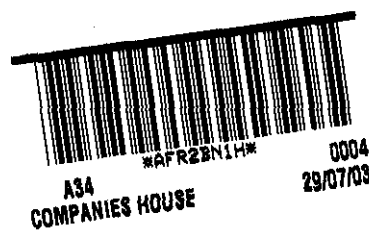


**BABCOCK OVERSEAS INVESTMENTS LIMITED**

**DIRECTORS' REPORT AND  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2003**

**Company number 2669327**



**BABCOCK OVERSEAS INVESTMENTS LIMITED**

**DIRECTORS AND ADVISORS**

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**DIRECTORS**

G A Campbell  
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

**DIRECTORS' REPORT**  
**for the year ended 31 March 2003**

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The directors present their report and the audited financial statements of the company for the year ended 31 March 2003.

**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 £1,601,000 (2002: loss £35,574,000). The directors do not propose a dividend (2002: £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 2003 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 2003

#### Directors and their interests

The following were members of the Board during the year:

G A Campbell

W Tame

F Martinelli (appointed 23 October 2002)

N G Campbell (resigned 23 October 2002)

None of the directors had any beneficial interest in the shares of the company. At 31 March 2003, 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 2003	31 March 2002	31 March 2003	31 March 2002
F Martinelli	-	-	45,000	-
N G Campbell	1,000	1,000	140,789	171,985

During the year 45,000 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

During the year Deloitte & Touche resigned as auditors and PricewaterhouseCoopers LLP were appointed. A resolution to reappoint Pricewaterhouse Coopers LLP as auditors to the company will be proposed at the annual general meeting.

This report was approved by the Board on 26 June 2003.

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**

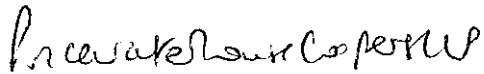
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 2003 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

26 June 2003

**BABCOCK OVERSEAS INVESTMENTS LIMITED**

**PROFIT AND LOSS ACCOUNT**  
for the year ended 31 March 2003

	Notes	2003	2002
		£000	£000
Income from shares in Subsidiaries	2	-	22
Impairment in the value of fixed asset investments		-	(35,601)
Net operating expenses		980	18
<b>Profit/(loss) on ordinary activities before interest</b>	4	<b>980</b>	<b>(35,561)</b>
Net interest	3	31	(13)
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>1,011</b>	<b>(35,574)</b>
Tax on profit on ordinary activities	6	590	-
<b>Retained profit/(loss) for the financial year</b>	13	<b>1,601</b>	<b>(35,574)</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 profit/(loss) 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 2003**

	Notes	2003	2002
		£000	£000
<b>FIXED ASSETS</b>			
Investment in subsidiary undertakings	7	-	24,058
<b>CURRENT ASSETS</b>			
Debtors	8	3,072	27,314
Debtors more than one year	8	50,977	-
		54,049	27,314
<b>CREDITORS:</b> amounts falling due within one year	9	(28,870)	(27,794)
<b>Net current assets/(liabilities)</b>		25,179	(480)
<b>Total assets less current liabilities</b>		25,179	23,578
<b>CREDITORS:</b> amounts falling due after more than one year	10	(14,586)	(14,586)
<b>Net assets</b>		10,593	8,992
<b>CAPITAL AND RESERVES</b>			
Called up share capital	12	3,258	94,258
Profit and loss account	13	7,335	(85,266)
<b>Shareholders' funds - equity interests</b>	13	10,593	8,992

The financial statements on pages 7 to 14 were approved by the Board on 26 June 2003.

W Tame  
Director

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

NOTES TO THE FINANCIAL STATEMENTS

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**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.

**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.

<b>2. INCOME FROM SHARES IN SUBSIDIARIES</b>	<b>2003 £000</b>	<b>2002 £000</b>
Dividends from subsidiary undertakings	-	22
<b>3. NET INTEREST</b>	<b>2003 £000</b>	<b>2002 £000</b>
Interest payable to fellow group companies	(1,018)	(1,038)
Interest receivable from fellow group companies	1,254	1,421
Interest payable on bank borrowings repayable within 5 years	(205)	(396)
	<b>31</b>	<b>(13)</b>
<b>4. PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>2003 £000</b>	<b>2002 £000</b>
is stated after charging / (crediting):		
Auditors' remuneration		
- audit services	3	3
- non audit services	1	5
Foreign exchange differences	(988)	(28)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 5. DIRECTORS' REMUNERATION

The directors received no emoluments in respect of services to the company during the year (2002: £nil). There were no employees during the year (2002: nil).

## 6. TAX ON PROFIT /(LOSS) ON ORDINARY ACTIVITIES

	2003 £000	2002 £000
UK Corporation tax at 30% (2002: 30%)	303	9
Less: utilisation of Advanced Corporation Tax	(202)	-
Less: double taxation relief	-	(9)
Deferred Tax Charge/(Credit) (Note 8)	(691)	-
<b>Tax credit for the year</b>	<b>(590)</b>	<b>-</b>

The tax charge is lower than the statutory rate primarily due to the utilisation of ACT for which no deferred tax asset was previously recognised, (2002: the tax charge was higher than the statutory rate because the loss before taxation consisted primarily of non-deductible impairment write downs in the value of investments).

## 7. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares in subsidiary undertakings £000
<b>Cost</b>	
At 1 April 2002	123,299
Disposals	(123,299)
<b>At 31 March 2003</b>	<b>-</b>
<b>Provision for diminution in value</b>	
At 1 April 2002	(99,241)
Disposals	(99,241)
<b>At 31 March 2003</b>	<b>-</b>
<b>Net book value at 31 March 2003</b>	<b>-</b>
Net book value at 31 March 2002	24,058

**BABCOCK OVERSEAS INVESTMENTS LIMITED**

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

**7. INVESTMENT IN SUBSIDIARY UNDERTAKINGS (continued)**

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

Babcock Reference Systems Australia Pty Limited.

Babcock Overseas Investments Limited sold its investments in Babcock International Holdings BV for the consideration of £24,057,998 to Babcock Investments Limited on 31 March 2003. The consideration was left outstanding on loan account.

<b>8. DEBTORS</b>	<b>2003 £000</b>	<b>2002 £000</b>
Amounts owed by subsidiary undertakings	<b>53,358</b>	27,311
Other debtors – recoverable taxation	-	3
Deferred Tax (Note 11)	<b>691</b>	-
	<b>54,049</b>	27,314

Included in amounts owed by subsidiary undertakings is £50,977,000 due after more than one year.

<b>9. CREDITORS: amounts falling due within one year</b>	<b>2003 £000</b>	<b>2002 £000</b>
Bank overdraft	<b>1,404</b>	4,647
Amounts owed to parent and fellow subsidiary undertakings	<b>27,362</b>	23,144
Accruals and deferred income	<b>3</b>	3
Corporation tax	<b>101</b>	-
	<b>28,870</b>	27,794

<b>10. CREDITORS: amounts falling due after one year</b>	<b>2003 £000</b>	<b>2002 £000</b>
Amounts owed to parent and fellow subsidiary undertakings	<b>14,586</b>	14,586

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 11. DEFERRED TAXATION

The major components of the deferred tax asset in note 8 above and the potential asset are as follows:

	<b>2003 Provided £'000</b>	<b>2002 Provided £'000</b>	<b>2003 Full Potential £'000</b>	<b>2002 Full Potential £'000</b>
ACT recoverable	691	-	691	893
	<b>691</b>	<b>-</b>	<b>691</b>	<b>893</b>

The company has no deferred tax liabilities (2002: £nil).

## 12. CALLED UP SHARE CAPITAL

	<b>2003 £000</b>	<b>2002 £000</b>
<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	3,258	94,258

A capital reduction of £91,000,000 took place on 19 February 2003 in order to eliminate negative reserves.

**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 2002	<b>8,992</b>	(85,266)
Capital reduction	-	91,000
Profit for the year	<b>1,601</b>	1,601
<b>At 31 March 2003</b>	<b>10,593</b>	<b>7,335</b>

**14. CONTINGENT LIABILITIES**

- (a) The company has joint and several liability for bank facilities of £10.0 million (2002: £10.0 million) in respect of certain fellow Babcock International Group companies.

**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 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