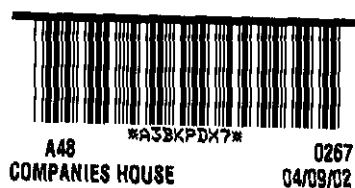


**BABCOCK OVERSEAS INVESTMENTS LIMITED**

**DIRECTORS' REPORT AND  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2002**

**Company number 2669327**



**BABCOCK OVERSEAS INVESTMENTS LIMITED**

**DIRECTORS AND ADVISORS**

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**DIRECTORS**

G A Campbell  
N G Campbell  
W Tame

**SECRETARY**

R S Martin

**REGISTERED OFFICE**

2 Cavendish Square  
London  
W1G 0PX

**AUDITORS**

Arthur Andersen  
180 Strand  
London  
WC2R 1BL

# **BABCOCK OVERSEAS INVESTMENTS LIMITED**

## **DIRECTORS' REPORT for the year ended 31 March 2002**

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### **FINANCIAL STATEMENTS**

The directors present their report and financial statements for the year ended 31 March 2002.

### **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 loss for the period was £35,574,000 (2001: £10,168,000). The directors do not propose a dividend (2001: £nil).

# BABCOCK OVERSEAS INVESTMENTS LIMITED

## DIRECTORS' REPORT (continued) for the year ended 31 March 2002

### DIRECTORS

The following were members of the Board during the year:

G A Campbell  
N G Campbell  
H M Mahy (resigned 31 January 2002)  
W Tame (appointed 22 January 2002)  
N R Young (resigned 30 November 2001)

None of the directors had any beneficial interest in the shares of the company. At 31 March 2002, Mr G A Campbell 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 2002	31 March 2001	31 March 2002	31 March 2001
N G Campbell	1,000	14,022	171,985	130,709

During the year 41,276 share options were granted to N G Campbell.

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.

This report was approved by the Board on 25 July 2002.

  
R S Martin  
Secretary

**Independent auditors' report to the shareholders of Babcock Overseas Investments Limited**

We have audited the financial statements of Babcock Overseas Investments Limited for the year ended 31 March 2002, which comprise the Profit and Loss Account, the Balance Sheet and the related notes numbered 1 to 16. 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 annual report and the financial statements in accordance with applicable law and United Kingdom 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.

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 with the company 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.

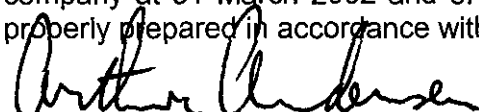
**Basis of opinion**

We conducted our audit in accordance with United Kingdom 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 judgments 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 at 31 March 2002 and of the company's 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  
180 Strand  
London  
WC2R 1BL

25 July 2002

**BABCOCK OVERSEAS INVESTMENTS LIMITED**

**PROFIT AND LOSS ACCOUNT  
for the year ended 31 March 2002**

	Notes	2002	2001
		£000	£000
Income from fixed asset investments	2	22	29
Impairment in the value of fixed asset investments		(35,601)	(10,000)
Administrative expenses		18	(535)
<b>Loss on ordinary activities before interest</b>		<b>(35,561)</b>	<b>(10,506)</b>
Net interest	3	(13)	343
<b>Loss on ordinary activities before taxation</b>	4	<b>(35,574)</b>	<b>(10,163)</b>
Tax on loss on ordinary activities	6	-	(5)
<b>Retained loss for the financial year</b>	13	<b>(35,574)</b>	<b>(10,168)</b>

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 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 2002

	Notes	2002 £000	2001 £000
<b>FIXED ASSETS</b>			
Investment in subsidiary undertakings	7	24,058	60,000
<b>CURRENT ASSETS</b>			
Debtors	8	27,314	27,453
Cash at bank		-	24
		27,314	27,477
<b>CREDITORS: amounts falling due within one year</b>	9	(27,794)	(28,325)
<b>Net current liabilities</b>		(480)	(848)
<b>Total assets less current liabilities</b>		23,578	59,152
<b>CREDITORS: amounts falling due after more than one year</b>	10	(14,586)	(14,586)
<b>Net assets</b>		8,992	44,566
<b>CAPITAL AND RESERVES</b>			
Called up share capital	12	94,258	94,258
Profit and loss account	13	(85,266)	(49,692)
<b>Shareholders' funds - equity interests</b>	13	8,992	44,566

The financial statements on pages 4 to 11 were approved by the Board on 25 July 2002.

  
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 under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

As at 31 March 2002 the current liabilities of the company exceeded its current assets by £480,000. The company is a subsidiary of Babcock Holdings Ltd and that company has indicated its intention to continue to support the company for a period of not less than 12 months from the date of the financial statements of the company. The directors therefore believe that the going concern basis of accounting is appropriate.

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.

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.

The adoption of the full provision method of accounting for deferred tax, as set out in FRS19, represents a change in accounting policy. The effect of this change in accounting policy was not material and did not require a prior year adjustment.

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.

<b>2. INCOME FROM FIXED ASSET INVESTMENTS</b>	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Dividends from subsidiary undertakings	<b>22</b>	<b>29</b>
<b>3. NET INTEREST</b>	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Interest payable to fellow group companies	<b>(1,038)</b>	<b>(1,021)</b>
Interest receivable from fellow group companies	<b>1,421</b>	<b>1,665</b>
Interest payable on bank borrowings repayable within 5 years	<b>(396)</b>	<b>(301)</b>
	<b>(13)</b>	<b>343</b>
<b>4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>2002</b>	<b>2001</b>
is stated after charging / (crediting):	<b>£000</b>	<b>£000</b>
Auditors' remuneration		
- audit services	<b>3</b>	<b>3</b>
- non audit services	<b>5</b>	<b>19</b>
Foreign exchange differences	<b>(28)</b>	<b>1</b>

**BABCOCK OVERSEAS INVESTMENTS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**5. DIRECTORS' REMUNERATION**

The directors received no emoluments in respect of services to the company during the year (2001: £nil).

**6. TAX ON LOSS ON ORDINARY ACTIVITIES**

	<b>2002 £000</b>	<b>2001 £000</b>
UK Corporation tax at 30% (2000: 30%)	<b>9</b>	<b>6</b>
Less: double taxation relief	<b>(9)</b>	<b>(6)</b>
Overseas tax	<b>-</b>	<b>5</b>
<b>Tax charge for the year</b>	<b>-</b>	<b>5</b>

The tax charge for the year has been materially affected by the impairment of investments in subsidiary undertakings, which is not tax deductible.

**7. INVESTMENT IN SUBSIDIARY UNDERTAKINGS**

	<b>Shares in subsidiary undertakings £000</b>
<b>Cost</b>	
At 1 April 2001	123,642
Disposals	(343)
<b>At 31 March 2002</b>	<b>123,299</b>
<b>Provision for diminution in value</b>	
At 1 April 2001	(63,642)
Impairment loss	(35,601)
Disposals	2
<b>At 31 March 2002</b>	<b>(99,241)</b>
<b>Net book value at 31 March 2002</b>	<b>24,058</b>
Net book value at 31 March 2001	60,000

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

**(a) Directly owned subsidiaries**

**Holding Companies**

Babcock International Holdings BV (Netherlands)

## BABCOCK OVERSEAS INVESTMENTS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### Technical Services

Technical services and secure facilities management for the MoD and related markets

Babcock Defence Systems Australia Pty Ltd (Australia)

#### (b) Subsidiaries held through Babcock International Holdings BV

#### Technical Services

Technical services and secure facilities management for the MoD and related markets

Babcock New Zealand Holdings Ltd (New Zealand)

Babcock New Zealand Ltd (New Zealand)

#### Training and Support

Training, operating and maintenance services primarily for the MoD

Babcock Africa (Pty) Limited (South Africa)

Babcock Africa Contracting (Pty) Limited (South Africa)

#### Materials Handling

Materials processing technologies and engineered systems:

Babcock Holdings (Sweden) AB (Sweden)

BMH Marine AB (Sweden)

BMH Kellve AB (Sweden)

Babcock Holdings (USA), Inc (USA)

BMH Americas, Inc. (USA)

Babcock Eagleton, Inc. (USA)

BMH Technologies (Holdings) GmbH (Germany)

All undertakings are wholly owned unless otherwise stated. Except as otherwise stated, all shares held comprise ordinary share capital.

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

8. DEBTORS	2002 £000	2001 £000
Amounts owed by subsidiary undertakings	27,311	27,450
Other debtors – recoverable taxation	3	3
	<b>27,314</b>	<b>27,453</b>

Included in amounts owed by subsidiary undertakings is £24,972,000 due after more than one year.

**BABCOCK OVERSEAS INVESTMENTS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

<b>9. CREDITORS:</b> amounts falling due within one year	<b>2002</b>	2001
	<b>£000</b>	£000
Bank overdraft	4,647	5,981
Amounts owed to parent and fellow subsidiary undertakings	23,144	22,341
Accruals and deferred income	3	3
	<b>27,794</b>	28,325

<b>10. CREDITORS:</b> amounts falling due within one year	<b>2002</b>	2001
	<b>£000</b>	£000
Amounts owed to parent and fellow subsidiary undertakings	14,586	14,586

**11. DEFERRED TAXATION**

The company has no deferred tax liabilities (2001:£nil).

The company has £894,178 (2001: £894,178) of advance corporation tax recoverable which represents an unprovided deferred tax asset in accordance with FRS19.

**12. CALLED UP SHARE CAPITAL**

	<b>2002</b>	2001
	<b>£000</b>	£000
<b>Authorised:</b>		
100,000,000 ordinary shares of £1 each	100,000	100,000
<b>Allotted, called up and fully paid:</b>		
94,258,438 ordinary shares of £1 each	94,258	94,258

**BABCOCK OVERSEAS INVESTMENTS LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)****13. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND RESERVES**

	<b>Equity Shareholders' Funds £000</b>	<b>Profit and loss account £000</b>
At 1 April 2001	44,566	(49,692)
Loss for the year	(35,574)	(35,574)
<b>At 31 March 2002</b>	<b>8,992</b>	<b>(85,266)</b>

**14. CONTINGENT LIABILITIES**

- (a) The company has joint and several liability for bank facilities of £10.0 million (2001: £5.0 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 2002 the company had counter-indemnified a total of £ nil million (2001: £57.3 million).

**15. 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.

**16. ULTIMATE CONTROLLING PARTY**

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

Babcock International Group PLC is the parent undertaking of the largest and smallest group of which the company 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  
2 Cavendish Square  
London  
W1G 0PX