

**BABCOCK OVERSEAS INVESTMENTS
LIMITED**

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

for the year ended 31 March 1999

Company number 2669327



BABCOCK OVERSEAS INVESTMENTS 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
Bucks HP7 0DD

AUDITORS

Arthur Andersen
Chartered Accountants
1 Surrey Street
London WC2R 2PS

BABCOCK OVERSEAS INVESTMENTS 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 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 period was £4,317,000 (1998 profit : £2,415,000). An interim dividend of £1,354,546 (1998:£2,649,741) was paid during the year and a final dividend of £1,000,000 (1998: £1,879,369) is proposed.

BABCOCK OVERSEAS INVESTMENTS LIMITED

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

DIRECTORS

The following were members of the Board during the year:

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:

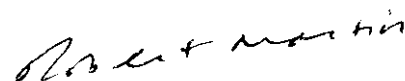
	Ordinary shares	Ordinary shares	Share options	Share options
	31 March 1999	31 March 1998 or on appointment	31 March 1999	31 March 1998 or on appointment
HM Mahy	4,289	4,289	117,738	117,738
NG Campbell	-	-	119,354	119,354

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 proposing 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

BABCOCK OVERSEAS INVESTMENTS LIMITED

AUDITORS' REPORT for the year ended 31 March 1999

AUDITORS' REPORT

to the shareholders of Babcock Overseas Investments Limited

We have audited the financial statements on pages 4 to 10 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

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 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 OVERSEAS INVESTMENTS LIMITED**PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1999**

	Notes	1999	1998
		£000	£000
Income from fixed asset investments	2	4,758	2,832
Administration expenses		(61)	(25)
Profit on ordinary activities before interest		4,697	2,807
Net interest	3	(375)	(385)
Profit on ordinary activities before taxation	4	4,322	2,422
Tax on profit on ordinary activities	6	(5)	(7)
Profit for the financial year		4,317	2,415
Dividend paid and proposed		(2,354)	(4,529)
Retained profit/(loss)for the financial year	11	1,963	(2,114)

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 result in both years represents the only movement in shareholders' funds.

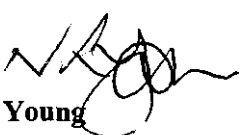
The accompanying notes form an integral part of this profit and loss account.

BABCOCK OVERSEAS INVESTMENTS LIMITED

BALANCE SHEET as at 31 March 1999

	Notes	1999 £000	1998 £000
FIXED ASSETS			
Investment in subsidiary undertaking	7	126,137	126,137
CURRENT ASSETS			
Debtors	8	11	671
		11	671
CREDITORS: amounts falling due within one year	9	(28,875)	(31,498)
Net current liabilities		(28,864)	(30,827)
Net assets		97,273	95,310
CAPITAL AND RESERVES			
Called up share capital	10	94,258	94,258
Profit and loss account	11	3,015	1,052
Shareholders' funds - equity interests	11	97,273	95,310

The financial statements on pages 4 to 10 were approved by the Board on 2nd September 1999


N R Young
Director

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

BABCOCK OVERSEAS INVESTMENTS 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. The company 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 provision for permanent diminution in value.

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.

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.

2. INCOME FROM FIXED ASSET INVESTMENTS

	1999 £000	1998 £000
Dividends from subsidiary undertaking	4,758	2,832

3. NET INTEREST

Interest receivable	2	-
Interest payable on bank borrowings repayable within 5 years	(377)	(385)
	(375)	(385)

BABCOCK OVERSEAS INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1999	1998
is stated after charging:	£000	£000
Auditors' remuneration (audit services)	3	5
Foreign exchange difference	2	-

5. DIRECTORS' REMUNERATION

The directors received no emoluments from the company during the year (1998: £Nil).

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

During the year the Babcock International Group has continued its policy of surrendering tax losses and advance corporation tax to group undertakings for £Nil consideration except where there is a minority interest in the subsidiary.

	1999	1998
	£000	£000
UK Corporation tax at 31% (1998:31%)	1,802	1,088
Less: double taxation relief	(1,802)	(1,088)
Overseas tax	5	7
Tax charge for the year	5	7

7. INVESTMENT IN SUBSIDIARY UNDERTAKING

	Shares in subsidiary undertaking £000
Cost	
31 March 1998 and 1999	134,637
Provision for diminution in value	
31 March 1998 and 1999	(8,500)
Net book value at 31 March 1998 and 1999	126,137

Details of the principal subsidiary undertakings are set out in note 13.

On 1 April 1999 Babcock International Holdings BV carried out a reduction of its ordinary share capital that resulted in proceeds of £11m being received by the company.

BABCOCK OVERSEAS INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

8. DEBTORS	1999	1998
	£000	£000
Other debtors – recoverable taxation	11	671

9. CREDITORS: amounts falling due within one year	1999	1998
	£000	£000
Bank overdraft	5,746	5,557
Amounts owed to parent and fellow subsidiary undertaking	22,126	25,644
Advance corporation tax payable	-	292
Other creditors	3	5
Proposed dividend	1,000	-
	28,875	31,498

10. CALLED UP SHARE CAPITAL

Authorised	£000	£000
	1999	1998
100,000,000 ordinary shares of £1 each	100,000	100,000
Allotted, called up and fully paid		
94,258,438 ordinary shares of £1 each	94,258	94,258

11. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND RESERVES

	Equity Shareholders' Funds £000	Profit and loss account £000
At 1 April 1998	95,310	1,052
Profit for the year	1,963	1,963
At 31 March 1999	97,273	3,015

BABCOCK OVERSEAS INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

12. CONTINGENT LIABILITIES

- (a) The company has joint and several liability for bank facilities of £20.0 million (1998: £30.0 million) in respect of certain fellow Babcock International Group companies.
- (b) Throughout the Babcock International Group contingent liabilities exist in respect of guarantees, 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 a total of £47.3 million (1998: £45.4 million).

13. PRINCIPAL SUBSIDIARY UNDERTAKINGS

Direct subsidiary

Babcock International Holdings B.V. (Netherlands).

Subsidiaries held through Babcock International Holdings BV.

BES

Engineering and technology support services to the defence, rail, marine and 'secure facilities' sectors:

Babcock New Zealand Holdings Ltd (New Zealand)

Babcock New Zealand Ltd (New Zealand)

BMH

Materials processing technologies and engineered systems:

BMH Division GmbH (Germany)

Babcock Holdings (Sweden) AB (Sweden)

BMH Wood Technology AB (Sweden)

BMH Marine AB (Sweden)

BMH Kellve AB (Sweden) (90%)

BMH Wood Technology Oy (Finland)

BMH Americas Inc (USA)

BMH Iberica SA (Spain)

BMH Italiana Srl (Italy)

BMH SA (France)

BMH Claudius Peters AG (Germany)

BMH China Ltd (Hong Kong)

BMH Asia Pacific (Pte) Limited (Singapore)

BMH do Brazil Ltda (Brazil)

Eagleton Engineering Company (USA)

BMH AKI Dryers Inc (USA)

Babcock Holdings (USA), Inc (USA)

Babcock Africa (Pty) Limited (South Africa)

Babcock Africa Contracting (Pty) Limited (South Africa)

BABCOCK OVERSEAS INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

13. PRINCIPAL SUBSIDIARY UNDERTAKINGS (continued)

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.

14. RELATED PARTY TRANSACTIONS

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

15. ULTIMATE PARENT COMPANY

The ultimate parent company is Babcock International Group PLC, a company incorporated in England. Copies of the Babcock International Group PLC accounts are available to the public at the following address:-

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