

BABCOCK OVERSEAS INVESTMENTS LIMITED

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2004

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

BABCOCK OVERSEAS INVESTMENTS LIMITED

DIRECTORS' REPORT for the year ended 31 March 2004

The directors present their report and the audited financial statements of the company for the year ended 31 March 2004.

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 loss for the period was £49,000 (2003: profit £1,601,000). The directors do not propose a dividend (2003: £nil).

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 2004 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 OVERSEAS INVESTMENTS LIMITED

DIRECTORS' REPORT (continued) for the year ended 31 March 2004

Directors and their interests

The following were members of the Board during the year:

P L Rogers (appointed 16 September 2003)
G A Campbell (resigned 16 October 2003)
W Tame
F Martinelli

None of the directors had any beneficial interest in the shares of the company. At 31 March 2004, Mr P L Rogers 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 director 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 2004	31 March 2003	31 March 2004	31 March 2003
F Martinelli	-	-	115,000	45,000

During the year 70,000 share options were granted to 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

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

This report was approved by the Board on 12 October 2004.



S A Billiald
Secretary

Independent auditors' report to the members of Babcock Overseas Investments 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

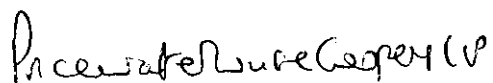
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 Overseas Investments 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 2004 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

12 October 2004

BABCOCK OVERSEAS INVESTMENTS LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31 March 2004

	Notes	2004	2003
		£000	£000
Net operating expenses		(194)	980
(Loss)/profit on ordinary activities before interest	3	(194)	980
Net interest	2	145	31
(Loss)/profit on ordinary activities before taxation		(49)	1,011
Tax on (loss)/profit on ordinary activities	5	-	590
Retained (loss)/profit for the financial year	12	(49)	1,601

During the period 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 retained (loss)/profit represents the only movement in shareholders' funds.

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

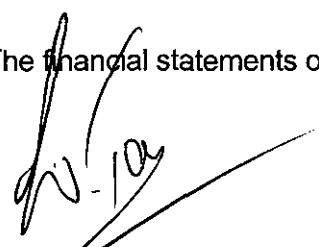
There are no material differences between loss on ordinary activities before tax and the retained loss for the year stated above and their historical cost equivalent.

BABCOCK OVERSEAS INVESTMENTS LIMITED

**BALANCE SHEET
as at 31 March 2004**

	Notes	2004	2003
		£000	£000
CURRENT ASSETS			
Debtors	7	3,862	3,072
Cash at bank		465	-
Debtors more than one year	7	48,860	50,977
		53,187	54,049
CREDITORS: amounts falling due within one year	8	(28,057)	(28,870)
Net current assets/(liabilities)		25,130	25,179
Total assets less current liabilities		25,130	25,179
CREDITORS: amounts falling due after more than one year	9	(14,586)	(14,586)
Net assets		10,544	10,593
CAPITAL AND RESERVES			
Called up share capital	11	3,258	3,258
Profit and loss account	12	7,286	7,335
Shareholders' funds - equity interests	12	10,544	10,593

The financial statements on pages 7 to 13 were approved by the Board on 12 October 2004.


W Tame
Director

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

1. ACCOUNTING POLICIES

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.

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 accounts which are publicly available.

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 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.

BABCOCK OVERSEAS INVESTMENTS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (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	2004	2003
	£000	£000
Interest payable to fellow group companies	(985)	(1,018)
Interest receivable from fellow group companies	1,165	1,254
Interest payable on bank borrowings repayable within 5 years	(35)	(205)
	145	31
3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2004	2003
is stated after charging / (crediting):	£000	£000
Auditors' remuneration		
- audit services	3	3
Foreign exchange differences	186	(988)

BABCOCK OVERSEAS INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. DIRECTORS' REMUNERATION

The directors received no emoluments in respect of services to the company during the year (2003: £nil). There were no employees during the year (2003: nil).

5. TAX ON PROFIT /(LOSS) ON ORDINARY ACTIVITIES

	2004 £000	2003 £000
UK Corporation tax at 30% (2003: 30%)	-	303
Less: utilisation of Advanced Corporation Tax	-	(202)
Less: group relief	-	-
Deferred Tax Charge/(Credit) (note 8)	-	(691)
Tax charge for the year	-	(590)

The tax charge for the period differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004 £000	2003 £000
Tax charge/(credit) at statutory rate	(15)	303
Group relief for nil consideration	15	-
ACT utilisation	-	(202)
Actual current tax charge for the year	-	101

6. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The company's principal subsidiary undertakings are set out below:

Babcock Defence Systems Australia Pty Limited.

7. DEBTORS

	2004 £000	2003 £000
Amounts owed by subsidiary undertakings	52,031	53,358
Deferred Tax – ACT recoverable	691	691
	52,722	54,049

Included in amounts owed by subsidiary undertakings is £48,860,000 due after more than one year. (2003: £50,977,000)

BABCOCK OVERSEAS INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. CREDITORS: amounts falling due within one year	2004	2003
	£000	£000
Bank overdraft	-	1,404
Amounts owed to parent and fellow subsidiary undertakings	27,953	27,362
Accruals and deferred income	3	3
Corporation tax	101	101
	28,057	28,870

9. CREDITORS: amounts falling due after one year	2004	2003
	£000	£000
Amounts owed to parent and fellow subsidiary undertakings	14,586	14,586

10. DEFERRED TAXATION

There is no provided or unprovided deferred tax liability at the year end (2003: £ Nil).

11. CALLED UP SHARE CAPITAL

	2004	2003
	£000	£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

12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND RESERVES

	Equity Shareholders' Funds £000	Profit and loss account £000
At 1 April 2003	10,593	7,335
Loss for the year	(49)	(49)
At 31 March 2004	10,544	7,286

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. CONTINGENT LIABILITIES

- (a) The company has joint and several liability for bank facilities of £10.0 million (2003: £10.0 million) in respect of certain fellow Babcock International Group companies.

14. 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.

15. 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