Babcock International Group PLC Annual Report and Financial Statements 2000

Babcock International Group PLC
Annual report and financial statements 2000

systems+services

Babcock International is a multinational engineered **systems and services** group, headquartered in the UK.

Executing business worldwide from its operations in 16 countries.

Organic growth is driven by accessing business opportunities that leverage off our specialist skills, technology and facilities. Growth through acquisition is focused on compatible knowledge-based activities.

470.7m

Group turnover from continuing operations £ (1999: £495.0m)

25.0m

Profit before tax excluding non-operating exceptional items £ (1999: £25.3m)

105.3m

Net cash £ (1999: £82.1m)

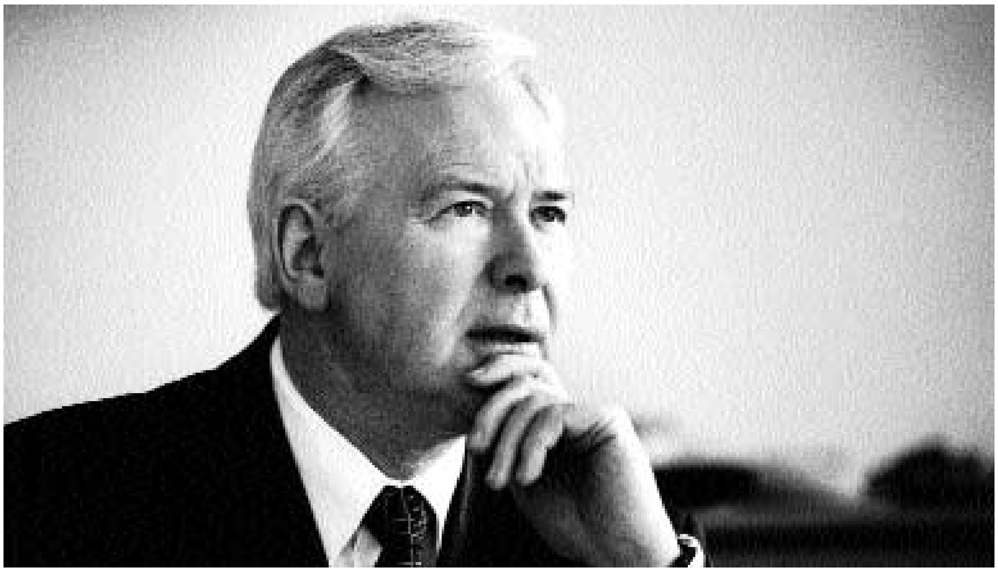
11.43

Earnings per share excluding non-operating exceptional items and goodwill pence (1999: 10.22p)

Chairman's statement

Well placed to take advantage of significant opportunities

Dr T John Parker Chairman
16 June 2000



Overview

I am happy to report another year of excellent progress for the Group. Both our Divisions excluding Railcare, our jointly owned rail venture with Siemens, achieved strong growth in operating profits: BMH increased by 21% to £10.1 million and BES by 42% to £13.7 million. Railcare, which represents some 12% of Group revenues, continued to experience difficult trading conditions during the second half and incurred, as highlighted at the time of the Interim Results, exceptional costs for a £2.4 million redundancy programme.

Our strategy is to achieve leadership in our main business activities and the development of new opportunities in related fields both organically and via acquisition. During the last year several acquisitions, involving both Divisions, have been made that are expected to contribute to earnings in 2001/02. They all have a good strategic fit with existing activities. Many other potential acquisitions have been and are being evaluated.

The financial results for the year, in summary, show an operating profit, excluding £2.4 million of exceptional redundancy costs, of £23.2 million (1999: £22.2 million) from a turnover of £470.7 million (1999: £496.3 million). The Group profit on ordinary activities before tax was £26.0 million (1999: £31.4 million) including net interest receivable of £4.3 million (1999: £2.5 million). A very strong cash performance during the year resulted in net cash balances at 31 March 2000 of £105.3 million (1999: £82.1 million).

Earnings per share before non-operating exceptional items and goodwill was 11.43p (1999: 10.22p) and including those items was 13.26p (1999: 15.07p). The Board is recommending a final dividend of 1.65p making a total for the year of 2.55p (1999: 2.20p). The Group's order book was £319 million (1999: £353 million).

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

BES increased operating margins, before the exceptional costs of the redundancy programme at Railcare, from 4.8% to 5.3%.

Defence Services

There was an excellent performance during the year at Rosyth in the Division's principal activity of naval refitting, dominated by the major refits of nuclear submarines HMS Sceptre and HMS Spartan and the aircraft carrier HMS Ark Royal. Our principal customer, the UK Ministry of Defence ('MoD') continues to be highly satisfied with our progress in achieving significant cost reductions, timely completions and quality refitting of their major warships. We are thus making major strides in our objective to become the refitter of first choice for surface warships in the UK.

The emphasis upon performance improvement and cost reduction has resulted in a more compressed and efficient operational footprint for the naval refitting and repair activity at the Rosyth site. As a result over 100 acres of waterfront land with a high potential value can now be made available for future development. A master plan of alternative development strategies is now being evaluated to optimise future value.

In addition to a strong trading performance from its current activities, BES has also made significant progress in its strategy to leverage off the substantial facilities and skills base at Rosyth to access new customers and build additional business streams.

The Division continues to work on SONAR 2087 which is now expected to be ordered by the second quarter of 2001.

New and exciting opportunities are now also opening up for BES via the new MoD Defence Logistics organisation. Their aim is to achieve major cost savings at UK naval bases, including Faslane, via rationalising support services, etc. from the dockyards. We are pursuing these new opportunities with enthusiasm and we believe that, working in partnership with our customers, we can support them in achieving their goals.

Earlier this year the MoD launched a consultation process with industry and environmental groups to study safe and practical solutions to the decontamination and dismantling of decommissioned nuclear submarines, seven of which are currently stored afloat at Rosyth. BES have now received a contract from the MoD to propose options for these vessels.

Marine Services

Further initiatives during the year to extend the marine services capability of BES have included the acquisition of Armstrong Technology Associates Limited, a specialist marine consultant, that will assist Rosyth to position itself firmly in the offshore and merchant support services markets.

At the close of the year BES also acquired FBM Marine Limited ('FBM') a designer and builder of modern multi-hull fast ferries and paramilitary craft. This business also extends the scope of BES's products and services. It will leverage off the skills and modern facilities at Rosyth by assembling the fast ferries at that facility. In addition FBM has a 50% stake in a low cost, efficient construction facility in the Philippines to service the Far East ferry markets.

Rail Engineering Services

BES has also been successful with its developed and recently approved multi-purpose rail freight wagon Mega3®. A first order for 22 units has been received from Blue Circle Industries PLC. This has been supported by the Shadow Strategic Rail Authority, which aims to transfer more freight to rail and thus alleviate traffic congestion on the UK's already overcrowded roads.

Railcare, which has enjoyed considerable success in past years, faced significantly reduced customer demand for rolling stock heavy maintenance, component overhaul and refurbishment services and a severe downward pressure on selling prices. The Group is working closely with its partner to reorganise the business to respond to these market and trading developments.

Facility Management and Specialist Engineering Services

Earlier this year BES established a company to target specialist civil and 'secure facilities' management opportunities where the application of the specialist engineering skills and services it employed in bringing about a transformation at Rosyth will be of particular relevance and value to external clients. The acquisition of the specialist utility business of CMR Consultants Limited will expand further the engineering services that can be offered to clients by BES.

During the year BES established a joint venture with Studsvik AB ('Studsvik') to exploit jointly the nuclear engineering skills at Rosyth. Studsvik is a leading Swedish company in the field of nuclear decontamination.

BMH – material processing technologies and engineered systems

The Division achieved an exceptional performance, growing operating profits and margins in the year to £10.1 million (1999: £8.4 million) and 4.4% (1999: 3.9%) respectively. Turnover grew year on year, excluding the effects of foreign exchange translation, by 9%.

The Division's performance has continued to benefit from its global market reach, balanced portfolio of activities, flexible operating structure and consistent focus upon its customers. Strong trading performances came from the marine, pipeline engineering and cement activities. The South African business, reflected in the BMH segment, again traded profitably despite weak market conditions in South Africa.

The key market trends and business drivers that I highlighted at our interim results in November 1999 have not perceptibly changed since then. The stronger European and North American markets where BMH has continual and growing success accounted for some two thirds of its sales and order intake during the year. However the trading environment in certain other markets in which BMH operates does continue to be challenging. For example, the South American and South African markets remain weak and Asia, despite signs of revival, has yet to demonstrate a return to robust growth. The Division therefore remains poised to benefit further from any return in Asia to the growth rates of a few years ago.

In line with Group strategy, BMH is pursuing both organic and acquisition-led growth. During the second half the radio frequency veneer drying technology of PMI was acquired, extending BMH's drying technology portfolio, and a number of further acquisitions are under evaluation. The emphasis upon organic growth through product development and access to adjacent markets has continued. The Division is currently undertaking both of the grain terminal projects that were won at the beginning of last year in an activity that is a natural extension of its strong global position in other marine unloading and terminal applications.

Due to delays in certain decisions on a number of major new contracts, the Division's closing order book was lower than anticipated. It is expected to recover during the first half of the current financial year.

E-Business

Embracing new technology that can enhance our performance is a way of life for the Group. E-business is no exception and our strategies are not only well defined but implementation is well underway. Earlier in the year BES on behalf of the Group entered into a licence arrangement with Infobank PLC to utilise their e-trading software and systems to create a Babcock International Group hub.

Outlook

BES and BMH should have another good year given BES's high activity levels and BMH's strengths in terms of market shares and global penetration. The reorganisation of Railcare will continue in the current year and, until this is completed, its trading will inevitably be depressed in the current adverse market.

Encouraging progress has been made on recent acquisitions. Others are being evaluated and are in process. Babcock, with its exceptionally strong balance sheet, is well placed to take advantage of significant opportunities.

Babcock International is a multinational engineered systems and services group, headquartered in the UK. It executes business worldwide from its operations in 16 countries. BES provides engineering and technology support services to the defence, rail, marine and 'secure facilities' sectors. BMH delivers materials processing technologies and engineered systems to a range of industries.

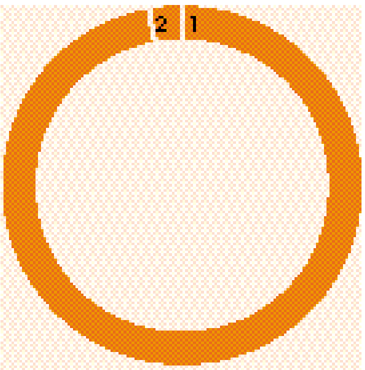
BES Division Engineering and technology support services for customers in the defence, rail, marine and ‘secure facilities’ sectors.

10.5m

Operating profit £ (1999: £13.3m)

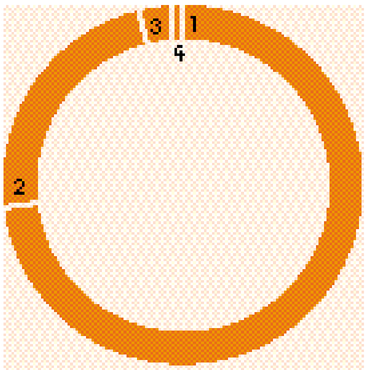
241.8m

Turnover £ (1999: £280.2m)



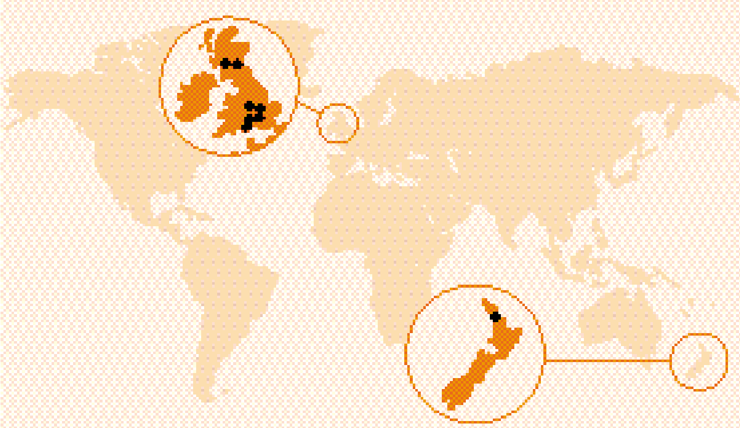
1	UK	97%
2	Australasia	3%

Sales by destination



1	Defence – UK	73%
2	Rail	23%
3	Defence – non UK	3%
4	Marine	1%

Sales by activity



Geographic spread

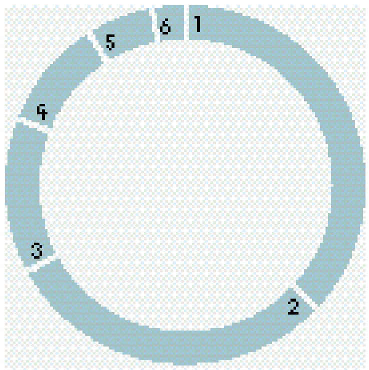
BMH Division Materials processing technologies and engineered systems.

10.1m

Operating profit £ (1999: £8.4m)

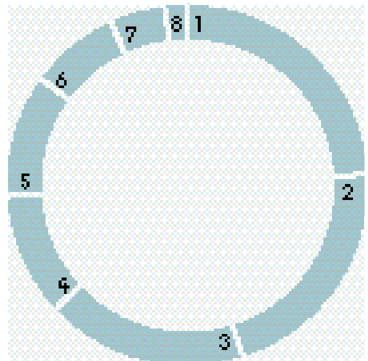
228.9m

Turnover £ (1999: £214.8m)



1	North America	37%
2	Europe	30%
3	Africa	14%
4	Asia	10%
5	South America	6%
6	Middle East	3%

Sales by destination



1	Cement	24%
2	Marine	21%
3	Pipeline engineering	18%
4	South Africa	11%
5	Engineered building products	11%
6	Power, iron and steel	8%
7	Bio-energy and wood	5%
8	Others	2%

Sales by activity

Geographic spread

Business review

BES Division In defence we provide a one-stop refit capability for nuclear submarines, warships, fleet support and offshore marine vessels including their systems and equipment; logistics support and material procurement services; specialist maritime defence consultancy services. In marine we provide a range of technical support services, including equipment refurbishment and specialised sub-sea engineering. In rail we provide the design and manufacture of passenger coach interiors, the complete refit and maintenance of rail rolling stock and new concepts in rail freight transportation. In facility management we specialise in the management of secure facilities. Organic growth is driven by accessing business opportunities that leverage off our specialist skills, technology and facilities. Growth through acquisition is focused on compatible knowledge-based activities.

01 Managing electrical distribution. **02** Advanced electronics repair and maintenance. **03** Comprehensive nuclear submarine support capability.

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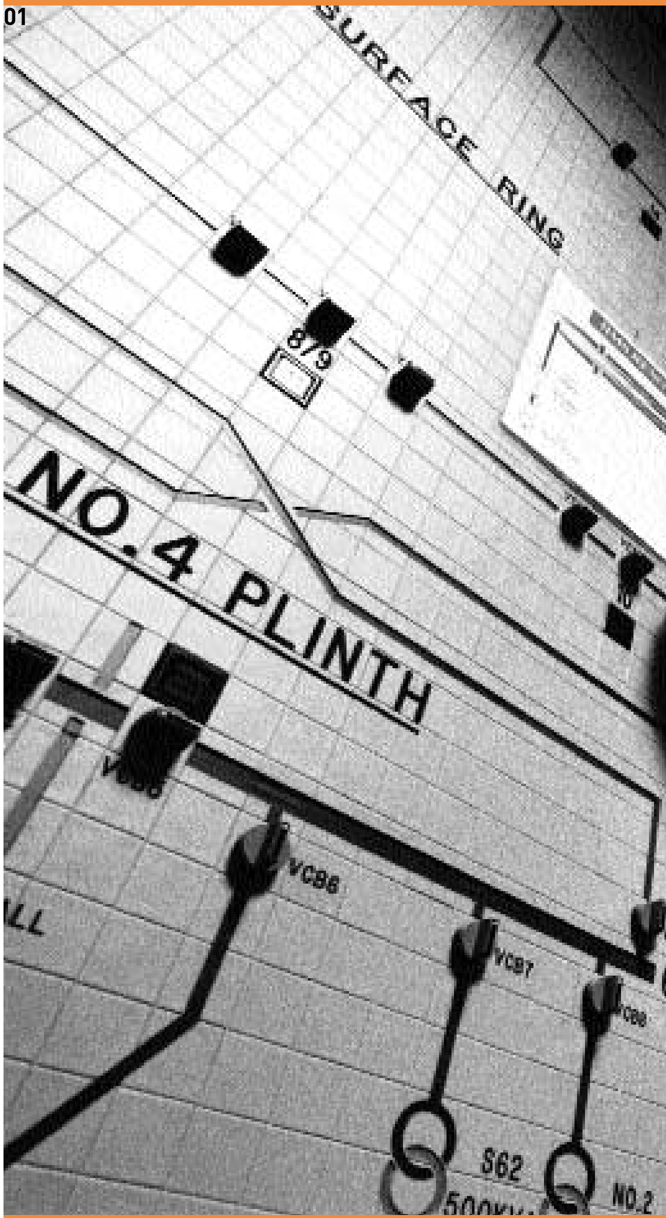

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Emphasis continues on performance improvement. New and exciting opportunities are opening up for BES.

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We are making major strides in our objective to become the refitter of first choice for surface warships in the UK.

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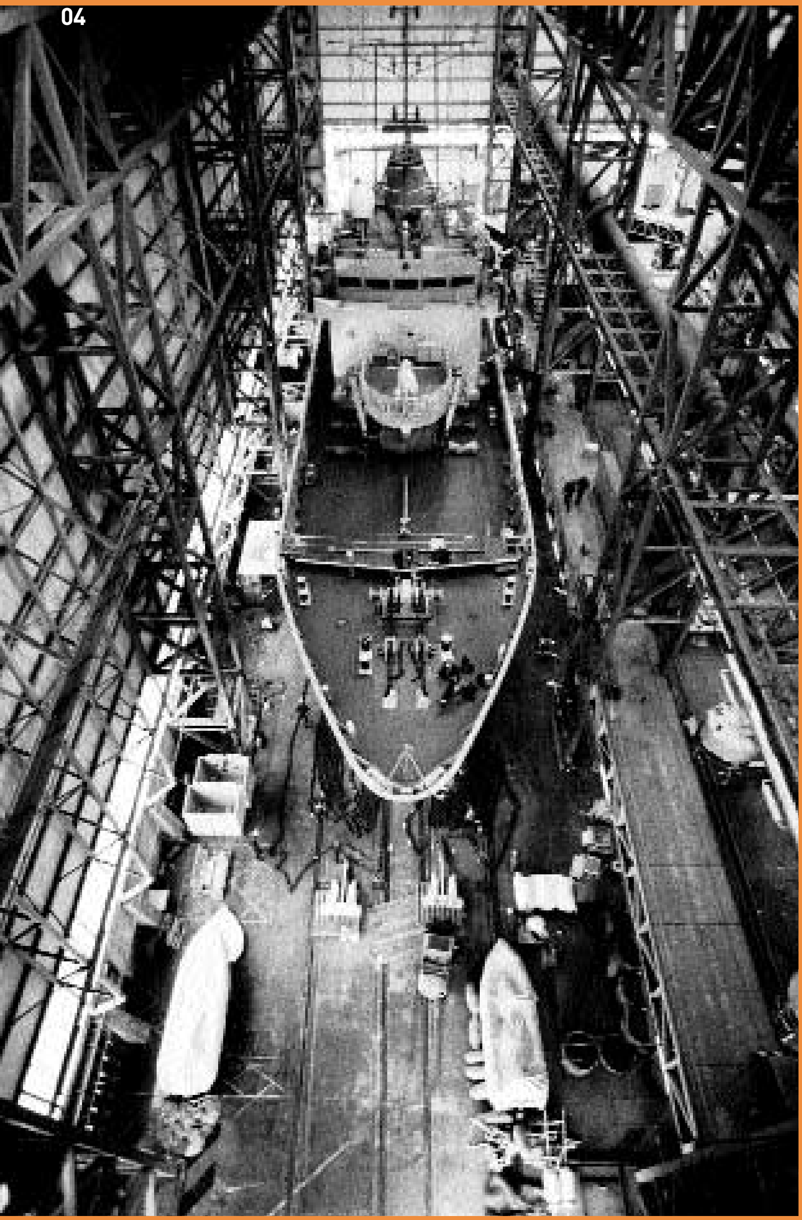

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04 Purpose built covered facilities at Rosyth.
05 Launching a 53 metre aluminium Fast Ferry built by FBM Babcock Marine at Cowes.
06 Operating to the highest standards of safety.
07 Marine design and consultancy services by Armstrong Technology. **08** Skilled and experienced fabrication service.

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The Division's performance during the year, excluding Railcare, the Group's 60% owned rail venture with Siemens, was excellent and both operating profits and margins improved strongly. Including Railcare there was a reduction in operating profit principally due to the costs of a redundancy programme of £2.4 million. Turnover was lower than in the previous year as a result of a reduced level of naval refit activity and a lower demand in Railcare for rail maintenance, refurbishment and component overhaul work. BES's order book at March 2000 was £236.7 million compared with £226.8 million a year earlier.

During the year BES continued to focus upon improving the performance of its current businesses and developing alternative business streams both organically by leveraging off its substantial assets and via acquisition.

Defence Services
Naval refitting at Rosyth turned in an excellent performance during the year with significant improvements in efficiency and cost-competitiveness. Refit activity was dominated by the ongoing refits of two nuclear submarines, HMS Sceptre and HMS Spartan, and the aircraft carrier HMS Ark Royal for the UK Ministry of Defence ('MoD'). HMS Sceptre is due to be handed back to the Royal Navy for sea trials in September 2000 before re-entering service in early 2001 and HMS Spartan is progressing well to scheduled completion in autumn 2001. The major refit and upgrade of HMS Ark Royal, which will complete in mid 2001, is also proceeding to plan and with substantial growth in the refit package is forecast to increase by some 20% to a value of £120 million. In addition to work performed under the three major refit programmes mentioned above, three minor warship refits were completed during the year and a further two were in various stages of completion at year end. The quality and reliability of the delivered products continue to receive praise from the customer and operators.

The drive to make Rosyth more efficient and competitive and the consolidation of the core ship-related activities around the central non-tidal basin has released over 100 acres of surplus land. A master plan for the dockyard site to make optimal use of this valuable surplus asset is currently being developed.

Earlier this year the MoD established the Defence Logistics Organisation whose objectives include the achievement of cost savings at UK naval bases. In an announcement in April the MoD indicated its continuing desire to search for rationalisation and modernisation of warship maintenance. This should provide a net benefit to BES through the likely award to Rosyth of a refit contract for a third aircraft carrier HMS Illustrious that would follow on from the refit of HMS Invincible, which is in turn scheduled for refit after the completion of HMS Ark Royal. The announcement in April also indicated the MoD's intention to make the shorter scale refits currently carried out at Portsmouth, Devonport and Faslane competitive and enter into partnering arrangements covering engineering support and facilities management in those three naval bases. BES intends to pursue these new and exciting opportunities vigorously over the forthcoming period.

In the Division's operation in Auckland, New Zealand initiatives to improve performance and develop business in related markets have also been continuing. Workload in the year from the New Zealand Navy was disappointing particularly as the result of ship deployment to East Timor and discussions are set to start with the Navy to establish more certain conditions and pricing arrangements for the future.

The retention of the America's Cup by Team New Zealand and the attention of the world yachting market have had a positive effect with the number of super yachts in the region increasing. To date, several small refit and maintenance packages have been undertaken by the New Zealand operation whose reputation for quality and delivery is continuing to grow.

BES has been assisting the MoD with proposals for the dismantling and disposing of decommissioned nuclear submarines stored at both Rosyth and Devonport. It was announced recently that a feasibility study would commence to examine the issues with the prospect of awarding Rosyth a contract for the dismantling and disposal of HMS Renown.

The bid by Babcock Defence Systems to the Ministry of Defence for their new active and passive towed sonar system (SONAR 2087) has again been delayed and has entered a phase where further technical change is being considered. The next round of revisions is expected to be submitted in the autumn before the successful bidder, from a short list of two, is announced in the second quarter of 2001.

Marine Services
BES acquired Armstrong Technology Associates Limited ('ATA') during the year to expand its marine services capability. ATA, located in North Shields, England, has an excellent reputation in marine design in both the naval and offshore oil sectors. BES sees opportunity, particularly

09 Rosyth Dockyard: the centre of excellence for surface warship refits. **10** Fast Ferry and patrol craft design at FBM Babcock Marine. **11** Modern laboratory sample analysis techniques. **12** Advanced drawing and data management technology.

in the USA, to expand Armstrong's reach on the back of the Group's international network. ATA should also open up opportunities for the excellent fabrication capability at Rosyth.

In the year BES also acquired FBM Marine Limited ('FBM'), a designer and builder of fast ferry and paramilitary craft, together with its 50% stake in a Philippines shipyard which builds mainly to FBM designs for the Far East ferry market. FBM has an excellent reputation in shipbuilding and more recently the design and build of a series of fast passenger ferries for the business and pleasure trade. In order to compete more effectively, BES plans to transfer production from FBM's current location in Cowes to the excellent covered syncrolift facilities at Rosyth. In recent years FBM has found itself under pressure from the mainly Australian competitors who have been able to increase the size and scope of vessels to offer fast transit for car and road freight vehicles. With this in mind, FBM took a long-term lease over the shipbuilding facilities at Birkenhead which, in due course, it intends to recommission for the building of FBM designed ferries above 60 metres in length.

The Division's offshore and marine activities have continued to suffer in a market where project capital expenditure remains strongly dependent on oil prices; oil companies have been unwilling to commit funds until they are sure that oil prices have stabilised.

Rail Engineering Services

In response to the announcement by Sir Alistair Morton in December 1999 that the Shadow Strategic Rail Authority (SSRA) was to award a £5 million prize for the best "Innovative Solution in Rail-Based Logistics", Babcock Rail, Blue Circle Industries PLC, and Metalair Feldbinder Ltd produced a joint submission. That submission was for the provision of 22 Mega3® wagons for the transport by rail of cement powder and bagged products. The submission has been awarded first prize, which is equal to the total implementation cost of this trial service. Manufacture will now start at Rosyth with deliveries starting in January 2001. Interest in the wagon has increased significantly since the award and "add on" orders are now being sought. Work has continued during the year on the designs of rail wagons for the Railtrack infrastructure fleet. These will be completed when the full technical specification is released with the tender and will promote track friendly rail freight transport.

After several years of good performance, Railcare had a disappointing year as demand for rail maintenance and refurbishment and component overhaul weakened significantly. The positive outlook of a year ago, supported by the potential opportunities for re-siding and refurbishment of swing door rolling stock and the refurbishment of rolling stock as part of the Government's plans for London Underground, has changed. Plans for the London Underground have become unclear and there appears to be preference for new rolling stock rather than the modification of old vehicles. In addition, rolling stock operators and train operating companies have delayed expenditure on their assets until the next train operating franchises have been awarded and the future is clearer. In general, only that spending necessary to keep the vehicles in service has been committed. These factors in a market already experiencing over-capacity are making trading very difficult. As a result of market conditions Railcare undertook a redundancy programme during the year at its three sites costing £2.4 million. Further reorganisation of Railcare will be necessary in the current year to respond to continuing market pressures.

Facility Management and Specialist Engineering Services

During the second half BES established a new facilities management company to target both civil and 'secure facilities' management opportunities including those that may arise from the initiatives being developed by the MoD's Defence Logistics Organisation. The acquisition in the year of CMR Consultants, a specialist company providing energy and utility cost reduction advice, expanded the range of services being offered by BES into this growing market.

Unfortunately the consortium established by BES to pursue the contract to manage the UK Government's Atomic Weapons facility at Aldermaston was unsuccessful. The contract was awarded late last year to a team led by Lockheed Martin after an extremely close run competition in which Babcock emerged as number two ahead of the incumbent contractor.

The formation in the course of the year of a joint venture with Swedish nuclear waste clean-up specialists Studsvik AB provides a further example of the Division leveraging off the skills at Rosyth, this time in nuclear engineering.

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Marine service capability extended by the acquisition of ATA and FBM.

Multi-purpose railfreight wagon wins Shadow Strategic Rail Authority award.

BMH Division

We operate as an engineering systems house via six technology centres located in Europe and USA – each focused on their separate core products and systems know-how. We have leading market positions across a number of specialist growth sectors including: cement and high value building materials; gypsum wallboard; bio fuel systems; engineered building products; marine terminal technology; pipeline systems engineering; and engineering support services. We fuel organic growth by continuous research and product development. We market and service our customers through a global network via 16 BMH companies plus agents covering over 70 countries. Our acquisition strategy targets expansion into adjacent and attractive technologies.

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Exceptional performance by the Division.

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01 Record rebuilding time of fire damaged grain loading facility (Helsingborg, Sweden). **02** Operating BMH state of the art ship unloader. **03** Preparing BMH equipment for world-wide dispatch.


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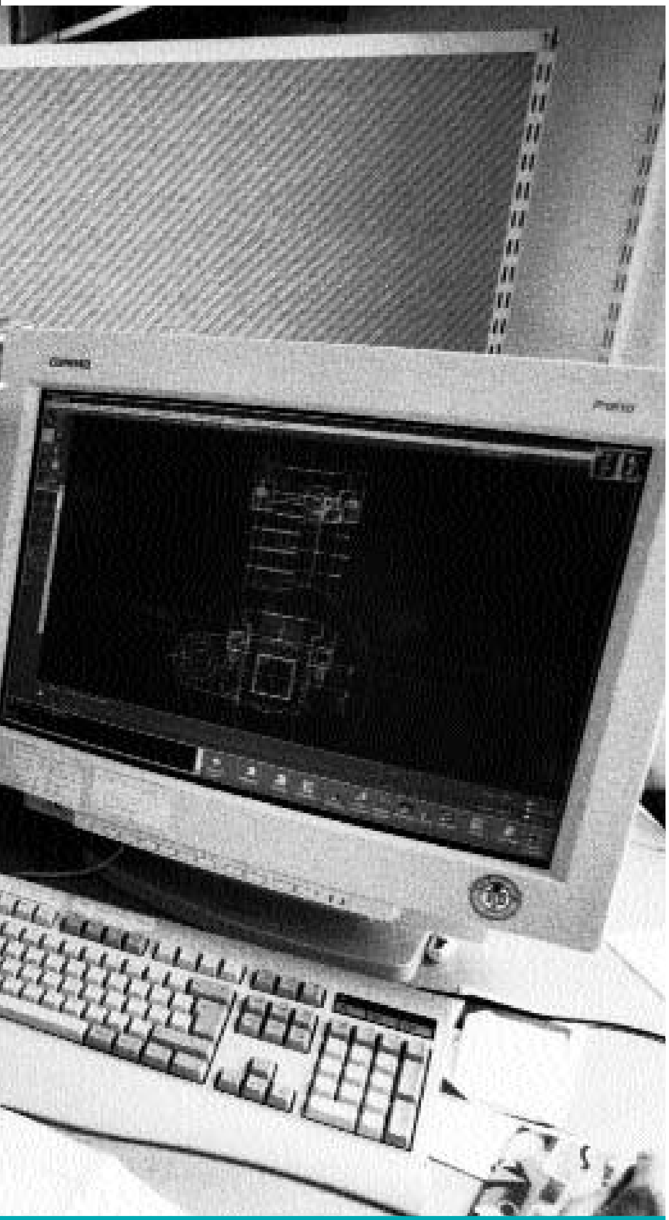
Global market reach; balanced portfolio of activities; flexible operating structure and consistent focus on customers.



04 Plasma cutting of stainless steel element for sulphur ship unloader (Fremantle, Australia). **05** Shared experience to optimise the design of dust free cement ship loading system. **06** Shared experience leads to highest customer satisfaction. **07** Modular 3D-CAD improves order execution time.

The Division has had another successful year. The trading environment remained challenging although the first signs of a revival were experienced in some of the troubled Asian countries. The general level of investment by businesses in North America remained strong whilst in Western Europe it has been concentrated on plant upgrading and efficiency improvement. Eastern Europe showed some progress, mainly in industries with significant foreign capital participation. The economic climate in Latin America remains uncertain. Prices of commodities that are important drivers for capital expenditure by BMH's customers, in particular crude oil and chemical pulp, have shown a strong recovery and have supported activity in pipeline construction and in the pulp and paper industry.

Turnover grew by 6.6% to £228.9 million and operating profits by 21% to £10.1 million. This represents a significant improvement in operating margins from 3.9% to 4.4%. Turnover would have been £5.0 million higher if the results of overseas subsidiaries had been translated into sterling using the same average exchange rates as 1999. The overall effect of foreign exchange on the translation of the operating profits into sterling was negligible. When the Division's South African operations are excluded, turnover grew 11.8% and operating margins improved from 4.3% to 4.7%. The total order book at the end of March was lower than expected at £83 million due to delays in the placing of a number of significant orders.

The growth in turnover reflects BMH's strong position in Europe and North America, which accounted for 30% and 37% of divisional turnover respectively. The high North American share reflects the success of BMH's pipeline engineering business and its operations in marine terminals and engineered building product plants.

Approximately three-quarters of the Division's turnover in the year was generated by its cement, marine, pipeline engineering and engineered building products activities. Sales in these four key business areas are almost equally split into engineered systems related business and specialised materials processing technologies. This provides a solid platform for well-balanced further growth, supplemented by strong distribution and service networks in North America and Europe and an experienced presence in Asia and Latin America.

BMH's engineered systems are focused primarily on marine technologies, wallboard and engineered building products plants, pipelines, pulverized coal injection systems and storage and dispatch facilities. Materials processing technologies are concentrated on drying, calcining, cooling, grinding, crushing, screening, classifying and heat treatment of different materials for a variety of industries.

Cement

Sales of cement production subsystems contributed 24% (1999: 26%) of divisional turnover. Significant projects have been progressed according to plan with Blue Circle in the UK, Tartus Cement Co. in Syria, Huaxin Cement Co. in China, Midlothian Cement Co. in the USA, Hong Mai Cement Co. in Vietnam, Tabuk Cement Co. in Saudi Arabia and Finsementti Oy in Finland.

Major new contracts have been awarded to BMH by Heidelberg's Lehigh Portland Cement Co. in the USA. These particular contracts include the design and supply of a clinker cooler, silo technology, the raw material blending bed and the coal stockyard. Further important orders in the cement business have been received from Southdown Inc. in the USA, from Holderbank's Devil's Slide works in the USA and its Siggenthal works in Switzerland. Dyckerhoff have ordered a second cement blending plant for their Deuna works in Germany. Italcementi have placed a large limestone stacker/reclaimer contract for Puerto Rico. Another limestone stockyard contract was awarded through IHI for Bim Son in Vietnam. Lafarge placed a major order for their Continental Cement Corporation in the Philippines and Tokyo Cement Co selected BMH as their partner for a cement dispatch terminal in Sri Lanka.

Marine

Sales of marine technology contributed 21% (1999: 21%) of divisional turnover. Work was successfully completed and marine terminals were handed over to Semen Padang in Indonesia, Chia Hsin Cement Corporation in Taiwan, Quezon Power Plant in The Philippines, El Fath Co. in Egypt, Alcan Jamaica Co. in Jamaica, Keelung Harbour in Taiwan, National Power Corporation in The Philippines, the Port of Ventspils in Latvia and J. Müller GmbH in Germany.

Bulk carriers fitted with BMH's self-unloading technology have been delivered to customers in Sweden, Japan and Panama.

New contracts for marine terminals and self-unloading bulk carriers have been received from all continents, confirming BMH's dominant technical capabilities and leading market position in this business segment. Contracts secured include port terminals for RMC Group PLC, Heidelberg's Calaveras Cement Co and Kinder Morgan Inc in the USA, Fremantle Port Authority in Australia and Inter V.T.I. Group in Russia. Self-unloading vessels were ordered by Taiheiyo Cement

Corporation and Chichibu Onoda Cement Corporation, Japan, as well as by customers in Korea, Scandinavia and Germany.

Pipeline engineering
Pipeline engineering contributed 18% (1999: 5%) of divisional turnover. The substantial growth in this business has been driven mainly by the successful progress in lump-sum projects. The execution of the project for TE Product Pipeline Company for three parallel 67 mile pipelines for ethylene, propylene and natural gasoline, between Mont Belvieu and Port Arthur in Texas, USA, which was won last year, is proceeding ahead of programme.

An important engineering and design order for a 43 mile pipeline that originates in Mont Belvieu, Texas and terminates in Texas City was won from Formosa Plastics.

Engineered building products
Sales of engineered building products contributed 11% (1999: 13%) of divisional turnover. Two wallboard plants, in Argentina and Romania, have been successfully completed and commissioned. In addition, several gypsum calcining plants have been commissioned and handed over in Brazil, USA and Europe along with board dryers in China, USA, South Africa and a number of European countries.

The business operated with particular success in North America and secured new contracts for two calcining systems for United States Gypsum and board dryer plants for National Gypsum and Lafarge Gypsum in the USA.

South Africa
The South African operations operated profitably in a very depressed market, contributing 11% (1999: 16%) of the Division's turnover. Good progress has been made in extending the range of engineering services that the Division can offer. Long-term partnership agreements for the supply of maintenance services are also being pursued with major clients following the success with Escom in power station services. The South African economy is also showing some signs of recovery which should assist its plant hire and agency business. The newly won Volvo construction equipment agency will also contribute to an improving situation.

Power, iron and steel
Sales to the power, iron and steel industries, principally of pulverised coal injection (PCI) and minerals grinding systems and processing technology, contributed 8% (1999: 7%) of divisional turnover.

Major PCI installations for Acominas in Brazil, Sicartsa in Mexico and Sideco in France were all successfully completed and received final acceptance from the customers during the year. The expansion of BMH's PCI technology from blast furnaces to rotary kilns was successfully initiated with the start-up of the first project with RKW Wülfrath in Germany. The completion of the PCI plant with Bethlehem Steel in the USA progressed as planned and the start of operation is scheduled for mid-2000. Major projects in the power, iron and steel industries were also commissioned in Korea and Taiwan.

New contracts won include fly ash handling systems for Hongkong Electric Co in Hong Kong, Rheinische Elektrizitätswerke in Germany and power plants in the Ukraine.

Bio-energy and wood
Bio-energy and wood processing sales were reduced in a slow market and contributed 5% (1999: 8%) of divisional turnover. Bio-energy systems were delivered to customers in Sweden and Poland whilst major deliveries were executed to the pulp and paper industry in Scandinavia and Russia.

The business was particularly successful in securing a number of important new projects in China. A new plant for Rizao Wood Pulp Co. Ltd in Shandong, China was won along with bio-energy plants in both Sweden and Finland. A major log and chip handling system for Stora Enso Oy in Finland was also secured.

Product development
New product development continues to be an important focus for the Division, with continued investment in the Research Centre in Buxtehude, Germany. Particular attention has been paid to developing automatic bagging and dispatch systems and port terminal technology. Expanding the Division's presence in the engineering building products sector has remained an important focus.

In addition to the in-house product development programme, the portfolio was enriched through license agreements and technology acquisition. Radio frequency dryer plant technology was acquired from PMI in the USA to assist penetration of new markets in veneer and board drying.

Particular emphasis was placed on long-term customer support services including the use of modern telecommunication techniques to monitor plant installations remotely in real time.

BMH continues to explore acquisition opportunities with a good strategic fit to supplement its organic development. A number of projects are being evaluated and are at different stages of the acquisition process.

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Emphasis on organic growth through product development.

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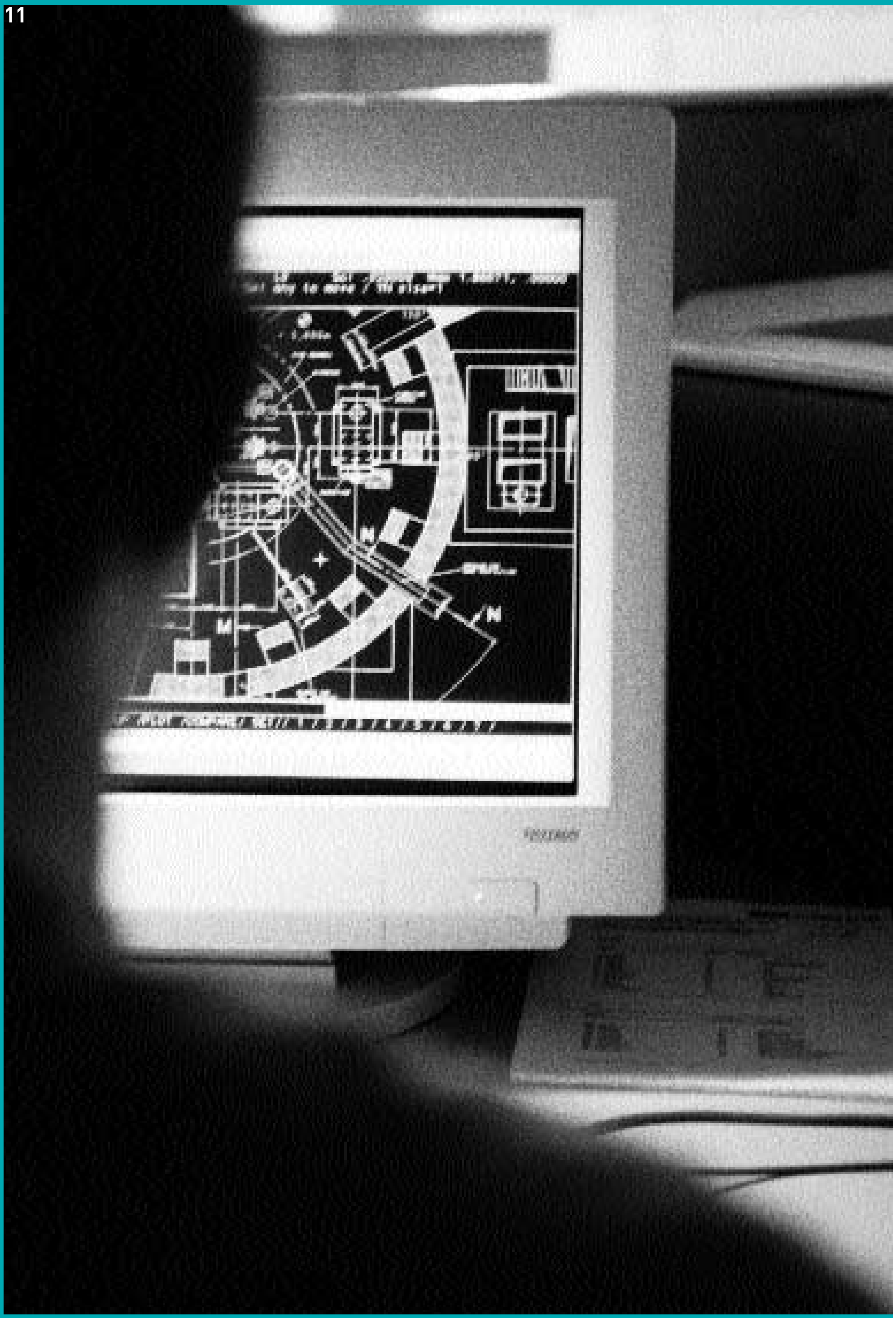

08 Servicing BMH's products. **09** Components for BMH Siwertell high capacity cement self loading/unloading vessel.**10** High precision bending of structural components. **11** Implementing state-of-the-art silo technology into cement terminal.

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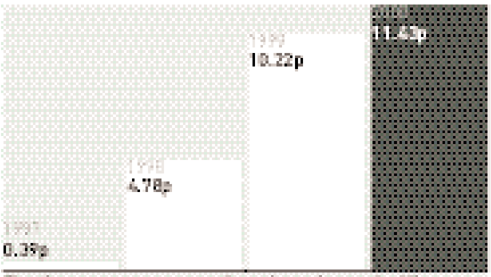
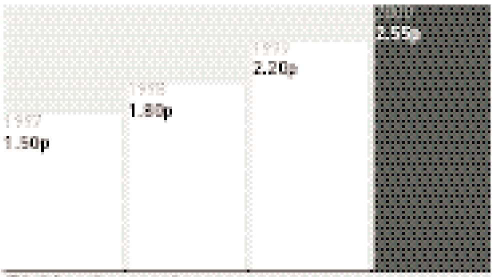
Financial review

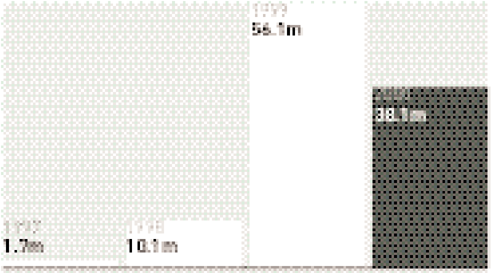
Strong balance sheet with exceptional cash resources.



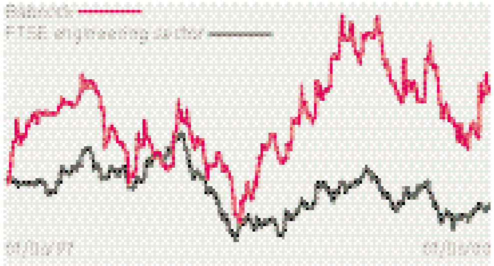
Basic eps pre exceptional and goodwill



Dividends per share



Cash flow from operating activities £



Share price relative to engineering sector

Key exchange rates	Average rate to £1 2000	Average rate to £1 1999	Year end rate to £1 2000	Year end rate to £1 1999
US Dollars	1.61	1.62	1.59	1.62
German Deutschmark	3.08	2.98	3.26	2.95
Swedish Krona	13.62	13.30	13.78	13.50
South African Rand	9.95	9.63	10.44	10.11

Turnover and margins

Although Group turnover has decreased by 5.2% to £471 million the continued emphasis on performance improvement throughout the Group has led to an overall increase in gross margins from 16.7% to 18.0%.

Turnover by destination has continued to show an increasing share from the world's strong economies in Europe and North America which, together, accounted for 82.0% of turnover compared to 77.3% last year.

After excluding the exceptional redundancy costs of £2.4 million incurred within the Railcare business, operating expenses are broadly unchanged. Operating margins, excluding goodwill amortisation and exceptional items, have improved from 4.0% to 4.5%.

Non-operating exceptional item

The only non-operating exceptional item was a £1 million gain on the disposal of surplus property in Hamburg by the BMH Division.

Interest

The large increase in net interest income from £2.5 million to £4.3 million reflects the healthy average net cash position maintained by the Group throughout the year and the general rise in interest rates in Europe and North America compared to the previous year.

Taxation

The effective tax rate, excluding non-operating exceptional items and goodwill amortisation, was 19.7% compared to 22.8% last year. The rate is lower than the standard UK rate of 30% due to the utilisation of tax losses in various countries and surplus Advance Corporation Tax in the UK. At 31 March 2000 the Group had trading losses carried forward for tax purposes in excess of £60 million. These tax losses exist primarily in the USA, Germany and South Africa.

Earnings per share and dividends

Basic earnings per share was 13.26p (1999: 15.07p). Earnings per share excluding non-operating exceptional items and goodwill amortisation was 11.43p (1999: 10.22p), which is an increase of 11.8%.

The Board is recommending an increased final dividend of 1.65p per share bringing the total dividend for the year to 2.55p (1999: 2.20p) which is an increase of 15.9%.

The dividend is covered 4.5 times (1999: 4.6 times) by earnings, excluding non-operating exceptional items and goodwill amortisation.

Balance sheet
Equity shareholders' funds increased by £17.2 million in the year to £143.9 million. This increase reflects the retained profits of £18.1 million, shares issued during the year as a result of options being exercised of £0.1 million and foreign exchange losses of £1.0 million (1999: £0.7 million) on the translation of the net assets and results of overseas subsidiaries into sterling.

The Group remains ungeared with net cash balances of £105.3 million at the year end.

Pension schemes
The Group operates a number of different pension arrangements throughout the world, according to the local requirements of each country. The total pension cost charged against the operating profits of the Group was £6.2 million (1999: £6.2 million).

At 31 March 2000 the Group carried a £78.7 million (1999: £75.3 million) pension prepayment in its balance sheet in respect of the Group's principal pension schemes. This represents a prepayment of future contributions to be made by the Group to the schemes and will be realised by the Group over the service lives of the employees in the schemes.

Cash flow
Total cash inflow in the year was £24.7 million (1999: £61.1 million).

Cash inflow from operations was again very strong at £38.1 million (1999: £56.1 million). With earnings before interest, taxes, depreciation and amortisation or EBITDA, the same as last year at £29.8 million (1999: £29.8 million) the remaining cash inflow from operations has arisen from a reduction in working capital. The levels of advance payments and payments in advance of turnover have remained high at £39.5 million, an increase of £1.5 million in the year.

Taxes paid in the year increased by £1.3 million to £2.1 million, principally as a result of the timing of tax payments in the UK.

Net capital expenditure was £9.1 million compared to £5.5 million in the previous year.

Acquisitions and disposals
The net cash outflow in the year relating to acquisitions and disposals was £8.2 million (1999: inflow £16.9 million).

During the year the Group made four acquisitions for a total cash consideration of £6.1 million with a further £3.8 million of deferred consideration, the majority of which could become payable over the next 15 months. Payment of the deferred consideration will depend on the achievement of specified targets for those acquired businesses. Further details of these acquisitions can be found in note 30 to the Financial Statements.

The Group also paid £0.6 million of deferred consideration relating to its 1999 acquisitions and reached a final settlement in the dispute with the purchaser of a former group business referred to in note 33 to last year's Financial Statements.

Treasury
Clearly established treasury policies and procedures are reviewed and approved by the Board on a regular basis. Divisional and operating company compliance with these policies and procedures is subject to periodic review by internal audit. Speculative transactions are prohibited.

Financial instruments
The Group's financial instruments, other than derivatives, comprise cash and liquid resources, some short-term borrowings and various items such as trade debtors and trade creditors, etc. that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations.

The Group also enters into derivative transactions, principally forward foreign currency contracts. The purpose of these transactions is to manage the currency risks arising from foreign currency transactions. The use of derivative financial instruments other than forward foreign exchange contracts is prohibited without the prior approval of the Group Finance Director.

The main risks arising from the Group's financial instruments are foreign currency risk, liquidity risk and interest rate risk.

Foreign currency risk
The Group's foreign currency exposure management policy requires subsidiaries to hedge transactional currency exposures against the currency in which their results are measured. Forward foreign exchange contracts are used to hedge selected future sales and purchases, which may be either contracted or uncontracted. Gains and losses on these contracts are recognised at the same time as the transaction to which the hedge relates.

The Group's accounting policy is to translate profits of overseas companies using average exchange rates and the net assets of overseas companies using year end exchange rates. It continues to be the Group's policy not to hedge foreign currency exposures on the translation of its overseas profits and net assets to sterling although foreign currency borrowings are used from time to time to match foreign currency assets and liabilities.

The principal exchange rates used by the Group in translating overseas profits and net assets into sterling are set out in the table opposite.

If the 2000 results of foreign subsidiaries had been translated into sterling using the same average exchange rates as 1999, the Group turnover would have been £5.0 million higher and the Group operating profit £0.1 million lower.

Liquidity risk
The Group invests its surplus funds in financial instruments with maturity profiles necessary to ensure the availability of those funds as required. The Group also maintains committed bank facilities available as a standby in the UK and certain overseas countries. The amount of undrawn committed facilities at 31 March 2000 is set out in note 22 to the Financial Statements.

Interest rate risk
The Group is exposed to interest rate risk on its short-term borrowings, deposits, and other liquid financial instruments. These short-term borrowings and investments are at both fixed and floating rates as set out in note 22 to the Financial Statements.

Credit risk
The Group controls credit risk by entering into financial instruments only with highly credit-rated and authorised counterparties. Counterparty authorisations and positions are monitored on a regular basis.

Share price performance
During the past year the Company's share price has fluctuated between 77p and 122.5p. At market close on 14 June 2000 it stood at 93.5p which represents a market capitalisation of £159 million. The accompanying graph compares the Company's share price performance with the FTSE Engineering and Machinery sector since March 1997. The Company's share price, along with many of the so-called "old economy" stocks, has suffered over the past six months although throughout the period it has still outperformed that sector as a whole.

N R Young Group Finance Director
16 June 2000

Directors and Company Secretary

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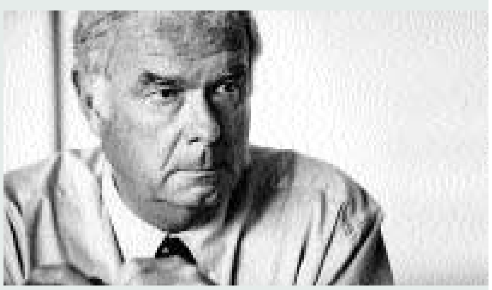
1 **Dr T J Parker** (Age 58)
Joined the Board as Deputy Chairman and Chief Executive on 4 October 1993. Appointed Chairman on 21 July 1994. Former Chairman and Chief Executive of Harland and Wolff Holdings PLC and, previously, Deputy Chief Executive of the British Shipbuilders Corporation. Currently is a non-executive Director of GKN plc and BG plc and non-executive Deputy Chairman of Firth Rixson plc. Dr Parker is a Fellow of the Royal Academy of Engineering, past President of the Royal Institution of Naval Architects, and a Vice President of the Engineering Employers Federation.

2 **M S Easton** (Age 49)
Joined the Company as Managing Director of Babcock Engineering Services Division on 18 May 1997 and appointed to the Board on 31 July 1997. Former Managing Director and Chief Executive of Yarrow Shipbuilders Limited and previously Production Director at Cammell Laird Shipbuilders Limited.

3 **The Rt Hon Lord Hesketh KBE** (Age 49)**
Joined the Board on 6 October 1993. Appointed non-executive Deputy Chairman on 26 April 1996. A non-executive Director of British Aerospace plc and Chairman of British Mediterranean Airways Limited. Former Government Chief Whip in the House of Lords and, prior to that, Industry Minister at the Department of Trade and Industry. Chairman of Babcock International Group PLC's Senior Appointments and Remuneration Committee and a member of its Audit Committee.



4 **D J Shah** (Age 47)*
Joined the Board on 15 June 1999. Mr Shah is Vice President, Acquisitions and Divestments in BP Amoco p.l.c. A member of DTI's Renewable Energy Advisory Committee since 1995 and UK Panel for European Environmental Awards. Formerly responsible for BP Amoco's Forties Pipeline System and General Manager for their Grangemouth complex. A past Chairman of the European Solar Industry Association and formerly Managing Director and Chief Executive of BP Solar International. Member of Babcock International Group PLC's Audit and Senior Appointments and Remuneration Committees.

5 **Dr G Schäfer** (Age 60)
Appointed Managing Director of the BMH Division on 1 September 1996 and joined the Board on 31 July 1997. Has some 25 years' experience in the Materials Handling industry and was previously Chief Executive of Claas KGaA.

6 **M J Turner CBE** (Age 51)*
Joined the Board on 5 June 1996. Mr Turner is Chief Operating Officer of BAE SYSTEMS PLC and a member of the Supervisory Board of Airbus. He was President of the Society of British Aerospace Companies from 1996–1997. Member of Babcock International Group PLC's Audit and Senior Appointments and Remuneration Committees.

7 **A E Wheatley** (Age 62)*
Joined the Board on 1 January 1993. Non-executive Director of Legal & General Group PLC. Chairman of Foreign & Colonial Special Utilities Investment Trust PLC and Deputy Chairman of Ashtead Group PLC. Chairman of Babcock International Group PLC's Audit Committee and a member of its Senior Appointments and Remuneration Committee.

8 **N R Young** (Age 47)
Joined the Board as Group Finance Director on 31 July 1997. Former Group Finance Director of First Technology PLC and previously Group Finance Director of United Scientific Holdings PLC (now Alvis plc).

Company Secretary
9 **H M Mahy** (Age 39)
Joined the Group on 15 February 1993 and was appointed as Group Company Secretary and General Counsel on 1 February 1999. A Barrister and Chartered Insurance Practitioner, she was formerly Group Legal and Commercial Manager and previously Director – Legal and Commercial of Babcock King-Wilkinson Ltd. Prior to this she was deputy head of the commercial and legal department at Crown Agents.

* Denotes independent non-executive Director
** Denotes senior independent non-executive Director

Directors' report

The Directors present their Report and the audited Financial Statements of the Group for the year ended 31 March 2000.

Result and dividends
The profit attributable to shareholders for the financial year was £22.5 million (1999: £25.5 million). An interim dividend of 0.90p per share was declared in the year (1999: 0.80p per share). The Directors propose to recommend the payment on 11 August 2000 of a final dividend of 1.65p on each of the ordinary shares of 50p entitled thereto and in issue on 14 July 2000. The retained profit for the financial year was £18.1 million (1999: £21.8 million).

Business review and Group structure
The Operating and Financial Reviews of the Group's activities and future developments are set out on pages 6 to 19. Other matters material to an appreciation of the Group's position are contained in the Chairman's Statement on pages 2 and 3. The principal subsidiary and associated undertakings are set out on page 58.

Acquisitions
Details regarding the Group's acquisitions during the course of the year are set out in note 30 on page 56.

Research and development
Product development and innovation is a continuous process. The Group continues to commit resources to research and development where this activity is necessary to the evolution and growth of its business.

Charitable and political donations
During the year the Group donated £28,998 (1999: £13,851) to charitable organisations. No donations were made during the year for political purposes.

Supplier payments
It is the general policy of both the Company and the Group to develop relationships with suppliers which include making payment consistent with established practices agreed with suppliers. In view of the international nature of the Group's activities there is no universal code or standard on payment practices but subsidiary companies are expected to establish terms of trade consistent with the above policy and with the markets in which they operate, to ensure that suppliers are made aware of the terms of payment and to abide by them.

Year 2000
January 2000 and later Year 2000-related dates passed with virtually no disruption to the Group's computer systems or supply chains. Any changes needed to provide Year 2000 compliance were carried out as part of the normal upgrading of computer systems, without incurring significant incremental costs.

Directors
The names of the present Directors, together with brief biographical notes, are shown on page 21.

Mr I G S Hartigan retired as a non-executive Director on 30 July 1999. Dr T J Parker and Mr M J Turner retire by rotation under the provisions of Article 101 of the Company's Articles of Association and, being eligible, offer themselves for re-election. Mr A E Wheatley's appointment as a Director expired on 31 December 1999 and was extended by the Board until the 2001 Annual General Meeting. In accordance with the provisions of Article 108 of the Company's Articles of Association, Mr Wheatley retires and, being eligible, offers himself for re-election. Should Dr Parker fail to be re-elected at the forthcoming Annual General Meeting, the remaining period of his appointment as a Director would be 12 months. Should Mr Turner or Mr Wheatley fail to be re-elected, their appointments are terminable at will.

Directors' interests
There is no contract or arrangement subsisting at the date of this document in which any Director of the Company is materially interested and which is significant in relation to the business of the Company and its subsidiaries taken as a whole.

Directors' interests in the shares of the Company are shown on pages 29 and 30.

Significant shareholdings
As at 14 June 2000, the Company has been notified of the following major interests in its issued ordinary share capital in accordance with Sections 198 to 208 of the Companies Act 1985:

Name	Number of 50p ordinary shares	%
Phillips & Drew Fund Management Limited	28,811,311	16.99
Fidelity International Limited	23,216,075	13.70
Legal & General Investment Management Limited	6,870,183	4.05
Lloyds TSB Group plc	6,432,457	3.80
Barclays Bank PLC	5,276,963	3.11

Sharesave Scheme
The Babcock International Sharesave Scheme was launched in December 1997 and was fully subscribed. The Group's employees on 31 March 2000 had options under the Scheme over 5,345,751 shares at an option price of 62.3p.

Personnel
The Group comprises a diverse range of companies that have all developed and implemented progressive policies, within the overall framework of both major Divisions, to ensure that Babcock's principle of recognising the vast talent of its employees and encouraging improvement is actively followed.

Both BMH and BES have structured training and development programmes ranging from apprentice to technician and management, and their achievements are often recognised at national level.

Communication systems are continuously being reviewed and currently include regular cascade briefings, director/employee briefings throughout the organisation, employee consultation, weekly newsletters, newspapers and, naturally, email and web site. In many of the Group's companies there is a regular briefing on market prospects and company performance to Trade Union representatives, resulting in a highly constructive and healthy dialogue.

Full consideration is given to disabled applicants for employment, having regard to their particular aptitudes and abilities, and they share in the opportunities for training, career development and promotion. If an employee becomes disabled, the objective is the continued provision of suitable employment either in the same or an alternative position, appropriate training being given if necessary.

Employee involvement in the Group's performance is also encouraged via share save and profit share schemes. These are generally adopted under United Kingdom laws, but are extended to Group companies operating in other countries where this is permissible and appropriate. The oversubscription of the Sharesave Scheme indicates the commitment of the employees to the Group's collective future.

Health, safety and the environment
The Group maintains as a primary objective the highest standards of safety of its employees, the public and the environment. All companies operate comprehensive training programmes to ensure health and safety targets are met and these (including risk assessment activities, incidents, claims and benchmarking data) are subject to regular Board overview.

Throughout the past year the Group has made, utilising the skills of a recent acquisition in BES, a major reduction in the usage of electricity, gas and water and it continues to explore this opportunity both on environmental and efficiency grounds. There is also participation in the UK Government's committee overseeing expenditure on the promotion of energy efficiency.

Business ethics

The Group requires strict compliance by its companies and employees with the laws and standards of conduct of the countries in which they do business. This includes legislation implementing recent anti-corruption conventions. Employees are required to avoid conflicts of interest regarding company business, to act lawfully and ethically, and to be responsible for communicating in good faith non-compliance issues of which they become aware.

To ensure compliance with the Public Interest Disclosure Act 1998 in the United Kingdom, the Group has a procedure for employees to bring matters to the attention of the Company Secretary if they do not feel able to approach their line managers.

Annual General Meeting

This year's Annual General Meeting will be held at the Barber-Surgeons' Hall, Monkwell Square, London EC2Y 5BL on Friday, 28 July 2000, at 12 noon. The notice of meeting is on page 59 of this document.

Special business

Resolutions 6(1) to 6(4) set out in the notice of Annual General Meeting constitute special business.

Resolution 6(1), which will be proposed as a Special Resolution, renews the general authority for the Company to make market purchases of its own ordinary shares for cancellation. The renewed authority, in respect of up to 10% of the Company's issued share capital as at 14 June 2000, is exercisable with a minimum purchase price of 50p per share and a maximum price which will not be more than 105% of the average middle market quotation for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days preceding the day of purchase. The authority will expire on 27 July 2001 or, if earlier, on the conclusion of the Annual General Meeting of the Company to be held in 2001. The Directors have no present intention to use this power, but would exercise the power if they were satisfied at any time that it was in the best interests of shareholders generally to do so, and that any purchase would be likely to result in an increase in earnings per share. The Company has no warrants outstanding and the total number of options to subscribe for equity shares outstanding on 14 June 2000 was 13,790,381, representing 8.13% of issued share capital. If the full authority to buy back shares were to be used, the said outstanding options would represent 9.03% of issued share capital.

Resolutions 6(2) and 6(3), which will be proposed as Ordinary Resolutions, request authority to amend the rules of the Babcock 1999 Approved Executive Share Option Scheme and The Babcock 1999 Unapproved Executive Share Option Scheme ("the Option Schemes"). The amendments are intended to remove the current limit of 3% of issued ordinary share capital on the number of shares over which options to subscribe for shares may be granted under the Option Schemes in any three year period. The removal of this inner flow limit on option grants is in line with the most recent guidance produced by the Association of British Insurers and with current market practice. No changes are proposed to the overall limit of 10% of issued ordinary share capital over which options to subscribe for shares may be granted pursuant to any employees' share option scheme established by the Company in any ten year period nor to the limit of 5% of issued ordinary share capital over which options to subscribe for shares which may be granted pursuant to discretionary share option schemes in any ten year period. The changes to the Approved Scheme will only take effect once the Inland Revenue has confirmed that the approved status of the Approved Scheme will not thereby be affected.

Resolution 6(4), which will be proposed as an Ordinary Resolution, requests authority to establish a new "Approved Employee Share Ownership Plan" ("AESOP"). The Government has announced its intention to include in the Finance Act 2000 legislation affording valuable reliefs from taxation for both employees and their employer companies in relation to shares acquired and held under the terms of an AESOP. Although the detail of such AESOPs is subject to change before Royal Assent of the Finance Act, the Inland Revenue is prepared to comment upon plans submitted for informal approval pending Royal Assent, and the Directors seek your authority to establish such an AESOP, should they decide to do so, subject to Inland Revenue approval (which is itself dependent on the relevant legislation becoming law).

The principal terms of the proposed Babcock AESOP are summarised in the appendix to the Chairman's letter to shareholders accompanying this document. It is envisaged that, to secure Inland Revenue approval of the Babcock AESOP, a number of detailed amendments may be required to the provisions of the Babcock AESOP as it is produced to the meeting of shareholders at which it is approved. The resolution includes a provision authorising the Directors to amend the Babcock AESOP as the Directors consider to be necessary or appropriate, or as may be necessary to secure that it is approved by the Inland Revenue, provided that no such amendment conflicts in any material respect with the summary of the Babcock AESOP or would materially prejudice the interests of shareholders.

Auditors

Arthur Andersen are willing to continue in office and Resolutions will be proposed at the Annual General Meeting to reappoint them as auditors and to authorise the Directors to fix their remuneration.

Corporate governance

Statement of compliance with the Combined Code

During the year ended 31 March 2000 the Company complied with the requirements of the Principles of Good Governance and Code of Best Practice (the "Combined Code").

The Company has combined the post of Chairman and Chief Executive Officer in one person. The Board considers it has a strong, independent group of non-executive Directors (including a non-executive Deputy Chairman) and is well balanced. The Deputy Chairman, Lord Hesketh, is recognised as the senior independent director to whom any concerns can be conveyed.

The Group recognises the importance of, and is committed to, high standards of corporate governance. The principles of good governance set out in Section 1 of the Combined Code have been applied in the following way:

a) Directors The Board currently comprises four executive Directors and four non-executive Directors. The Board is confident that the constitution of the Board, including the non-executive Directors, ensures a balance of power and authority, such that no one individual has unfettered powers of decision.

The Board formally met six times last financial year. All Directors have full and timely access to information. All Directors must submit themselves for re-election at least every three years.

Directors' remuneration

Full details of Directors' remuneration and a statement of the Company's policy on executive Directors' remuneration are set out on pages 26 to 30.

Relations with shareholders

The Company maintains an active dialogue with its institutional shareholders. The Annual General Meeting is used as an important opportunity for communication with both institutional and private shareholders.

b) Accountability and audit

i) Going concern The Financial Statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future.

ii) Internal controls The Board of Directors has overall responsibility for the Group's system of internal controls, and for monitoring its effectiveness. Formal guidance as to the review of non-financial controls was not issued until September 1999, and although a framework of procedures has been formalised to achieve full compliance with the Turnbull guidance for the year ending 31 March 2001, this framework has not been in place through the whole of the current year. Whilst no system of internal control can provide absolute assurance, the system established is designed to give reasonable assurance against material misstatement or loss. The key features of this system are described under the following headings.

Control environment

The Group operates decentralised, profit-responsible units reporting through a Divisional management structure with clear delegated levels of authority and an established system of internal control.

Identification and evaluation of risks and control objectives

The Board has the primary responsibility for identifying the major business risks facing the Group and developing appropriate policies to manage those risks. Given the nature of the Group's business the principal risks relate to out-turn on contracts. All tenders for significant contracts are therefore referred to Group head office for review and approval prior to tender submission to ensure that the terms of the tender meet Group criteria. Progress on all significant contracts undertaken is monitored within each Division and at least quarterly by Group head office.

Information and communication

Comprehensive budgeting systems are in place to develop annual budgets covering the key aspects of each Division's business. The budgets are subject to review by central management, prior to approval by the Board. Revised forecasts for the year are prepared on a regular basis. Actual performance is compared each month with budgets, forecasts and prior year, with written commentary on significant variances from approved plans.

Control procedures

The Board has adopted a schedule of matters which are required to be brought to it for decision, thus ensuring that it maintains effective control over appropriate strategic, financial, organisational and compliance issues. Key controls and procedures are detailed in the Group Policies & Authorities Manual. These controls include defined procedures for seeking approval for both significant commitments and organisational changes and are updated regularly.

Monitoring
The internal control system is monitored and supported by an internal audit function that operates and reports to senior management and the Audit Committee on the Group's worldwide operations. The work of the internal auditors is focused on the areas of greatest risk to the Group determined by senior management and the audit department, and by evaluations of business risks and controls by individual company management. These activities are supported by quality assurance audits and regular review visits by Group management. The external auditors are engaged to express an opinion on the Group's Annual Report and Financial Statements and the results of their reviews are reported to the Audit Committee.

The Board of Directors has reviewed the effectiveness of the system of internal financial controls in place.

Statement of 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 Group and of the profit or loss of the Group 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 and the Group 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 the Group and to 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.

Remuneration report

Senior Appointments and Remuneration Committee
The remuneration and emoluments of the executive Directors are determined by the Senior Appointments and Remuneration Committee ("the Committee"). The Committee is comprised solely of all the non-executive Directors of the Company, namely:

The Rt Hon Lord Hesketh (Committee Chairman), D J Shah, M J Turner, A E Wheatley.

The biographical details of these Directors are set out on page 21.

The non-executive Directors exercise their judgements independently of the executive Directors, making use of independent external advice as required from a leading independent firm of compensation and benefit consultants. They do not participate in any of the Company's share option, pension or bonus schemes.

Service contracts
Dr T J Parker has a service contract with the Company, which was entered into upon his appointment in 1993 for an initial three year term which expired on 31 December 1996 and now continues on a one year rolling contract basis. Mr M S Easton, Dr G Schäfer and Mr N R Young each have service agreements on a one year rolling basis. The Committee's view is that, although it may be appropriate to provide an initially longer period of fixed notice when an individual joins the Board, the norm for a rolling notice period should be one year. Each service contract is subject to termination upon retirement. No executive Directors have separate predetermined compensation provisions exceeding one year's salary and benefits in kind and the amount of any bonus earned in the preceding year.

Policy on executive Directors' remuneration

The Company seeks to provide total reward packages that are effective in attracting, retaining and motivating, in a fair and economical manner, executive Directors of the experience and calibre required to develop its businesses profitably in the interests of shareholders, customers, employees and other stakeholders in the Company. In order to achieve this the Company must provide a competitive package of rewards and incentives linked to performance.

Directors' remuneration

The total reward package for the executive Directors includes the current rewards of basic salary, benefits in kind, such as cars and medical insurance, annual bonuses, and the long-term rewards of share options and pension benefits. In determining the remuneration of the executive Directors, the Committee has considered practices in the wider market, in particular those of competitor companies. The Directors' emoluments for the year ended 31 March 2000 are set out in the table below:

Directors	Salary or fee £'000	Bonus £'000	Benefits £'000	Other* £'000	**Total 2000 £'000**	Total 1999 £'000
Executive						
Dr T J Parker (Chairman)	303	61	18	156	**538**	613
M S Easton	165	58	8	6	**237**	257
Dr G Schäfer	206	82	12	–	**300**	332
N R Young (Group Finance Director)	173	26	14	7	**220**	275
Non-executive						
I G S Hartigan**	7	–	–	–	**7**	20
The Rt Hon Lord Hesketh KBE	47	–	–	–	**47**	40
D J Shah	19	–	–	–	**19**	–
M J Turner CBE	23	–	–	–	**23**	20
A E Wheatley	33	–	–	–	**33**	30
Total	976	227	52	169	**1,424**	1,587

*Tax paid in respect of supplementary pension contributions over the "earnings cap".

**Mr I G S Hartigan retired as a non-executive Director on 30 July 1999 and the remuneration included is to that date.

Benefits in kind comprise mainly company car benefits and membership of the Company's Group Healthcare Scheme. Benefit levels provided to the executive Directors are consistent with those provided by other major companies. They do not form part of pensionable earnings under any of the Company's pension arrangements.

Non-executive Directors' fees are determined by the executive Directors. The basic fee paid to the non-executive Directors other than Lord Hesketh and Mr Wheatley is £25,000 per annum. Lord Hesketh's basic fee is £50,000 per annum to reflect his additional responsibilities as Deputy Chairman. Mr Wheatley's basic fee is £35,000 per annum to reflect his Chairmanship of the Audit Committee. No fees for other services were paid to non-executive Directors during the year. Non-executive Directors' fees are set at a level which will attract individuals with the necessary experience and ability to make a significant contribution to the Company's affairs. They have written terms of service and are appointed for an initial term of three years. At the Board's discretion a further term may be offered (generally for four years). They are free to resign at any time.

Directors' pensions

Babcock International Group Pension Scheme
The UK based executive Directors of the Company, Dr T J Parker, Mr M S Easton and Mr N R Young, are all members of the upper tier of the Babcock International Group Pension Scheme.

Details of the Directors' pension entitlements under the Babcock International Group Pension Scheme are set out in the following table:

Directors	Increase in pension accrued, in excess of inflation, during the year ended 31 March 2000 £'000	Transfer value of the increase in pension accrued during the year ended 31 March 2000 £'000	Accrued pension entitlement at 31 March 2000 £'000	Accrued pension entitlement at 31 March 1999 £'000
Dr T J Parker	**1**	**15**	**10**	8
M S Easton	**3**	**40**	**9**	5
N R Young	**3**	**32**	**8**	5

1) Inflation has been assumed to be 4% for the purposes of calculating increases in transfer values and pension earned.

2) The transfer value of the increase in pension accrued is calculated in accordance with Actuarial Guidance Note GN11, and is stated after deducting members' contributions. The value represents a liability of the employing company – not a sum to be paid or due to the individual director – and cannot, therefore, be added meaningfully to annual remuneration.

3) The figures in the above table make no allowance for the cost of death in service benefits under the Scheme.

4) The figures in the above table make no allowance for any benefits in respect of earnings in excess of the Inland Revenue earnings cap.

5) If any member has significant benefits retained in any pension scheme provided by previous employers then the pension entitlements shown above may be restricted to a lower amount and the figures may need to be reduced accordingly. In calculating the above figures for Mr M S Easton and Mr N R Young no account has been taken of any retained benefits which they may have. Known benefits retained by Dr T J Parker have been taken into account in calculating the above figures.

Other pension arrangements
For UK based executive Directors whose earnings exceed the Inland Revenue earnings cap, the Company will, on request, establish a Funded Unapproved Retirement Benefit Scheme (FURBS) and take out additional life assurance cover to provide additional retirement and life assurance benefits based on salary in excess of the earnings cap. Dr T J Parker, Mr M S Easton and Mr N R Young participate in these arrangements.

Contributions to Dr Parker's FURBS are set at a level that will, in conjunction with his benefits from the upper tier of the Babcock International Group Pension Scheme and benefits from former employers' schemes, provide him with a target pension of 50% of his pensionable salary at retirement. The arrangement operates as a money purchase benefit at retirement with a minimum defined benefit guaranteed by the Company. During the year the terms of the arrangement were renegotiated such that there is now a reduced defined benefit guarantee of the target pension and a reduction in retirement age from 60 to 59. The contribution level is reviewed regularly to ensure that the targeted benefits can be provided from the funds available within Dr Parker's FURBS. The last review was conducted as at the end of February 2000 and the level of contributions was increased from March 2000 onwards. The cost of providing the targeted benefits is accrued evenly over Dr Parker's estimated remaining service. The equivalent pension increase accruing to Dr Parker during the year as a result of these arrangements, excluding inflation, was £8,910. The transfer value of this increase, calculated in accordance with Actuarial Guidance Note GN11, was £166,997. At 31 March 2000 the pension entitlement accrued was £74,096 (1999: £62,679).

Contributions to FURBS for Mr Easton and Mr Young are fixed such that the total cost to the Company, including tax and National Insurance, is 20% of basic salary over the earnings cap plus the cost of providing additional life assurance cover for earnings above the cap.

Dr G Schäfer, who is based in Germany, has personal pension arrangements to which the Group contributes.

The amount of contributions made to the Directors' FURBS and personal pension arrangements, including the cost of providing additional life assurance cover, are set out in the table below.

Director	2000 £'000	1999 £'000
Dr T J Parker	**236**	188
M S Easton	**10**	9
Dr G Schäfer	**17**	19
N R Young	**11**	16
	274	232

Directors' share interests

The beneficial interests of the Directors, including family interests, were as follows:

Directors	**Babcock 50p ordinary shares At 31 March 2000**	Babcock 50p ordinary shares At 1 April 1999
Dr T J Parker	**27,857**	27,857
M S Easton	**10,000**	10,000
The Rt Hon Lord Hesketh KBE	**9,900**	9,900
Dr G Schäfer	**–**	–
D J Shah	**–**	–
M J Turner CBE	**20,000**	20,000
A E Wheatley	**10,000**	10,000
N R Young	**–**	–

Mr D J Shah purchased 10,000 shares in the Company on 11 April 2000. There were no other changes in the Directors' interests in shares between 31 March 2000 and 16 June 2000.

Long-term incentives

i) Executive share options schemes Discretionary grants of share options are the principal form of long-term incentive provided for the executive Directors and other senior executives throughout the Group and are controlled by the Committee, which considers such schemes to be an important component in the overall executive remuneration package. The exercise prices of options granted are not set at a discount to the market value of the Company's shares at the date of grant.

Directors may normally exercise their options between the third and tenth anniversary of the date of grant. There are no performance criteria attached to the right to exercise options under the Babcock International Group PLC Approved Executive Share Option Scheme and the Babcock International Group PLC Unapproved Executive Share Option Scheme. Under the Babcock 1999 Approved Executive Share Option Scheme and the Babcock 1999 Unapproved Executive Share Option Scheme, which were approved by shareholders at the Company's 1999 Annual General Meeting to replace the two existing schemes, performance criteria apply. It is a requirement under these schemes that the exercise of options is normally dependent on the Company satisfying the performance target that its growth in adjusted earnings per share in the period of three consecutive years beginning with that in which the option is granted exceeds the percentage growth in the UK retail price index over the period by 9.2727% (3 % per annum compound). Options were granted in full, based on his remuneration at that time, to Dr T J Parker as part of the compensation arrangements necessary to secure his services. No Directors exercised any options during the year of account. Options held by Mr M S Easton, Dr G Schäfer and Mr N R Young were granted in the years subsequent to their appointment as Directors. There have been no changes between 31 March 2000 and 16 June 2000.

ii) Proposed changes to executive share option schemes The Directors intend to seek the approval of shareholders at the 2000 Annual General Meeting for the amendment of the rules of Babcock International Group PLC's executive share option schemes to reflect new guidance from the Association of British Insurers. Further information about the changes is given on page 24.

iii) Babcock International Group PLC Sharesave Scheme The scheme, which was introduced in December 1997, is linked to a save-as-you-earn contract which participants enter into with a building society nominated by the Company to save a regular monthly sum by deduction from earnings of up to £224 per month for three years. Subject to common service criteria, the scheme is open to all UK employees (including executive Directors) of the Group. Options are normally exercisable during a period of six months following the expiry of the three year savings period.

The option price was calculated by reference to the average of the mid-market quotation of a share as shown by the London Stock Exchange Daily Official List for the three business days immediately preceding 26 November 1997 ("the offer date") discounted by 20%.

Long-term incentives continued
Details of Directors' share options are set out in the table below:

Directors	Option scheme	Number of options at 1 April 1999	Granted during the year	**Number of options at 31 March 2000**	Exercise price (p)	Exercisable from	Expiry date
Dr T J Parker	a	1,012,971		**1,012,971**	114.51	Dec 1996	Dec 2003
	c	14,022		**14,022**	62.30	Feb 2001	Aug 2001
	b	11,878		**11,878**	89.00	Jul 2001	Jul 2008
	d		256,907	**256,907**	118.00	Sep 2002	Sep 2009
M S Easton	a	35,502		**35,502**	84.50	Jun 2000	Jun 2007
	b	130,178		**130,178**	84.50	Jun 2000	Jun 2007
	b	56,909		**56,909**	82.00	Dec 2000	Dec 2007
	c	14,022		**14,022**	62.30	Feb 2001	Aug 2001
	b	239,700		**239,700**	89.00	Jul 2001	Jul 2008
	b		179,591	**179,591**	122.50	Jul 2002	Jul 2009
Dr G Schäfer	b	304,288		**304,288**	77.00	Sep 1999	Sep 2006
	b	340,017		**340,017**	82.00	Dec 2000	Dec 2007
	b	316,614		**316,614**	89.00	Jul 2001	Jul 2008
	d		180,020	**180,020**	118.00	Sep 2002	Sep 2009
N R Young	a	34,383		**34,383**	87.25	Aug 2000	Aug 2007
	b	210,125		**210,125**	87.25	Aug 2000	Aug 2007
	c	14,022		**14,022**	62.30	Feb 2001	Aug 2001
	b	250,936		**250,936**	89.00	Jul 2001	Jul 2008
	b		188,298	**188,298**	122.50	Jul 2002	Jul 2009

a) Babcock International Group PLC Approved Executive Share Option Scheme.

b) Babcock International Group PLC Unapproved Executive Share Option Scheme.

c) Babcock International Group PLC Sharesave Scheme.

d) Babcock 1999 Unapproved Executive Share Option Scheme.

The Company's mid-market share price at close of business on 31 March 2000 was 83p. The highest and lowest mid-market share prices in the year ended 31 March 2000 were 122.5p and 77p respectively.

Annual performance-related bonus scheme
All senior executives in the Group participate in bonus schemes primarily related to the performance of the business or businesses with which they are involved. The executive Directors participate in a bonus scheme related to the performance of the Group and to more specific personal targets set by the Committee. Under the bonus scheme, the maximum potential bonus of Mr M S Easton, Dr G Schäfer and Mr N R Young, is limited by the Committee to 50% of their base salaries. Dr T J Parker's maximum potential bonus is limited by the Committee to 60% of his base salary.

The Group performance element of their bonus is determined by the extent to which the trading performance of the Group achieves the targets and parameters set by the Committee at the beginning of each year. The Committee has absolute discretion to alter them to reflect changed circumstances, for example material changes in accounting standards or changes in the structure of the Group. Bonuses awarded under this element of the bonus scheme are included within the table on page 27.

At the beginning of the financial year under review the Committee also agreed a range of personal performance targets for the executive Directors based on the Group's overall priorities. Each Director was appraised by the Committee on progress under each target and bonuses were awarded accordingly. These are also included within the table on page 27.

Annual bonuses do not form part of pensionable earnings.

2000/2001 performance-related bonuses
For the year 2000/2001 the Committee have decided to continue to apply the performance-related bonus schemes together with more specific personal targets, compatible with the Board's strategic and operational priorities for the year.

Approval of report
Approved by the Directors on 16 June 2000.

By order of the Board

H M Mahy Secretary
16 June 2000

Auditors’ report

Auditors’ report to the shareholders of Babcock International Group PLC
We have audited the Financial Statements on pages 32 to 58 which have been prepared under the historical cost convention and the accounting policies set out on pages 37 and 38.

Respective responsibilities of Directors and auditors
The Directors are responsible for preparing the Annual Report including, as described on page 26, preparing 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, the Listing Rules of the Financial Services Authority and by our profession’s ethical guidance.

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. 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 or the Listing Rules regarding Directors’ remuneration and transactions with the Company and the Group is not disclosed.

We review whether the corporate governance statement on pages 25 and 26 reflects the Company’s compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board’s statements on internal control cover all risks and controls. We are not required to form an opinion on the effectiveness of the Company’s corporate governance procedures or its risk and internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements.

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 circumstances of the Company and of the Group, 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 and of the Group at 31 March 2000 and of the Group’s profit and cash flows 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

16 June 2000

Group profit and loss account

For the year ended 31 March 2000

	Notes	2000 Before exceptional items £'000	2000 Exceptional items £'000	2000 Total £'000	1999 £'000
Turnover including share of joint ventures		**470,873**	**–**	**470,873**	509,413
Less: share of joint venture's turnover		**185**	**–**	**185**	13,092
Group turnover	2	**470,688**	**–**	**470,688**	496,321
Cost of sales	3	**(386,086)**	**–**	**(386,086)**	(413,362)
Gross profit		**84,602**	**–**	**84,602**	82,959
Net operating expenses	3	**(61,419)**	**(2,384)**	**(63,803)**	(60,727)
Group operating profit before goodwill amortisation	3	**21,126**	**(2,384)**	**18,742**	19,895
Goodwill amortisation	3	**2,057**	**–**	**2,057**	2,337
Group operating profit	2,4	**23,183**	**(2,384)**	**20,799**	22,232
Share of operating (loss)/profit of joint ventures and associates	2	**(45)**	**–**	**(45)**	569
Trading profit including share of joint ventures and associates	2	**23,138**	**(2,384)**	**20,754**	22,801
Profit on the sale or termination of operations	5	**–**	**–**	**–**	6,142
Profit on the sale of tangible fixed assets	5	**–**	**1,037**	**1,037**	–
Profit on ordinary activities before interest		**23,138**	**(1,347)**	**21,791**	28,943
Net interest and similar charges	6			**4,250**	2,501
Profit on ordinary activities before taxation				**26,041**	31,444
Tax on profit on ordinary activities	8			**(4,528)**	(5,295)
Profit on ordinary activities after taxation				**21,513**	26,149
Minority interests	28			**940**	(637)
Profit for the financial year				**22,453**	25,512
Dividends paid and proposed	10			**(4,318)**	(3,725)
Retained profit for the financial year	27			**18,135**	21,787
Earnings per share before non-operating exceptional items and goodwill					
– Basic	11			**11.43p**	10.22p
– Diluted	11			**11.23p**	10.16p
Earnings per share					
– Basic	11			**13.26p**	15.07p
– Diluted	11			**13.03p**	14.99p

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

All of the results for 2000 arise from continuing operations, the results relating to acquisitions in the year are not material.

Group balance sheet

As at 31 March 2000

	Notes	2000 £'000	2000 £'000	1999 £'000	1999 £'000
Fixed assets					
Intangible assets	12				
Development costs			**1,771**		183
Goodwill					
– Goodwill		**27,801**		21,842	
– Negative goodwill		**(18,703)**		(22,593)	
			9,098		(751)
			10,869		(568)
Tangible assets	13		**45,872**		47,824
Investments	15				
Investments in joint ventures					
– Share of gross assets		**2,473**		–	
– Share of gross liabilities		**(1,688)**		–	
			785		–
Investments in associates			**470**		558
Other investments			**689**		126
			1,944		684
			58,685		47,940
Current assets					
Stocks	16		**24,021**		25,835
Debtors – due within one year	17	**106,523**		105,741	
Debtors – due after more than one year	17	**77,498**		77,144	
			184,021		182,885
Investments	18		**–**		6,618
Cash and bank balances			**112,215**		89,928
			320,257		305,266
Creditors – amounts due within one year	19		**(191,162)**		(182,430)
Net current assets			**129,095**		122,836
Total assets less current liabilities			**187,780**		170,776
Creditors – amounts due after more than one year	20		**(2,954)**		(2,016)
Provisions for liabilities and charges	23		**(33,024)**		(32,186)
Net assets			**151,802**		136,574
Capital and reserves					
Called up share capital	26		**84,747**		84,660
Share premium account	27		**67,134**		67,112
Profit and loss account	27		**(7,949)**		(25,017)
Equity shareholders' funds			**143,932**		126,755
Minority interests	28		**7,870**		9,819
			151,802		136,574

The accompanying notes are an integral part of this Group balance sheet.

Company balance sheet
As at 31 March 2000

	Notes	2000 £'000	1999 £'000
Fixed assets			
Investment in subsidiary undertakings	14	**136,301**	136,301
Investment in own shares	15	**567**	–
		136,868	136,301
Current assets			
Debtors	17	**458**	694
Cash and bank balances		**83,730**	67,105
		84,188	67,799
Creditors – amounts due within one year	19	**(33,823)**	(17,161)
Net current assets		**50,365**	50,638
Net assets		**187,233**	186,939
Capital and reserves			
Called up share capital	26	**84,747**	84,660
Share premium account	27	**67,134**	67,112
Profit and loss account	27	**35,352**	35,167
Equity shareholders' funds		**187,233**	186,939

The accompanying notes are an integral part of this Company balance sheet.

The Financial Statements on pages 32 to 58 were approved by the Board on 16 June 2000 and signed on its behalf by:

Dr T J Parker Director

N R Young Director

Group cash flow statement
For the year ended 31 March 2000

	Notes	2000 £'000	2000 £'000	1999 £'000	1999 £'000
Cash flow from operating activities	29a		**38,146**		56,136
Dividends received from joint venture			**–**		1,350
Returns on investments and servicing of finance					
Net interest and similar charges		**4,105**		1,615	
Dividends paid to minority shareholders	28	**(1,007)**		–	
Net cash inflow from returns on investments and servicing of finance			**3,098**		1,615
Taxation					
UK corporation tax (paid)/received (including ACT)		**(971)**		280	
Overseas tax paid		**(1,100)**		(1,078)	
Net cash outflow from taxation			**(2,071)**		(798)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		**(9,739)**		(5,868)	
Payments to acquire intangible fixed assets		**–**		(17)	
Payments to acquire own shares		**(567)**		–	
Payments to invest in joint ventures		**(20)**		–	
Receipts from sale of tangible fixed assets		**1,231**		379	
Net cash outflow from capital expenditure and financial investment			**(9,095)**		(5,506)
Acquisitions and disposals					
Payments to acquire subsidiary undertakings	29d	**(6,607)**		(3,182)	
(Payments)/receipts on sale of subsidiary undertakings and joint ventures	29d	**(1,575)**		20,088	
Receipts from minorities		**–**		35	
Net cash (outflow)/inflow from acquisitions and disposals			**(8,182)**		16,941
Equity dividends paid			**(3,891)**		(3,235)
Cash inflow before management of liquid resources and financing			**18,005**		66,503
Management of liquid resources			**6,618**		884
Financing					
Shares issued for cash		**109**		5	
Drawdown/(repayment) of borrowings		**241**		(5,802)	
Repayments of capital element of finance lease rentals		**(247)**		(443)	
Net cash inflow/(outflow) from financing			**103**		(6,240)
Increase in cash in the year	29b		**24,726**		61,147

The accompanying notes are an integral part of this Group cash flow statement.

Group statement of total recognised gains and losses
For the year ended 31 March 2000

	2000 £'000	1999 £'000
Profit for the financial year	**22,453**	25,512
Currency translation differences on foreign currency net investments and related loans	**(1,067)**	(710)
Total recognised gains and losses relating to the year	**21,386**	24,802

Reconciliation of movements in shareholders' funds
For the year ended 31 March 2000

	2000 £'000	1999 £'000
Shareholders' funds at start of year	**126,755**	105,673
Shares issued in the year	**109**	5
Total recognised gains and losses relating to the year	**21,386**	24,802
Dividends	**(4,318)**	(3,725)
Net movement in shareholders' funds	**17,177**	21,082
Shareholders' funds at end of year	**143,932**	126,755

The accompanying notes are an integral part of this Group statement of total recognised gains and losses and this reconciliation of movements in shareholders' funds.

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.

Basis of consolidation The Group Financial Statements include the Financial Statements of the Company and all of its subsidiary undertakings made up to 31 March. Acquisitions are included from the date of acquisition and the results of businesses disposed of or terminated are included in the results for the year up to the date of relinquishing control or closure and analysed as continuing or discontinued operations.

The Group Financial Statements include the appropriate share of the results and net assets of joint ventures and associated undertakings' results and net assets based on the latest available Financial Statements. Associated undertakings are those in which the Group has a long-term investment in the voting equity and over which it exerts significant influence. Joint ventures are those entities in which the Group has a long-term interest and shares control with another party or parties.

Acquisitions for which the consideration includes an issue of shares which are eligible for "merger relief", are stated in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any other consideration given, plus the costs of the relevant acquisition.

Goodwill When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets the difference is treated as purchased goodwill and is capitalised and amortised through the profit and loss account over its estimated economic life. The estimated economic life of goodwill is between ten and twenty years.

Where the fair value of the separable net assets exceeds the fair value of the consideration for an acquired undertaking the difference is treated as negative goodwill and is capitalised and amortised through the profit and loss account in the period in which the non-monetary assets acquired are recovered. In the case of fixed assets this is the period over which they are depreciated, and in the case of current assets, the period over which they are sold or otherwise realised.

Tangible fixed assets Tangible fixed assets are stated at cost less depreciation and any provision for permanent diminution in value. Depreciation is provided on a straight line basis to write off the cost of fixed assets over their estimated useful lives to their estimated residual value at the following annual rates:

Freehold land	Nil
Freehold buildings	2% to 10%
Short leasehold property	Over period of lease
Plant and machinery – heavy production	6.6%
– other	10% to 33.3%
Motor vehicles	20% to 33.3%

Leases Assets acquired under finance leases are capitalised and the outstanding capital element of instalments is included in creditors. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where these are shorter. Rentals under operating leases are charged to the profit and loss account on a straight line basis.

Investments Fixed asset investments are stated at cost less provision for permanent diminution in value. Current asset investments that are listed on a recognised Stock Exchange are stated at market value. Other current asset investments are stated at the lower of cost and net realisable value.

Stocks and work in progress Stocks are valued at the lower of cost and net realisable value. In the case of finished goods and work in progress, cost comprises direct materials and labour and an appropriate proportion of overheads.

Long-term contracts Long-term contracts are those which extend over more than one accounting period.

Long-term contract balances are valued at costs incurred, less amounts transferred to cost of sales, and after deducting attributable payments on account and providing for foreseeable losses.

Management reviews are conducted at least quarterly to assess the progress of each significant contract, the costs to be incurred and the expected outcome of any disputes with customers or subcontractors. Where the ultimate profitability of a contract can be assessed with reasonable certainty having made prudent allowance for future risks and uncertainties, profit is recognised in proportion to the contract work completed. Immediate provision is made for all foreseeable losses.

Research and development Development expenditure on clearly defined projects, the commercial outcome of which can be assessed with reasonable certainty, is capitalised. Development expenditure on fast ferry designs is amortised over the shorter of the project life and seven years. Other capitalised development expenditure is amortised over the shorter of the project life and three years. All other research and development is written off in the period in which it is incurred.

Deferred taxation Provision is made for deferred taxation, using the liability method, on all timing differences, including those arising in relation to pension costs, to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. No provision is made for any tax arising in the event of the distribution of profits retained by overseas subsidiaries, joint ventures and associates.

Foreign currencies Transactions denominated in foreign currencies are recorded in local currency at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the year end exchange rates or at the rate at which they are hedged if appropriate.

Exchange gains and losses arising on foreign currency borrowings used to finance subsidiary undertakings are taken to reserves to the extent that they can be offset against the exchange differences arising on the equity investment. Except as disclosed below, assets and liabilities of foreign subsidiary undertakings are translated on consolidation into sterling at the rate of exchange ruling at the balance sheet date and the results are translated using the average exchange rate for the period. These consolidation differences on exchange are taken to reserves. All other exchange differences are dealt with in the profit and loss account.

Where it is considered that the results of an overseas undertaking are more dependent on sterling than its own reporting currency the Financial Statements of the undertaking are consolidated using the temporal method, thereby treating all transactions as though they had been entered into by the undertaking itself in sterling.

Turnover In respect of long-term contracts, turnover represents amounts transferred to cost of sales during the period plus attributed profit. Other turnover comprises the invoiced value of goods and services supplied by the Group. Turnover excludes sales taxes and intra-group transactions.

Pension costs The Group operates various pension schemes established in accordance with local conditions and practices in the countries concerned. For those schemes that operate on a defined benefit basis, contributions are based on periodic actuarial calculations and are charged so as to spread the cost of pensions over the expected service lives of the employees who are members of the scheme.

Derivative financial instruments The Group uses derivative financial instruments, principally forward foreign exchange contracts, to reduce exposure to foreign exchange risk. The Group does not hold or issue derivative financial instruments for speculative purposes.

For a forward currency exchange contract to be treated as a hedge, the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged items and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been recognised in the profit and loss account.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss is recognised at that time.

2. Segmental information

The segmental information reflects the current composition of the Group.

	2000 Group turnover £'000	2000 Group operating profit before operating exceptional items £'000	2000 Group operating exceptional items £'000	2000 Group operating profit £'000	2000 Share of operating profit of joint ventures and associates £'000	2000 Trading profit including share of joint ventures and associates £'000
Continuing operations						
BES	**241,781**	**12,873**	**(2,384)**	**10,489**	**(45)**	**10,444**
BMH	**228,907**	**10,118**	**–**	**10,118**	**–**	**10,118**
Unallocated costs and other income	**–**	**(1,865)**	**–**	**(1,865)**	**–**	**(1,865)**
	470,688	**21,126**	**(2,384)**	**18,742**	**(45)**	**18,697**
Goodwill amortisation	**–**	**2,057**	**–**	**2,057**	**–**	**2,057**
Total continuing operations and Group total	**470,688**	**23,183**	**(2,384)**	**20,799**	**(45)**	**20,754**

Amounts included relating to acquisitions in the year are not material.

	1999 Group turnover £'000	1999 Group operating profit £'000	1999 Share of operating profit of joint ventures and associates £'000	1999 Trading profit including share of joint ventures and associates £'000
Continuing operations				
BES	280,194	13,316	90	13,406
BMH	214,796	8,355	–	8,355
Unallocated costs and other income	–	(1,885)	–	(1,885)
	494,990	19,786	90	19,876
Goodwill amortisation	–	2,348	–	2,348
Total continuing operations	494,990	22,134	90	22,224
Discontinued operations	1,331	109	742	851
Goodwill amortisation	–	(11)	(263)	(274)
Total discontinued operations	1,331	98	479	577
Group total	496,321	22,232	569	22,801

Group turnover – by geographic area of origin	2000 Continuing operations and total £'000	1999 Continuing operations £'000	1999 Discontinued operations £'000	1999 Total £'000
United Kingdom	**235,679**	275,006	–	275,006
Rest of Europe	**116,790**	124,244	–	124,244
North America	**79,661**	50,643	1,331	51,974
Africa	**26,127**	33,407	–	33,407
Rest of the World	**12,431**	11,690	–	11,690
	470,688	494,990	1,331	496,321

2. Segmental information (continued)

Group turnover – by geographic area of destination	2000 Continuing operations and total £'000	1999 Continuing operations £'000	1999 Discontinued operations £'000	1999 Total £'000
United Kingdom	**235,925**	274,851	–	274,851
Rest of Europe	**65,546**	65,921	–	65,921
North America	**84,581**	41,680	1,331	43,011
Africa	**31,193**	38,313	–	38,313
Middle East	**7,350**	8,405	–	8,405
Rest of the World	**46,093**	65,820	–	65,820
	470,688	494,990	1,331	496,321

Group operating profit – by geographic area	2000 Continuing operations £'000	2000 Operating exceptional items £'000	2000 Total £'000	1999 Continuing operations £'000	1999 Discontinued operations £'000	1999 Total £'000
United Kingdom	**11,007**	**(2,384)**	**8,623**	11,465	–	11,465
Rest of Europe	**2,934**	**–**	**2,934**	3,958	–	3,958
North America	**6,537**	**–**	**6,537**	3,361	109	3,470
Africa	**581**	**–**	**581**	608	–	608
Rest of the World	**67**	**–**	**67**	394	–	394
	21,126	**(2,384)**	**18,742**	19,786	109	19,895
Goodwill amortisation	**2,057**	**–**	**2,057**	2,348	(11)	2,337
	23,183	**(2,384)**	**20,799**	22,134	98	22,232

Operating net assets – by activity	2000 £'000	1999 £'000
BES	**18,124**	17,908
BMH	**14,508**	17,310
Unallocated	**21,589**	27,228
Operating net assets	**54,221**	62,446

2. Segmental information (continued)

Operating net assets – by geographic area	2000 £'000	1999 £'000
United Kingdom	**37,866**	60,666
Europe	**1,828**	(12,391)
North America	**5,426**	(864)
Africa	**8,144**	8,308
Rest of the World	**957**	6,727
Operating net assets	**54,221**	62,446
Investment in own shares	**567**	–
Current asset investments	**–**	6,618
Net cash	**105,277**	82,067
Finance lease obligations	**(1,377)**	(757)
Taxation	**(13,187)**	(10,679)
Dividends	**(2,797)**	(2,370)
Net goodwill	**9,098**	(751)
Net assets	**151,802**	136,574

BES and the United Kingdom include £0.5 million (1999: £0.6 million) of operating net assets in respect of associates.

BES and the Rest of the World includes £0.8 million (1999: £nil) in respect of joint ventures.

3. Cost of sales and net operating expenses

	2000 Before exceptional operations £'000	2000 Operating exceptional items £'000	2000 Total £'000	1999 Continuing operations £'000	1999 Discontinued operations £'000	1999 Total £'000
Group turnover	**470,688**	**–**	**470,688**	494,990	1,331	496,321
Cost of sales	**386,086**	**–**	**386,086**	412,564	798	413,362
Net operating expenses						
Distribution costs	**14,586**	**–**	**14,586**	11,158	–	11,158
Administration costs						
– Goodwill amortisation	**(2,057)**	**–**	**(2,057)**	(2,348)	11	(2,337)
– Other administration costs	**48,890**	**2,384**	**51,274**	51,482	424	51,906
	46,833	**2,384**	**49,217**	49,134	435	49,569
	61,419	**2,384**	**63,803**	60,292	435	60,727

Amounts included relating to acquisitions in the year are not material.

4. Operating profit

	2000 £'000	1999 £'000
Operating profit is stated after charging/(crediting)		
Depreciation on tangible fixed assets		
– Owned	**10,661**	9,431
– Leased assets	**193**	252
Loss/(profit) on the disposal of tangible fixed assets	**161**	(104)
Operating lease rentals		
– Plant and machinery	**706**	1,141
– Land and buildings	**3,825**	3,808
– Short-term plant hire	**497**	835
Auditors' remuneration	**400**	379
Research and development		
– Expenditure	**2,235**	2,303
– Amortisation charge (note 12)	**200**	270
Goodwill amortisation	**(2,057)**	(2,337)

In addition to the amounts disclosed above, the Group auditors and their associates were paid £314,000 (1999: £154,000) in relation to non audit services in the UK of which £186,000 (1999: £nil) has been capitalised in costs of investments.

5. Exceptional items

	2000 £'000	1999 £'000
Profit on the sale or termination of operations		
– Sale of water engineering businesses	**–**	6,142
Profit on disposal of fixed assets	**1,037**	–
	1,037	6,142

No tax (1999: £nil) is payable in respect of the exceptional profit of £1.0 million (1999: £6.1 million) due to the utilisation of tax losses.

6. Net interest and similar charges

	2000 £'000	1999 £'000
Interest payable and similar charges		
– Bank loans and overdrafts	**(540)**	(1,108)
– Finance lease interest	**(220)**	(126)
	(760)	(1,234)
Income from current asset investments	**364**	475
Other interest receivable and similar income	**4,726**	3,233
	5,090	3,708
Share of joint ventures	**(4)**	27
Share of associates	**(76)**	–
	4,250	2,501

7. Employee costs

	2000 £'000	1999 £'000
Particulars of employees, including executive Directors, are as follows:		
Employee costs		
– Wages and salaries	**138,117**	141,929
– Social security costs	**15,628**	15,807
– Other pension costs (note 25)	**6,180**	6,233
	159,925	163,969

The average number of people employed by the Group in each of the following categories was as follows:

	2000 Number	1999 Number
Engineering and technology	**5,386**	5,729
Administration and management	**1,165**	1,252
	6,551	6,981

The number of people employed by the Group at 31 March 2000 was 6,198 (1999: 6,782).

Information in respect of Directors' remuneration and share interests is contained within the Directors' Report on pages 26 to 30.

8. Tax on profit on ordinary activities

	2000 £'000	1999 £'000
United Kingdom corporation tax charge at 30% (1999: 31%)	**6,059**	6,612
Double taxation relief	**(480)**	(1,802)
	5,579	4,810
Consortium relief	**–**	(475)
Advance corporation tax written back	**(2,971)**	(2,287)
Deferred taxation (note 23)	**1,006**	1,332
Overseas taxation	**1,445**	1,430
Share of joint ventures	**–**	230
Share of associates	**(23)**	19
Adjustments in respect of prior years		
– UK	**(104)**	40
– Overseas	**(404)**	196
	4,528	5,295

No tax is payable in respect of the exceptional profit of £1.0 million (1999: £6.1 million) due to the utilisation of tax losses.

Excluding the non-operating exceptional profit of £1.0 million (1999: £6.1million) and the net goodwill credit of £2.1 million (1999: £2.1 million) the effective rate of 19.7% is lower than the standard UK rate of 30% due to the utilisation of tax losses and surplus advance corporation tax.

9. Company profit

The Company has taken advantage of the exemption granted by Section 230 of the Companies Act 1985 whereby no individual profit and loss account of the Company is disclosed. Included in the Group profit for the financial year is a profit of £4.5 million (1999 profit: £4.8 million) dealt with in the Financial Statements of the Company.

10. Dividends

	2000 £'000	1999 £'000
Ordinary shares		
– Interim dividend paid of 0.90p per share (1999: 0.80p)	**1,521**	1,355
– Final dividend proposed of 1.65p per share (1999: 1.40p)	**2,797**	2,370
	4,318	3,725

11. Earnings per share

Earnings per ordinary share have been calculated by dividing the profit attributable to shareholders for the financial year by the weighted average number of ordinary shares in issue during the year.

	2000 Number	1999 Number
Weighted average number of shares in issue for basic earnings per share	**169,379,969**	169,315,169
Dilutive effect of share options	**2,899,170**	872,014
Weighted average number of shares in issue for diluted earnings per share	**172,279,139**	170,187,183

	2000 £'000	2000 Basic (pence)	2000 Diluted (pence)	1999 £'000	1999 Basic (pence)	1999 Diluted (pence)
Profit attributable to shareholders	**22,453**	**13.26**	**13.03**	25,512	15.07	14.99
Less: profit on sale or termination of a business	**–**	**–**	**–**	(6,142)	(3.63)	(3.61)
Less: profit on sale of tangible fixed assets	**(1,037)**	**(0.61)**	**(0.60)**	–	–	–
Profit before non-operating exceptional items	**21,416**	**12.65**	**12.43**	19,370	11.44	11.38
Less: goodwill amortisation	**(2,057)**	**(1.22)**	**(1.20)**	(2,074)	(1.22)	(1.22)
Profit before non-operating exceptional items and goodwill	**19,359**	**11.43**	**11.23**	17,296	10.22	10.16

The earnings per share figures calculated above eliminate the effect of non-operating exceptional items and goodwill amortisation to give a fairer presentation of trading performance.

12. Fixed assets – intangible assets

	Goodwill £'000	Negative goodwill £'000	Development costs £'000	Total £'000
Cost				
At 1 April 1999	30,923	(34,406)	3,367	**(116)**
On acquisition of subsidiaries (note 30)	7,792	–	3,620	**11,412**
Exchange adjustment	–	–	(256)	**(256)**
At 31 March 2000	38,715	(34,406)	6,731	**11,040**
Accumulated amortisation				
At 1 April 1999	(9,081)	11,813	(3,184)	**(452)**
Exchange adjustment	–	–	250	**250**
Charge for the year	(1,833)	3,890	(200)	**1,857**
On acquisition of subsidiaries (note 30)	–	–	(1,826)	**(1,826)**
As at 31 March 2000	(10,914)	15,703	(4,960)	**(171)**
Net book value at 31 March 2000	27,801	(18,703)	1,771	**10,869**
Net book value at 31 March 1999	21,842	(22,593)	183	**(568)**

13. Fixed assets – tangible assets

	Freehold property £'000	Short-term leasehold property £'000	Plant and machinery £'000	**Total £'000**
Group				
Cost				
At 1 April 1999	32,694	368	61,216	**94,278**
Exchange adjustments	(1,143)	(3)	(1,463)	**(2,609)**
On acquisition of subsidiaries (note 30)	–	–	2,944	**2,944**
Additions	475	35	9,903	**10,413**
Disposals	(612)	(25)	(1,411)	**(2,048)**
Assets written off	(330)	–	(179)	**(509)**
At 31 March 2000	31,084	375	71,010	**102,469**
Accumulated depreciation				
At 1 April 1999	(10,305)	(133)	(36,016)	**(46,454)**
Exchange adjustments	444	(2)	1,142	**1,584**
On acquisition of subsidiaries (note 30)	–	–	(2,531)	**(2,531)**
Charge for the year	(2,676)	(35)	(8,143)	**(10,854)**
Disposals	279	14	1,189	**1,482**
Assets written off	–	–	176	**176**
At 31 March 2000	(12,258)	(156)	(44,183)	**(56,597)**
Net book value at 31 March 2000	18,826	219	26,827	**45,872**
Net book value at 31 March 1999	22,389	235	25,200	**47,824**

The net book value of plant and machinery includes £1.4 million (1999: £1.0 million) in respect of assets held under finance leases or hire purchase contracts, comprising cost of £2.0 million less depreciation of £0.6 million.

The net book value of freehold property includes land amounting to £4.7 million (1999: £4.6 million) which has not been depreciated.

14. Fixed assets – investments in subsidiary undertakings

	Shares £'000	Loans £'000	**Total £'000**
Cost			
At 1 April 1999 and 31 March 2000	91,851	44,450	**136,301**

Information on the principal subsidiary undertakings is given on page 58.

15. Fixed assets – investments

	Group					Company
	Joint ventures £'000	Associates £'000	Investments in own shares £'000	Other investments £'000	**Total £'000**	Investments in own shares £'000
At 1 April 1999	–	558	–	126	**684**	–
Exchange adjustment	(15)	–	–	(4)	**(19)**	–
On acquisition of subsidiary (note 30)	794	–	–	–	**794**	–
Additions	–	20	567	–	**587**	567
Share of profits or losses	6	(108)	–	–	**(102)**	–
At 31 March 2000	785	470	567	122	**1,944**	567

Information on associated undertakings is given on page 58.

During the year the Company acquired 477,000 ordinary shares with a nominal value of 50p each at a cost of £567,000 through the Babcock Employee Share Trust, in respect of its potential obligation under the Babcock 1999 Executive Share Option Scheme. The Company meets the operating expenses of the Trust.

16. Stocks

	2000 £'000	**2000 £'000**	1999 £'000	1999 £'000
Long-term contract balances		**1,714**		124
Other stocks and work in progress				
– Raw materials and consumables	**11,659**		11,055	
– Work in progress	**13,292**		17,686	
– Finished goods and goods for resale	**4,041**		5,151	
	28,992		33,892	
Less: Progress payments	**(4,232)**		(6,185)	
Provisions	**(2,453)**		(1,996)	
		22,307		25,711
		24,021		25,835

17. Debtors

	Group 2000 £'000	Group 1999 £'000	**Company 2000 £'000**	Company 1999 £'000
Due within one year:				
Trade debtors	**48,700**	55,029	**–**	–
Amounts recoverable on contracts	**26,361**	27,838	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**24**	–
Amounts owed by joint ventures	**1,708**	–	**–**	–
Amounts owed by associates	**–**	54	**–**	–
Prepayments and accrued income	**12,829**	7,471	**–**	26
Pension scheme prepayments	**3,135**	4,368	**–**	–
Other debtors	**13,790**	10,981	**434**	668
	106,523	105,741	**458**	694

The amounts owed by joint ventures are repayable on demand with no fixed date for repayment.

17. Debtors (continued)

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Due after more than one year:				
Trade debtors	**254**	95	**–**	–
Amounts owed by joint ventures	**79**	–	**–**	–
Pension scheme prepayments	**75,563**	70,964	**–**	–
Other debtors	**1,602**	6,085	**–**	–
	77,498	77,144	**–**	–

Other debtors, due within one year, at 31 March 2000 includes £4.8 million (1999: £nil) of deferred consideration relating to the disposal of the Group's former Energy Division. Other debtors, due after more than one year, includes £nil (1999: £4.3 million) relating to the same item.

18. Current asset investments

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Listed investments at market value	**–**	6,618	**–**	–

19. Creditors – amounts due within one year

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Bank overdraft (note 21)	**5,270**	6,462	**16,743**	–
Bank loans (note 21)	**–**	534	**–**	–
Other loans (note 21)	**1,507**	709	**–**	–
Obligations under finance leases (note 21)	**372**	201	**–**	–
Advance payments	**2,747**	1,920	**–**	–
Payments received in advance of turnover	**35,691**	36,067	**–**	–
Trade creditors	**36,875**	33,127	**–**	–
Contract accruals and provisions	**58,884**	58,462	**–**	–
Bills of exchange payable	**789**	1,079	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**14,094**	14,115
Other creditors	**5,928**	5,454	**125**	520
Corporation and overseas taxes	**7,567**	6,097	**–**	–
Other taxes and social security	**5,645**	6,404	**–**	–
Accruals and deferred income	**27,090**	23,544	**64**	156
Proposed dividend	**2,797**	2,370	**2,797**	2,370
	191,162	182,430	**33,823**	17,161

20. Creditors – amounts due after more than one year

	Group 2000 £'000	Group 1999 £'000
Other loans (note 21)	**161**	156
Obligations under finance leases (note 21)	**1,005**	556
Payments received in advance of turnover	**1,068**	–
Trade creditors	**36**	85
Other creditors	**684**	1,219
	2,954	2,016

21. Borrowings

Repayment details The total borrowings of the Group at 31 March are repayable as follows:

	2000 Bank loans and overdrafts £'000	2000 Other loans £'000	2000 Finance lease obligations £'000
Within one year	**5,270**	**1,507**	**372**
Between one and two years	**–**	**161**	**526**
Between two and five years	**–**	**–**	**479**
	5,270	**1,668**	**1,377**

	1999 Bank loans and overdrafts £'000	1999 Other loans £'000	1999 Finance lease obligations £'000
Within one year	6,996	709	201
Between one and two years	–	156	197
Between two and five years	–	–	359
	6,996	865	757

Security arrangements	Group 2000 £'000	Group 1999 £'000
Loans and overdrafts		
Secured against specific trade debtors of subsidiary undertakings	**116**	39
Unsecured borrowings	**6,822**	7,822
	6,938	7,861

Finance lease obligations are secured against the assets to which they relate.

22. Derivatives and other financial instruments

The Financial Review on pages 18 and 19 provides an explanation of the role that financial instruments have had during the period in creating or changing the risks that the Group faces in its activities.

The numerical disclosures in this note deal with financial assets and liabilities as defined in Financial Reporting Standard 13 – Derivatives and Other Financial Investments: Disclosure (FRS13). Certain financial assets such as investments in subsidiary, joint venture and associate companies are excluded from the scope of these disclosures.

As permitted by FRS13, short-term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

Interest rate profile The Group's financial assets comprise cash deposits of £112.2 million (1999: £89.9 million) and current asset investments of £nil (1999: £6.6 million). Cash deposits are placed on money markets at call, seven-day and monthly rates. Current asset investments comprise listed fixed interest securities.

The interest rate profile of the Group's financial assets and liabilities (excluding short-term debtors and creditors) is as follows:

	2000 Financial assets	2000 Financial liabilities		
Currency	Total and floating rate £'000	Total £'000	Floating rate £'000	Fixed rate £'000
Sterling	92,968	6,326	5,789	537
Euro-zone currencies	15,867	391	167	224
US Dollar	2,870	222	217	5
South African Rand	48	1,188	649	539
Other currencies	462	188	116	72
	112,215	8,315	6,938	1,377

	1999 Financial assets			1999 Financial liabilities		
Currency	Total £'000	Floating rate £'000	Fixed rate £'000	Total £'000	Floating rate £'000	Fixed rate £'000
Sterling	76,516	69,898	6,618	4,937	4,937	–
Euro-zone currencies	11,618	11,618	–	1,642	1,310	332
US Dollar	7,612	7,612	–	–	–	–
South African Rand	26	26	–	1,970	1,611	359
Other currencies	774	774	–	69	3	66
	96,546	89,928	6,618	8,618	7,861	757

The weighted average interest rates of the Sterling, Euro-zone and Rand fixed rate financial liabilities, which comprise finance lease obligations, are 9.0%, 5.0% (1999: 5%) and 20.5% (1999: 20.5%) respectively. The weighted average period for which these interest rates are fixed is two years.

The interest rate on floating rate financial assets and liabilities is linked to LIBOR in the case of sterling and the relevant bank rate for those denominated in other currencies.

Borrowing facilities The Group had undrawn committed borrowing facilities at 31 March 2000, in respect of which all conditions precedent had been met, as follows:

	2000 £'000	1999 £'000
Expiring in one year or less	**25,643**	10,953
Expiring in more than one year but not more than two years	**–**	15,000
	25,643	25,953

Currency exposures The Financial Review on page 19 explains that it is the Group's policy not to hedge foreign currency exposures on the translation of its overseas profits and net assets to sterling. Such movements are dealt with through the Group statement of total recognised gains and losses. It is Group policy for subsidiaries to hedge transactional currency exposures against the currency in which their results are measured.

22. Derivatives and other financial instruments (continued)

The table below shows the Group's currency exposures; in other words, those transactional exposures that give rise to net currency gains or losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or "functional") currency of the operating unit involved.

As at 31 March 2000, these exposures were as follows:

	Net foreign currency monetary assets/(liabilities)					
Functional currency of group operation	Sterling £'000	US Dollars £'000	Euro-zone currencies £'000	Swedish Krone £'000	Other £'000	Total £'000
Sterling	–	–	3	2	–	5
US Dollars	–	–	–	–	(416)	(416)
Euro-zone currencies	(1)	105	–	(1)	(216)	(113)
Swedish Krone	49	(218)	113	–	738	682
Other	(2)	(117)	393	1	(11)	264
Total	46	(230)	509	2	95	422

As at 31 March 1999, these exposures were as follows:

	Net foreign currency monetary assets/(liabilities)					
Functional currency of group operation	Sterling £'000	US Dollars £'000	Euro-zone currencies £'000	Swedish Krone £'000	Other £'000	Total £'000
Sterling	–	–	140	–	29	169
US Dollars	–	–	645	–	277	922
Euro-zone currencies	(19)	2,151	–	833	(31)	2,934
Swedish Krone	(10)	1,265	889	–	(72)	2,072
Other currencies	(46)	(296)	(243)	(70)	(26)	(681)
Total	(75)	3,120	1,431	763	177	5,416

The amounts shown in the above table take into account the effect of forward foreign currency contracts entered in to manage these currency exposures.

As at 31 March 2000, the Group also held open various forward foreign currency contracts that the Group had taken out to hedge expected future foreign currency movements.

Fair values Set out below is a comparison of the book and fair values of derivative financial instruments held to manage the currency profile of the Group's operations. In all other cases, there is no material difference between the book value and the fair value of the Group's financial assets and liabilities.

	2000 Book value £'000	**2000 Fair value £'000**	1999 Book value £'000	1999 Fair value £'000
Forward foreign currency contracts	**44,554**	**46,226**	25,005	26,684

Gains and losses on hedges The Group enters into forward foreign currency contracts to hedge the currency exposures that arise on sales and purchases denominated in foreign currencies immediately the transaction occurs.

22. Derivatives and other financial instruments (continued)

Changes in the fair value of instruments used as hedges are not recognised in the Financial Statements until the hedged position matures. An analysis of these unrecognised gains and losses is as follows:

	Gains £'000	Losses £'000	Net £'000
Unrecognised gains and losses on hedges at 1 April 1999	1,975	(296)	1,679
Gains and losses arising in previous years that were recognised in the year ended 31 March 2000	(1,664)	280	(1,384)
Gains and losses arising before 1 April 1999 that were not recognised in the year ended 31 March 2000	311	(16)	295
Gains and losses arising that were not recognised in the year ended 31 March 2000	1,941	(564)	1,377
Unrecognised gains and losses on hedges at 31 March 2000	2,252	(580)	1,672
Of which:			
Gains and losses expected to be recognised in the year ending 31 March 2001	1,895	(473)	1,422
Gains and losses expected to be recognised in the year ending 31 March 2002 or later	357	(107)	250

23. Provisions for liabilities and charges

	Pensions and similar obligations £'000	Deferred taxation £'000	Deferred consideration (a) £'000	Insurance provisions (b) £'000	Closure or disposal of businesses (c) £'000	Total £'000
At 1 April 1999	5,169	6,443	7,486	6,433	6,655	32,186
Exchange adjustments	(469)	(13)	4	–	(4)	(482)
Provided in the year	224	1,006	3,770	1,341	–	6,341
Movements as a result of discounting	–	–	45	–	–	45
Utilised in the year	(45)	–	(621)	(1,228)	(2,219)	(4,113)
Reclassified to creditors	–	–	(28)	–	(129)	(157)
Advance corporation tax set off	–	(796)	–	–	–	(796)
At 31 March 2000	**4,879**	**6,640**	**10,656**	**6,546**	**4,303**	**33,024**

(a) The deferred consideration arises principally from the acquisition of the Rosyth Dockyard (£6 million). This is payable on the occurrence of the offer of a contract for the refit of a second aircraft carrier, provided that effectively 70% of the allocated programme, as set out in the privatisation agreement, has by then been awarded to Rosyth Dockyard. It is anticipated that the deferred consideration will be payable by March 2002. The bulk of the remainder arises from the acquisition of FBM Marine Ltd. This is payable, based on financial performance, over the period to June 2001 and is limited to a maximum of £2.7 million. Other amounts arising on acquisition include a maximum of £0.7 million on the acquisition of Armstrong Technology Associates Ltd. and a maximum of £0.4 million payable on the acquisition of CMR Consultants Ltd. Both amounts are payable over the next five years and are dependent upon the continued employment of certain key individuals.

The remainder arises from the acquisition of AKI Dryer Manufacturers Inc. This is payable based on performance over the next two years and is limited to a maximum of $1.5 million. Further details on acquisitions are given in note 30.

(b) The insurance provisions arise in the Group's captive insurance company, Cleveland Insurance Ltd. They relate to specific claims assessed in accordance with the advice of independent actuaries.

(c) Provisions for costs relating to the closure or disposal of businesses are principally for onerous contracts in respect of vacant and partially vacant properties which are not expected to become payable within the next four years.

24. Deferred taxation

The major components of the provision for deferred taxation and the potential liability are as follows:

	2000 Provided £'000	1999 Provided £'000	**2000 Full potential £'000**	1999 Full potential £'000
Accelerated capital allowances	**275**	51	**(696)**	(879)
Reversal of pension surpluses	**13,931**	12,974	**23,609**	22,652
Other timing differences	**402**	(223)	**(6,226)**	(4,891)
Tax losses	**(818)**	(5)	**(22,993)**	(29,650)
	13,790	12,797	**(6,306)**	(12,768)
Recoverable advance corporation tax	**(7,150)**	(6,354)	**(10,633)**	(12,784)
	6,640	6,443	**(16,939)**	(25,552)

There is no unprovided deferred tax liability in the Company.

25. Pension funding

The Group operates a number of different pension arrangements throughout the world, according to the local requirements of each country. The major schemes are of the defined benefit type with assets held in separate funds. The total pension costs charged to the operating result of the Group were as follows:

	2000 £'000	1999 £'000
UK schemes	**8,643**	8,381
Overseas schemes	**1,036**	1,414
	9,679	9,795
Interest on pension scheme surpluses	**(3,499)**	(3,562)
	6,180	6,233

The Group's principal defined benefit schemes are in the UK. In each case the scheme is funded by payments to separate trustee administered funds and the pension cost is assessed in accordance with the advice of independent, qualified actuaries. The details of the latest formal actuarial valuations of these schemes are as follows:

	Railcare	Rosyth Royal Dockyard	Babcock International Group
Date of last formal actuarial valuation	31.12.98	31.12.98	1.4.98
Number of active members at 31 March 2000	716	2,668	133
Method of funding	Attained age	Projected unit	Projected unit
Results of last formal actuarial valuation:			
– Market value of assets	£66 million	£363 million	£401 million
– Level of funding	110%	114%	118%
Principal valuation assumptions:			
– Excess of investment returns over earnings increases	2.25%	1.50%	2.00%
– Excess of investment returns over pension increases	3.75%	3.00% to 3.80%	4.50%
– Annual rate of dividend growth	3.75%	*	4.00%

*It is assumed that dividend income is re-invested.

Surpluses in respect of the Group's principal pension schemes are carried as prepayments in the balance sheet at £78.7 million (1999: £75.3 million) and are being charged with the regular pension cost of scheme members.

As a result of the level of surplus, the Group's contributions to each of the principal pension schemes are currently suspended.

26. Share capital

	2000 £'000	1999 £'000
Authorised:		
229,000,000 (1999: 229,000,000) ordinary shares of 50p each	**114,500**	114,500
Allotted, issued and fully paid:		
169,493,035 (1999:169,320,113) ordinary shares of 50p each	**84,747**	84,660

During the year, following the early exercise of options under the Sharesave Scheme, 172,922 shares were issued with a nominal value of £86,461 at a premium of £21,269.

Outstanding share options The Company has granted options to subscribe for ordinary shares of the Company under two Executive Share Option Schemes and the Sharesave Scheme. At 31 March 2000, the outstanding options were as follows:

Scheme	Number of shares under option	Subscription price per share	Exercise period
Executive share option schemes	11,134	226.770p	29.06.1993 to 28.06.2000
	16,701	244.730p	11.07.1994 to 10.07.2001
	16,701	271.675p	09.07.1995 to 08.07.2002
	1,012,971	114.510p	15.12.1996 to 14.12.2003
	96,000	132.500p	16.12.1997 to 15.12.2004
	50,000	151.000p	03.01.1999 to 02.01.2006
	304,288	77.000p	19.09.1999 to 18.09.2006
	570,110	74.500p	19.12.1999 to 18.12.2006
	91,409	68.500p	07.02.2000 to 06.02.2007
	160,000	62.500p	31.03.2000 to 30.03.2007
	219,328	84.500p	19.06.2000 to 18.06.2007
	104,536	84.500p	11.07.2000 to 10.07.2007
	244,508	87.250p	11.08 2000 to 10.08.2007
	396,926	82.000p	24.12.2000 to 23.12.2007
	2,934,899	89.000p	20.07.2001 to 20.07.2008
	775,195	122.500p	08.07.2002 to 08.07.2008
	1,658,477	118.000p	09.09.2002 to 09.09.2009
	8,663,183		
Sharesave scheme	5,345,751	62.300p	01.02.2001 to 01.08.2001
Total outstanding share options	14,008,934		

Options granted to Directors are summarised in the Directors' Report on pages 29 and 30 and are included in the outstanding options set out above.

27. Reserves

	Group Share premium account £'000	Group Profit and loss account £'000	Group Total £'000
At 1 April 1999	67,112	(25,017)	42,095
Shares issued on exercise of options (note 26)	22	–	22
Loss on foreign currency translation	–	(1,067)	(1,067)
Retained profit for the year	–	18,135	18,135
At 31 March 2000	**67,134**	**(7,949)**	**59,185**

	Company Share premium account £'000	Company Profit and loss account £'000	Company Total £'000
At 1 April 1999	67,112	35,167	102,279
Shares issued on exercise of options (note 26)	22	–	22
Retained profit for the year	–	185	185
At 31 March 2000	**67,134**	**35,352**	**102,486**

28. Equity minority interests

	£'000
At 1 April 1999	9,819
Share of losses	(940)
Dividends paid to minority interests	(1,007)
Other movements	(2)
At 31 March 2000	**7,870**

29. Group cash flow statement

a) Reconciliation of Group operating profit to net cash flow from operating activities:

	2000 £'000	1999 £'000
Group operating profit	**20,799**	22,232
Depreciation and amortisation charges	**8,997**	7,616
Decrease/(increase) in stocks	**3,101**	(1,409)
(Increase)/decrease in debtors	**(526)**	23,437
Increase in creditors	**5,963**	7,366
Decrease in provisions	**(349)**	(3,068)
Other items	**161**	(38)
Net cash flow from operating activities	**38,146**	56,136

The operating cash flows with respect to acquisitions are not material.

29. Group cash flow statement (continued)

b) Reconciliation of net cash flow to movement in net funds:

	2000 £'000	1999 £'000
Increase in cash in the year	**24,726**	61,147
Cash outflow from decrease in debt and lease financing	**6**	6,245
Cash flow from decrease in liquid resources	**(6,618)**	(884)
Change in net funds resulting from cash flows	**18,114**	66,508
Loans and finance leases on acquisition of subsidiary	**(115)**	–
New finance leases	**(839)**	(63)
Translation differences	**(1,188)**	1,632
Movement in net funds in the year	**15,972**	68,077
Net funds at 1 April	**87,928**	19,851
Net funds at 31 March	**103,900**	87,928

c) Analysis of changes in financing during the year:

	At 1 April 1999 £'000	Cash flow £'000	New finance leases £'000	Subsidiaries acquired £'000	Exchange movement £'000	At 31 March 2000 £'000
Cash in hand and at bank	89,928	23,675	–	–	(1,388)	**112,215**
Overdrafts	(6,462)	1,051	–	–	141	**(5,270)**
	83,466	24,726	–	–	(1,247)	**106,945**
Debt	(1,399)	(241)	–	(38)	10	**(1,668)**
Finance leases	(757)	247	(839)	(77)	49	**(1,377)**
	(2,156)	6	(839)	(115)	59	**(3,045)**
Liquid resources	6,618	(6,618)	–	–	–	**–**
Total	87,928	18,114	(839)	(115)	(1,188)	**103,900**

Liquid resources include £nil (1999: £6,618,000) of current asset investments.

d) Analysis of the net cash flow in respect of acquisitions and disposals of subsidiaries:

	2000 Disposals £'000	2000 Acquisitions £'000	1999 Disposals £'000	1999 Acquisitions £'000
Net cash consideration	**–**	**(6,713)**	20,211	(5,608)
Cash (disposed of)/acquired	**–**	**106**	(123)	2,426
Other payments	**(1,575)**	**–**	–	–
Net cash flow	**(1,575)**	**(6,607)**	20,088	(3,182)

i) The net cash flow for disposals includes the settlement of the litigation which was referred to in last year's report and accounts. The litigation related to a dispute with the purchaser of a business that was formerly part of the Group.

ii) The net cash outflow relating to acquisitions comprises £0.6 million of deferred consideration for the acquisition of AKI Dryer Manufacturers, Inc. in September 1998. After allowing for £0.1 million of cash within the businesses, £6.6 million was spent within the year on a number of bolt-on acquisitions. Further details relating to acquisitions are given in note 30.

30. Acquisitions

During the year, the Group made a number of acquisitions. These were: a marine engineering design consultancy Armstrong Technology Associates on 31 January 2000 for total consideration of £1.2 million; an energy management consultancy CMR Consultants Limited on 14 February 2000 for total consideration of £0.5 million; a fast ferry supply company, FBM Marine Limited for total consideration of £7.4 million on 16 March 2000 and, finally, the Group acquired radio frequency drying technology from Production Machinery Inc of the USA for consideration of $0.7 million on 31 January 2000.

The following table sets out the book value of the identifiable assets and liabilities acquired as a result of these acquisitions and their fair value to the Group. Due to proximity of the FBM acquisition to the Group's financial year end, fair value of the assets acquired have been included on a provisional basis.

	Book value £'000	Fair value adjustments £'000	Fair value to the Group £'000
Intangible fixed assets	1,860	(66)	1,794
Investment in joint venture	794	–	794
Tangible fixed assets	532	(118)	414
Stocks	1,859	(87)	1,772
Debtors	3,457	(268)	3,189
Cash at bank	173	–	173
Creditors	(5,596)	(400)	(5,996)
	3,079	(939)	2,140
Fair value of consideration:			
– Cash			5,760
– Deferred consideration (note 23)			3,770
– Costs			402
Fair value of consideration			9,932
Goodwill arising			7,792

The fair value adjustments are to reflect the circumstances and conditions at the date of acquisition. The principal adjustments relate to FBM Marine Ltd and are as follows:

i) Development costs (£0.1 million) The fair value of the development costs is based on the depreciated historical cost after the write off of specific designs which are considered to be obsolete.

ii) Pension scheme deficit (£0.4 million) A formal valuation of the scheme was not performed at the date of acquisition. The deficit has been estimated based on the most recent actuarial valuation (1 April 1999) as adjusted for the early leaver credit associated with the redundancy programme initiated by the company pre-acquisition.

iii) Other adjustments (£0.4 million) These items include the write off of obsolete fixed assets (£0.1 million) and stock (£0.1 million); and provision for uncollectable debts (£0.2 million).

31. Financial commitments

Capital commitments

	2000 £'000	1999 £'000
Authorised future capital expenditure of the Group at 31 March that was contracted for but not provided for in the Financial Statements	**919**	504

The Company had no capital expenditure contracted for at 31 March 2000 (1999: £nil).

Operating lease commitments

Group The annual commitment of the Group under non-cancellable operating leases was as follows:

	2000 Land and buildings £'000	2000 Plant machinery and vehicles £'000	1999 Land and buildings £'000	1999 Plant machinery and vehicles £'000
Leases expiring:				
Within one year	**405**	**588**	690	692
Within two to five years	**1,418**	**377**	1,868	495
Thereafter	**2,124**	**35**	1,549	57
	3,947	**1,000**	4,107	1,244

Company The Company has an operating lease commitment for land and buildings as at 31 March 2000 with an annual commitment expiring after more than five years of £1.7 million (1999: £1.5 million).

32. Contingent liabilities

a) The Company has guaranteed or has joint and several liability for bank facilities of £36.9 million (1999: £38.9 million) provided to certain Group companies.

b) Throughout the Group, contingent liabilities exist in respect of guarantees, performance bonds and indemnities issued on behalf of Group companies by banks and insurance companies in the ordinary course of business. At 31 March 2000 these amounted to £91.7 million (1999: £80.5 million), of which the Company had counter-indemnified £64.6 million (1999: £47.3 million).

c) In addition, the Company has given guarantees on behalf of Group companies in connection with the completion of contracts within specification, including responsibility for maintenance. These include the unlimited counter-indemnity given to FKI plc at the time of demerger in respect of guarantees given by FKI plc on behalf of companies acquired at that time.

d) Pursuant to the Rosyth Dockyard privatisation agreement, the following charges and security interests have been granted by Rosyth Royal Dockyard Limited (RRDL) in favour of the Ministry of Defence (MoD).

i) Strategic Assets RRDL has undertaken certain obligations in respect of those fixed assets acquired at Rosyth Royal Dockyard considered by the MoD to be of strategic importance to HM Government (known as "Strategic Assets"), including an obligation not to dispose of or destroy such assets or their replacements. In addition, in the event of the insolvency of RRDL or of Babcock Rosyth Defence Limited the MoD will have the option to repurchase from RRDL any or all of a narrower class of Strategic Assets ("Relevant Strategic Assets") at market value or, in respect of certain assets, at the lower of market value and cost. RRDL's obligations in respect of the MoD's repurchase option are secured by:

a) fixed charges over those Relevant Strategic Assets consisting of interests in land; and

b) a floating charge over the remaining Relevant Strategic Assets.

ii) Development Clawback MoD will share in the net proceeds of sale or development of the Dockyard following planning enhancement, on terms set out in the asset purchase agreement between the RRDL and the MoD dated 30 January 1997. By way of security for the MoD's rights to such share, the Company has granted a fixed charge (standard security) over the Dockyard in favour of the Authority.

Principal subsidiary and associated undertakings

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

- Babcock Facilities Management Limited
- Babcock Rosyth Defence Limited
- Rosyth Royal Dockyard Limited
- Babcock Defence Systems Limited
- Babcock Rosyth Industries Limited
- Railcare Limited (60%)
- Babcock Rail Limited
- Rosyth 2000 Limited (20%)*
- FBM Babcock Marine Limited
- FBM Babcock (Lairdside) Limited
- FBM Aboitiz Marine Inc. (50%) (Philippines)**
- Armstrong Technology Associates Limited
- CMR Consultants Limited
- Studsvik Rosyth Nuclear Services Limited (40%)*
- Babcock New Zealand Holdings Limited (New Zealand)
- Babcock New Zealand Limited (New Zealand)

BMH
Materials processing technologies and engineered systems:

- BMH Technologies GmbH (Germany)
- Babcock Holdings (Sweden) AB (Sweden)
- BMH Wood Technology AB (Sweden)
- BMH Marine AB (Sweden)
- BMH Kellve AB (Sweden) (90%)
- BMH Americas Inc (USA)
- BMH Iberica SA (Spain)
- BMH Italiana Srl (Italy)
- BMH SA (France)
- BMH Claudius Peters GmbH (Germany)
- BMH China Ltd (Hong Kong)
- BMH Asia Pacific (Pte) Limited (Singapore)
- BMH Limited
- BMH do Brazil Ltda (Brazil)
- BMH Eagleton Inc (USA)
- BMH AKI Dryers Inc (USA)
- Babcock Holdings (USA), Inc (USA)
- Babcock Africa (Pty) Limited (South Africa)
- Babcock Africa Contracting (Pty) Limited (South Africa)

Others

- Babcock Holdings Limited
- Babcock Investments Limited
- Babcock International Limited
- Babcock International Holdings Limited
- Babcock Management Limited
- Cleveland Insurance Limited (Isle of Man)
- Babcock Overseas Investments Limited
- Babcock International Holdings BV (Netherlands)

All undertakings are wholly owned unless otherwise stated. With the exception of Babcock Holdings Limited and Babcock Investments Limited which are owned by the Company, all Group undertakings are owned by subsidiary undertakings.

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.

*Denotes undertakings recognised and accounted for as associated undertakings.

**Denotes undertakings recognised and accounted for as joint ventures.

Notice of meeting

Notice is hereby given that the eleventh Annual General Meeting of the members of Babcock International Group PLC will be held at the Barber-Surgeons' Hall, Monkwell Square, London EC2Y 5BL, on Friday, 28 July 2000, at 12.00 noon for the transaction of the following business:

1. To receive and adopt the Directors' and Auditors' Reports and the audited Financial Statements of the Company for the year ended 31 March 2000.
2. To declare a final dividend for the year ended 31 March 2000.
3. 1) To re-elect Dr T J Parker as a Director of the Company;
2) To re-elect Mr M J Turner as a Director of the Company;
3) To re-elect Mr A E Wheatley as a Director of the Company.
4. To reappoint Arthur Andersen as Auditors to the Company.
5. To authorise the Directors to fix the remuneration of the Auditors.
6. As special business, to consider and, if thought fit, to pass the following Resolutions:

Special Resolution
1) That the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163 of the Companies Act 1985) of ordinary shares of 50p each ("ordinary shares") in the capital of the Company provided that:

a) the maximum number of ordinary shares hereby authorised to be purchased shall be 16,960,611;
b) the minimum price which may be paid for each ordinary share is not less than the nominal value thereof exclusive of the expenses of purchase;
c) the maximum price which may be paid for each ordinary share shall not exceed 105% of the average middle market quotation for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days preceding the day of purchase;
d) the authority hereby conferred shall expire on 27 July 2001 or at the conclusion of the next Annual General Meeting of the Company (whichever is the earlier) unless such authority is renewed prior to such time; and
e) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make purchases of ordinary shares in pursuance of any such contract.

Ordinary Resolution

2) That:
a) subject to the approval of the Board of Inland Revenue, the Directors be and they are hereby authorised to amend the terms of The Babcock 1999 Approved Executive Share Option Scheme (the "Approved Scheme") by deleting Rule 3.3 of the Approved Scheme and making any other consequential amendments as described in the explanatory notes; and
b) the Directors be authorised to further amend the rules of the Approved Scheme in order to take account of any comments of the Inland Revenue so as to maintain the approved status of the Approved Scheme.

Ordinary Resolution
3) That the Directors be and are hereby authorised to amend the rules of The Babcock 1999 Unapproved Executive Share Option Scheme (the "Unapproved Scheme") by deleting Rule 2.3 of the Unapproved Scheme and making any other consequential amendments as described in the explanatory notes.

Ordinary Resolution
4) That:
a) subject to the approval of the Board of Inland Revenue, the Directors be and they are hereby authorised to establish the Babcock Approved Employee Share Ownership Plan ("the AESOP"), a copy of the draft rules of which has been produced to the meeting and signed by the Chairman for the purpose of identification and a summary of the principal terms of which is set out in the appendix to the Chairman's letter to shareholders of 29 June 2000;
b) the Directors be and they are hereby authorised to do all such acts and things as may be necessary or expedient to give effect to the AESOP, including amending the AESOP in such manner as the Directors may consider necessary or appropriate, or as may be necessary to ensure that the AESOP is approved by the Board of Inland Revenue or to take account of any relevant statutory or regulatory requirements, provided that no such amendment is made if, in the opinion of the Directors, it would conflict in any material respect with the summary of the AESOP set out in the appendix to such letter to shareholders or would materially prejudice the interests of shareholders; and
c) the Directors be and they are hereby authorised to establish further plans based on the AESOP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the overall limit on the issue of shares in the AESOP.

By order of the Board

H M Mahy Secretary
29 June 2000

Registered Office:
Badminton Court, Church Street, Amersham
Buckinghamshire HP7 0DD

Notes:
1) A holder of ordinary shares is entitled to attend and vote at the meeting and may appoint a proxy to attend and, on a poll, vote on his or her behalf. The proxy need not be a member of the Company.

2) A holder of ordinary shares who holds his shareholding in uncertificated form must be entered on the relevant register of securities in respect of such shareholding not later than 48 hours before the time appointed for the meeting in order to have the right to attend and vote at the meeting.

3) A form of proxy is enclosed and, to be effective, must be completed in accordance with the instructions printed thereon and returned so as to be received by the Registrars of the Company not less than 48 hours before the time appointed for the meeting. Completion of a form of proxy will not affect the right of a member to attend and vote in person at the meeting.

4) The register of Directors' interests in the share capital of the Company, together with copies of service agreements under which Directors of the Company are employed, are available for inspection at the Company's registered office during normal business hours until the date of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

5) A copy of the draft rules of the proposed Babcock Approved Employee Share Ownership Plan is available for inspection during normal business hours on weekdays (Saturdays and public holidays excepted) at the Company's registered office and at the offices of Pinsent Curtis, Dashwood House, 69 Old Broad Street, London EC2M 1NR up to and including the date of the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and until the end of the Annual General Meeting.

Five year financial record

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Group turnover	**470.7**	495.0	568.3	646.0	723.4
Operating profit/(loss)	**20.8**	22.8	14.0	1.9	(19.7)
Exceptional items	**1.0**	6.1	(18.7)	(25.6)	22.3
Profit / (loss) on ordinary activities before interest	**21.8**	28.9	(4.7)	(23.7)	2.6
Net interest and similar charges	**4.2**	2.5	0.2	1.0	0.5
Profit / (loss) on ordinary activities before taxation	**26.0**	31.4	(4.5)	(22.7)	3.1
Tax on ordinary activities	**(4.5)**	(5.3)	(2.9)	(1.7)	(1.4)
Profit / (loss) on ordinary activities after taxation	**21.5**	26.1	(7.4)	(24.4)	1.7
Minority interests	**1.0**	(0.6)	(1.3)	(1.2)	(0.9)
Profit / (loss) attributable to shareholders	**22.5**	25.5	(8.7)	(25.6)	0.8
Fixed assets	**58.7**	47.9	50.7	55.1	62.1
Net current assets	**129.1**	122.8	97.9	102.0	105.8
Non-current liabilities and provisions	**(36.0)**	(34.1)	(33.8)	(28.2)	(27.1)
Total net assets	**151.8**	136.6	114.8	128.9	140.8
Shareholders' funds	**143.9**	126.8	105.7	119.5	133.5
Minority interests	**7.9**	9.8	9.1	9.4	7.3
	151.8	136.6	114.8	128.9	140.8
Earnings / (loss) per share – basic	**13.26p**	15.07p	(5.12)p	(15.11)p	0.47p
Dividends per share	**2.55p**	2.20p	1.80p	1.50p	3.00p

The financial record for 1996 has not been restated for the effect of implementing FRS9 and FRS10.

Shareholder information

Financial calendar
Financial year end 31 March 2000

1999/2000 preliminary results announced
19 June 2000

Annual General Meeting
28 July 2000

Final dividend payment date (record date 14 July 2000)
11 August 2000

Half year results announced
16 November 2000

Interim dividend payable
26 January 2001

Share dealing service
The company, through National Westminster Bank Plc, offers a special share dealing service to shareholders either by post or through NatWest branches. Shareholders who wish to use either of these facilities are asked to telephone 020 7895 5448 or alternatively to write to NatWest Stockbrokers Limited, Babcock International Group Information, FREEPOST, London E1 8BR.

Registered office and company number

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Church Street
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Registered in England.
Company number 2342138

Registrars
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PO Box No 82, The Pavilions
Bridgwater Road, Bristol BS99 7NH.

Shareholder enquiries relating to shareholding, dividend payments, change of address, loss of share certificate etc. should be addressed to Computershare Services PLC at their address given above.

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1 Surrey Street
London WC2R 2PS

Principal UK bankers
The Royal Bank of Scotland plc
Waterhouse Square
138-142 Holborn
London EC3P 3HX.

Investment bankers
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New Court
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London EC4P 4DU.

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Merrill Lynch
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London EC1M 3NH

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