK corporation 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. The taxation liabilities of certain group companies may be reduced, wholly or in part, by the surrender of losses by fellow group companies. The decision to charge group relief is made on a case by case basis.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Taxation (continued)

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 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. NET INTEREST	2007 £000	2006 £000
Interest payable to fellow group companies	(1,105)	(1,224)
Interest receivable from fellow group companies	1,831	1,573
Interest (payable)/receivable on bank balances	(284)	40
	442	389
3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION is stated after charging / (crediting)	2007 £000	2006 £000
Auditors' remuneration		
- audit services	3	3
Foreign exchange losses	14	52

In 2007 auditors' remuneration in respect of audit services was borne by Babcock International Group PLC.

4. STAFF COSTS AND DIRECTORS' REMUNERATION

There were no staff employed during the year (2006 none) and none of the directors (2006 none) received remuneration in respect of their services to the company during the year under review. The directors are remunerated by other group companies.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2007 £000	2006 £000
United Kingdom corporation tax credit at 30%	-	-
Adjustments in respect of prior periods	-	165
Total current tax	-	165
Deferred taxation (note 8)		
Origination and reversal of timing differences	(155)	(281)
Tax credit for the year	(155)	(116)

The difference between the total current year tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows

	2007 £000	2006 £000
Profit on ordinary activities before tax	425	333
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2006 30%)	128	100
Effects of		
Timing differences	155	281
Group relief claimed for nil consideration	(283)	(381)
Adjustments in respect of prior periods	-	165
Current tax charge for the year	-	165

6. DEBTORS

	£000	£000
Amounts owed by subsidiary undertakings	52,095	29,864
Deferred Tax – (see note 8)	1,155	1,000
	53,250	30,864

Included in amounts owed by subsidiary undertakings is £18,469,000 due after more than one year (2006 £18,469,000) The loan is interest bearing at 6 months LIBOR plus 0.5%

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. CREDITORS amounts falling due within one year	2007	2006
	£000	£000
Amounts owed to parent and fellow subsidiary undertakings	42,316	23,601
Corporation tax	150	149
	42,466	23,750

8. DEFERRED TAXATION

The major components of the deferred tax asset and the potential asset are as follows

	Recognised	Recognised	Full	Full
	2007	2006	Potential	Potential
	£000	£000	2007	2006
			£000	£000
Short-term timing differences	574	419	574	419
Recoverable advance corporation	581	581	581	581
Capital tax losses	-	-	1,057	-
	1,155	1,000	2,212	1,000
				2007
				£000

The movement on the deferred tax asset is as follows

Balance at the start of the year	1,000
Current year credit to the profit and loss account	155
Balance at the end of the year	1,155

BABCOCK OVERSEAS INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. CALLED UP SHARE CAPITAL

	2007 £000	2006 £000
Authorised:		
100,000,000 ordinary shares of £1 each	100,000	100,000
Allotted, called up and fully paid:		
3,258,438 ordinary shares of £1 each	3,258	3,258

10. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND RESERVES

	Equity Shareholders' Funds £000	Profit and loss account £000
At 1 April 2006	11,161	7,903
Profit for the year	580	580
At 31 March 2007	11,741	8,483

11. CONTINGENT LIABILITIES

The company has joint and several liability for bank facilities of £10.0 million (2006: £10.0 million) in respect of certain fellow Babcock International Group companies.

12. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption granted to 90% subsidiaries, by FRS 8 – Related Party Disclosures, not to disclose transactions with group undertakings.

13. ULTIMATE CONTROLLING PARTY

The company's immediate parent company is Babcock Holdings Limited and the ultimate controlling company is Babcock International Group PLC. Both companies are 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