

**BABCOCK OVERSEAS INVESTMENTS
LIMITED**

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2001

Company number 2669327



BABCOCK OVERSEAS INVESTMENTS LIMITED

DIRECTORS AND ADVISORS

DIRECTORS

G A Campbell
N R Young
N G Campbell
H M Mahy

SECRETARY

R S 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 2001

FINANCIAL STATEMENTS

The directors present their report and financial statements for the year ended 31 March 2001.

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 £10,168,000 (2000: £42,539,000). The directors do not propose a dividend (2000: £nil).

BABCOCK OVERSEAS INVESTMENTS LIMITED

DIRECTORS' REPORT (continued) for the year ended 31 March 2001

DIRECTORS

The following were members of the Board during the year:

Dr T J Parker – resigned 30 December 2000
G A Campbell – appointed 31 December 2000
N R Young
N G Campbell
H M Mahy

None of the directors had any beneficial interest in the shares of the company. At 31 March 2001, Mr G A Campbell and Mr N R 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 and share options of the company's ultimate parent company, Babcock International Group PLC, were as follows:

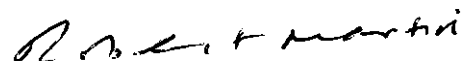
	Ordinary shares Number	Ordinary shares Number	Share options Number	Share options Number
	31 March 2001	31 March 2000	31 March 2001	31 March 2000
H M Mahy	14,596	4,289	180,904	168,350
N G Campbell	14,022	-	130,709	158,537

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 9 August 2001.



R S Martin
Secretary

AUDITORS' REPORT

To the Shareholders of Babcock Overseas Investments Limited

We have audited the financial statements on pages 4 to 11 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 in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

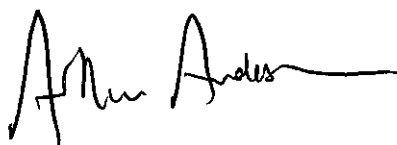
Basis of opinion

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 2001 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

9 August 2001

BABCOCK OVERSEAS INVESTMENTS LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31 March 2001

	Notes	2001	2000
		£000	£000
Income from fixed asset investments	2	29	2,906
Impairment in the value of fixed asset investments		(10,000)	(45,142)
Administration expenses		(535)	(457)
Loss on ordinary activities before interest		(10,506)	(42,693)
Net interest	3	343	159
Loss on ordinary activities before taxation	4	(10,163)	(42,534)
Tax on loss on ordinary activities	6	(5)	(5)
Retained loss for the financial year	11	(10,168)	(42,539)

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 2001

	Notes	2001	2000
		£000	£000
FIXED ASSETS			
Investment in subsidiary undertakings	7	60,000	70,000
CURRENT ASSETS			
Debtors	8	27,453	27,038
Cash at bank		24	2
		27,477	27,040
CREDITORS: amounts falling due within one year	9	(28,325)	(27,720)
Net current liabilities		(848)	(680)
Total assets less current liabilities		59,152	69,320
CREDITORS: amounts falling due after more than one year	9	(14,586)	(14,586)
Net assets		44,566	54,734
CAPITAL AND RESERVES			
Called up share capital	10	94,258	94,258
Profit and loss account	11	(49,692)	(39,524)
Shareholders' funds - equity interests	11	44,566	54,734

The financial statements on pages 4 to 11 were approved by the Board on 9 August 2001.



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, 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(revised), 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

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.

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	2001	2000
	£000	£000
Dividends from subsidiary undertakings	29	2,906
3. NET INTEREST	2001	2000
	£000	£000
Interest payable to fellow group companies	(1,021)	(1,021)
Interest receivable from fellow group companies	1,665	1,475
Interest payable on bank borrowings repayable within 5 years	(301)	(295)
	343	159

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

4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2001	2000
is stated after charging/(crediting):	£000	£000
Auditors' remuneration		
- audit services	3	3
- non audit services	19	-
Foreign exchange difference	1	(1)

5. DIRECTORS' REMUNERATION

The directors received no emoluments from the company during the year (2000: £Nil).

6. TAX ON LOSS ON ORDINARY ACTIVITIES

	2001	2000
	£000	£000
UK Corporation tax at 30% (2000: 30%)	6	1,009
Less: double taxation relief	(6)	(480)
ACT written back	-	(529)
Overseas tax	5	5
Tax charge for the year	5	5

Deferred taxation is not provided for as follows:

	Provided		Potential Asset	
	2001	2000	2001	2000
	£000	£000	£000	£000
Advance Corporation Tax recoverable	-	-	894	887

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

7. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares in subsidiary undertakings £000
Cost	
At 31 March 2000 and 2001	123,642
Provision for diminution in value	
At 1 April 1999	(53,642)
Impairment loss	(10,000)
At 31 March 2001	(63,642)
Net book value at 31 March 2001	60,000
Net book value at 31 March 2000	70,000

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

8. DEBTORS

	2001 £000	2000 £000
Amounts owed by subsidiary undertakings	27,450	27,035
Other debtors – recoverable taxation	3	3
	27,453	27,038

Included in amounts owed by subsidiary undertakings is £26,504,000 due after more than one year.

9. CREDITORS: amounts falling due within one year

	2001 £000	2000 £000
Bank overdraft	5,981	4,507
Amounts owed to parent and fellow subsidiary undertakings	22,341	23,210
Accruals and deferred income	3	3
	28,325	27,720

The Creditors balances due after more than one year of £14,586,000 are owed to fellow subsidiary undertakings (2000: £14,586,000).

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

10. CALLED UP SHARE CAPITAL

Authorised	2001 £000	2000 £000
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 2000	54,734	(39,524)
Loss for the year	(10,168)	(10,168)
At 31 March 2001	44,566	(49,692)

12. CONTINGENT LIABILITIES

- (a) The company has joint and several liability for bank facilities of £5.0 million (2000: £20.0 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 2001 the company had counter-indemnified a total of £57.3 million (2000: £64.6 million).

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

13. PRINCIPAL SUBSIDIARY UNDERTAKINGS

Direct subsidiary

Babcock International Holdings BV (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:

Babcock Africa (Pty) Limited (South Africa)

Babcock Africa Contracting (Pty) Limited (South Africa)

Babcock Holdings (Finland) Oy (Finland)

Babcock Holdings (Sweden) AB (Sweden)

Babcock Holdings (USA), Inc (USA)

BMH AKI Dryers Inc (USA)

BMH Americas Inc (USA)

BMH Asia Pacific (Pte) Limited (Singapore)

BMH China Ltd (Hong Kong)

BMH Claudius Peters GmbH (Germany)

BMH do Brazil Ltda (Brazil)

BMH Eagleton Inc (USA)

BMH Iberica SA (Spain)

BMH Italiana Srl (Italy)

BMH Kellve AB (90%) (Sweden)

BMH Limited

BMH Marine AB (Sweden)

BMH SA (France)

BMH Technologies GmbH (Germany)

BMH Wood Technology AB (Sweden)

BMH Wood Technology Oy (Finland)

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.

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

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 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