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Babcock International Group PLC
Interim Report 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.

Notes

1) The statement of results for the year to 31 March 2000 is an extract from the Group's full accounts for the year which have been filed with the Registrar of Companies and on which the Group's auditors gave an unqualified report. The accounting policies are as stated in the Group's full accounts for the year ended 31 March 2000.

2) The charge for taxation has been based on the estimated effective tax rate, before (non-operating) exceptional items and goodwill, for the year ended 31 March 2001.

3) Basic earnings per share is based on the profit attributable to shareholders for the half year to 30 September 2000 and 169.6 million "old" 50p ordinary shares in issue in the period. Diluted earnings per share is based on the profit attributable to shareholders for the half year to 30 September 2000 and 172.1 million (1999: 172.9 million) "old" 50p ordinary shares in issue in the period.

4) Based on the first half trading results, the Board has approved the payment of an interim dividend amounting to 0.92p per "old" 50p ordinary share (compared to 0.9p in 1999). Following the share consolidation referred to in note 5 below, this equates to 1.1p per "new" 60p ordinary share. The dividend will be paid on 26 January 2001 to shareholders registered on 22 December 2000.

5) Following approval at an EGM on 10 October 2000, on 23 October 2000 the Company made a bonus issue of 170.2 million redeemable "B" shares with a nominal value of £30.6 million out of the share premium account. In accordance with the terms of the issue, 155.1 million of the 18p shares, with a nominal value of £27.9 million, were redeemed on 23 October 2000. Further redemptions can be made at the shareholders' option on 23 April 2001 and at the Company's option on any date after 23 April 2001 until 23 October 2002.

Also on 23 October 2000, there was a five for six share consolidation of the 170.1 million 50p ordinary shares resulting in an issued share capital of 141.8 million 60p ordinary shares.

Circulation note: Copies of this interim report are being sent to shareholders on 28 November 2000. Further copies are available at the Company's registered office: Badminton Court, Church Street, Amersham, Bucks HP7 0DD.

212.9m

Group turnover from continuing operations £
(1999: £233.6m Full year 1999/00: £470.7m)

10.0m

Profit before tax excluding non-operating exceptional items £
(1999: £11.1m Full year 1999/00: £25.0m)

92.0m

Net cash £ (1999: £68.9m Full year 1999/00: £105.3m)

5.13

Earnings per share excluding non-operating exceptional items and goodwill pence
(1999: 4.98p Full year 1999/00: 11.43p)

Chairman's statement

I am pleased to report that during the first half of the year the Group made good progress with the strategic initiatives announced at the time of the Annual General Meeting.

In July it was announced that the Board planned to return some £30 million of cash to shareholders. As a result, details of a proposed return of capital of £30.6 million, by way of a bonus redeemable "B" Share and a 5 for 6 Share Capital Consolidation, were issued by the Board and on 10 October 2000 were approved by the Company's shareholders.

Also at that time the Board announced its intention to dispose of the BMH Technologies division, excluding the activities of Babcock Africa, the Group's South African operation. The Board, with the assistance of its advisors, concluded that shareholder value could best be enhanced by focusing the Group's resources on expanding its Support and Defence Services activities. The sale process is now under way although it is still too early to comment upon the final outcome.

At the end of the first half, the Group announced that it had executed a sale and purchase agreement to dispose of Railcare, its majority owned rail maintenance business, to DaimlerChrysler Rail Systems (UK) Limited ("Adtranz"). Completion of the disposal to Adtranz is conditional upon approval from the Office of Fair Trading.

Financial performance in both BMH and BES, excluding Railcare, was in line with the same period last year after taking account of the costs of reorganising and integrating the recent acquisitions. The trading performance of the Group overall was depressed by Railcare's trading loss of £3.3 million of which £1.19 million was redundancy costs incurred in response to difficult market conditions.

Group operating profit before goodwill for continuing operations, excluding Railcare, was slightly ahead of the same period last year at £9.9 million with an operating margin for those same operations of 5.2% on turnover of £191.8 million (1999: £206.4 million). The operating profit including Railcare was £7.4 million (1999: £8.8 million). The credit from goodwill amortisation was £0.8 million (1999: £1.0 million) reflecting the increased amortisation of goodwill arising from acquisitions made over the past year.

Group profit on ordinary activities before taxation was £10.0 million (1999: £11.9 million) after interest receivable of £2.7 million (1999: £2.2 million). There were no non-operating exceptional items compared with a £0.8 million exceptional profit in the corresponding period last year.

Earnings per share was 5.6p (1999: 6.0p) and the Board has declared an interim dividend of 0.92p per share (1999: 0.9p) based upon the number of "old" ordinary shares in issue prior to the share consolidation referred to above. This equates to a dividend of 1.1p for each new ordinary share.

The Group order book was £283 million at September (1999: £382 million) compared with £319 million at March 2000. The Group's net cash balances at the end of September were £92.0 million (1999: £68.9 million) compared with £105.3 million at March 2000.

Review of operations BES

BES, excluding Railcare, repeated its strong performance achieved in the first half of last year with turnover and operating profits of £97.6 million (1999: £96.7 million) and £6.8 million (1999: £6.7 million) respectively. Turnover was marginally higher in the Division's Defence Services activities whilst Railcare's turnover fell to £21.1 million from £27.2 million in the corresponding period last year and it suffered trading losses including the cost of redundancies of £3.3 million (1999: £2.0 million).

BES's naval refitting activities performed well as productivity improvement and cost reduction measures necessary to ensure competitiveness continued. Maintaining competitiveness will remain a priority particularly on surface ship refitting as the programme of submarine work at Rosyth starts to decline. The refits at Rosyth of the two nuclear submarines, HMS Sceptre and HMS Spartan and the aircraft carrier HMS Ark Royal, dominated activity. Trading performance in our New Zealand operation was disappointing during the first half and reflected the foreign deployment of naval vessels. Activity levels in New Zealand are set to improve during the second half.

In my statement last June I explained that opportunities were opening up for BES via the new MoD Defence Logistics organisation who are aiming to achieve major cost savings at UK naval bases by rationalising support services with the assistance of the dockyard companies. In this regard BES has continued to explore opportunities with the Ministry of Defence for broadening its support arrangements.

BES continues to assist the Ministry of Defence with proposals for dismantling and disposing of decommissioned nuclear submarines being stored at Rosyth. In addition BES has been targeting organic growth across a range of areas most of which are directed at the Ministry of Defence's outsourcing of facility management and materials procurement.

The two acquisitions, completed in the last financial year, Armstrong Technology Associates Limited (Armstrong) and FBM Babcock Marine Limited (FBM), have now been integrated into the Group. In the case of FBM, which designs and builds modern multi-hulled fast ferries, this process has involved the transfer of its operations from the Isle of Wight. The design centre has moved to Southampton and construction activities to Rosyth. These actions, together with slower progress than originally anticipated on finalising orders for new vessels particularly in the UK, inevitably led to a weak trading performance from FBM in the first six months.

Early in the financial year BES secured a first order for twenty two units of its new Mega3® inter-modal freight wagon design from Blue Circle Industries PLC. Subsequently the Strategic Rail Authority imposed a delay on the contract that is now expected to commence its production phase by the end of 2000.

Railcare's market for railway rolling stock maintenance has remained highly competitive and restructuring measures to increase operating efficiencies continued.

BMH

BMH's trading performance including the South African business, was ahead of the corresponding period last year with operating margins increasing to 4.5% (1999: 3.6%). Turnover reduced by 14% reflecting in particular a lower opening order book at the beginning of the year and the influence of the significant pipeline engineering project for TEPPCO which was completed during the first half of the year by BMH Eagleton. The end of September order book at £89 million was below earlier expectations although it has increased from a level of £83 million last March and is showing signs of further improvement.

First half trading, which benefited from a good performance from Pipeline Engineering, saw a more subdued performance from BMH Marine due to a customer delay to the large grain terminal project for Europort at Gdansk in Poland. The Nordic wood and bio-energy activity performed better than in the previous year and cement continued in line with expectations. Chronos Richardson, which was acquired midway through the first half to give BMH access to the food, feed, chemical and rubber industries, is being successfully integrated into the Group and, as expected, made a small loss after the costs of integration. The result from the South African business was slightly weaker than in the corresponding period last year.

Markets remain challenging in certain parts of the world although there are signs of improvement in Asia and South Africa. Turnover by destination in the six months was led by the traditionally strong and stable regions of Europe with 35% and North America with 28% whilst Asia accounted for 10%. The acquisition of Chronos Richardson has further enhanced BMH's strong global marketing and service network through new offices in India and other Far East countries.

We continue to invest in our product development programme in order to fuel organic growth. For example, during the first half, BMH Marine finalised the development of its mobile pneumatic unloader which joins its highly successful screw type mobile unloader. In addition BMH explored other business opportunities which like Chronos Richardson have a good strategic fit with its existing operations and can further enhance its position in total process technology and complete systems capabilities.

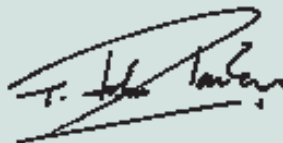
Directors

I am delighted to welcome my successor Gordon Campbell who joined the Board as Chief Executive in October 2000. Gordon, who was formerly Chief Executive of Courtaulds plc and Chairman of Acordis Group following the sale of Courtaulds plc, brings with him considerable industrial and corporate experience.

As previously announced, I will be stepping down as Chairman in January 2001 at which time Gordon Campbell will become executive Chairman. This follows my appointment as Chairman of Lattice Group PLC. I have been privileged to lead the transformation of Babcock International for more than seven years and I am confident that under Gordon's leadership the Group, with its considerable resources and excellent management team, has an exciting future.

Future Strategy

The successful completion of the strategic initiatives announced by the Board during the summer, to enhance shareholder value, will radically transform the Group. Following the recent return of cash to shareholders, the Group still has significant resources to pursue its support services growth strategy.



Dr T John Parker Chairman

Group profit and loss account

For the six months ended 30 September 2000

Year ended 31 March 2000 £'000	Six months ended 30 September 2000			Six months ended 30 September 1999			
	Before operating exceptionals (unaudited) £'000	Operating exceptionals (unaudited) £'000	Total (unaudited) £'000	Before operating exceptionals (unaudited) £'000	Operating exceptionals (unaudited) £'000	Total (unaudited) £'000	
470,873	Turnover including share of joint ventures	214,212	-	214,212	233,600	-	233,600
185	Less: share of joint ventures turnover	1,295	-	1,295	-	-	-
414,832	Continuing operations – other	191,792	-	191,792	206,422	-	206,422
55,856	– Railcare	21,125	-	21,125	27,178	-	27,178
470,688	Group turnover	212,917	-	212,917	233,600	-	233,600
21,959	Continuing operations – other	9,900	-	9,900	9,760	-	9,760
(3,217)	– Railcare	(2,072)	(1,190)	(3,262)	193	(2,152)	(1,959)
18,742	Group operating profit before goodwill amortisation	7,828	(1,190)	6,638	9,953	(2,152)	7,801
2,057	Goodwill amortisation	761	-	761	1,038	-	1,038
23,387	Continuing operations – other	10,346	-	10,346	10,483	-	10,483
(2,588)	– Railcare	(1,757)	(1,190)	(2,947)	508	(2,152)	(1,644)
20,799	Group operating profit	8,589	(1,190)	7,399	10,991	(2,152)	8,839
(45)	Share of operating profit of joint ventures and associates	(89)	-	(89)	-	-	-
20,754	Trading profit including share of joint ventures and associates	8,500	(1,190)	7,310	10,991	(2,152)	8,839
1,037	Profit on disposal of fixed assets			-			798
21,791	Profit on ordinary activities before interest			7,310			9,637
4,250	Interest			2,711			2,223
26,041	Profit on ordinary activities before taxation			10,021			11,860
(4,528)	Tax on profit on ordinary activities			(1,849)			(2,205)
21,513	Profit on ordinary activities after taxation			8,172			9,655
940	Minority interests			1,296			612
22,453	Profit for the financial period			9,468			10,267
(4,318)	Dividends paid and proposed			(1,560)			(1,524)
18,135	Retained profit for the financial period			7,908			8,743
13.26p	Earnings per share – Basic			5.58p			6.06p
13.03p	Earnings per share – Diluted			5.50p			5.94p
12.65p	Earnings per share pre non-operating exceptional items – Basic			5.58p			5.59p
12.43p	Earnings per share pre non-operating exceptional items – Diluted			5.50p			5.48p
11.43p	Earnings per share pre non-operating exceptional items and goodwill – Basic			5.13p			4.98p
11.23p	Earnings per share pre non-operating exceptional items and goodwill Diluted			5.06p			4.88p

Continuing operations (other) includes turnover of £9.0 million and a loss before interest and tax of £0.1 million from acquisitions in the period.

The continuing operations have been split to reflect the anticipated disposal of Railcare which was agreed, subject only to OFT approval, on 30 September 2000.

The 1999 numbers have been restated to reflect this transaction. Further details of the transaction are given in the Chairman's statement.

Group balance sheet

As at 30 September 2000

As at 31 March 2000 £'000		As at 30 September 2000 (unaudited) £'000	As at 30 September 1999 (unaudited) £'000
	Fixed assets		
	Intangible assets		
1,771	Development costs	1,635	64
	Goodwill		
27,801	– Goodwill	27,795	20,935
(18,703)	– Negative goodwill	(16,810)	(20,648)
9,098		10,985	287
10,869		12,620	351
45,872	Tangible assets	43,996	45,135
	Investments		
	Investments in joint ventures		
2,473	– Share of gross assets	2,952	–
(1,688)	– Share of gross liabilities	(2,087)	–
785		865	–
470	Investments in associates	341	558
689	Other investments	1,119	684
1,944		2,325	1,242
58,685		58,941	46,728
	Current assets		
24,021	Stocks	31,925	26,187
106,523	Debtors – due within one year	103,559	122,712
77,498	Debtors – due after more than one year	80,079	74,285
184,021		183,638	196,997
–	– Investments	–	7,574
112,215	Cash and bank balances	109,704	76,336
320,257		325,267	307,094
(191,162)	Creditors – amounts due within one year	(188,763)	(178,304)
129,095	Net current assets	136,369	128,790
187,780	Total assets less current liabilities	195,445	175,518
(2,954)	Creditors – amounts due after more than one year	(1,693)	(2,058)
(33,024)	Provisions for liabilities and charges	(36,257)	(30,002)
151,802	Net assets	157,495	143,458
	Capital and reserves		
84,747	Called up share capital	85,028	84,685
67,134	Share premium account	67,248	67,118
(7,949)	Profit and loss account	48	(16,539)
143,932	Equity shareholders' funds	152,324	135,264
7,870	Minority interests	5,171	8,194
151,802		157,495	143,458

Summarised Group cash flow statement

For the six months ended 30 September 2000

Year ended 31 March 2000 £'000		Six months ended 30 September 2000 (unaudited) £'000	Six months ended 30 September 1999 (unaudited) £'000
38,146	Cash flow from operating activities	(12,707)	(6,177)
3,098	Returns on investments and servicing of finance	2,570	1,075
(2,071)	Taxation	(985)	(644)
(9,095)	Capital expenditure and financial investment	(2,859)	(1,419)
(8,182)	Acquisitions and disposals	3,230	(1,994)
(3,891)	Equity dividends paid	(2,795)	(2,370)
18,005	Cash (outflow)/inflow before management of liquid resources and financing	(13,546)	(11,529)
6,618	Management of liquid resources	-	(956)
103	Financing	206	244
24,726	(Decrease)/increase in cash in the period	(13,340)	(12,241)

The principal component of the cash flow from acquisitions and disposals is the final receipt of £5.0 million from Mitsui for deferred consideration following the 1995 sale of the energy business. The Group acquired Chronos Richardson Limited (now renamed BMH Chronos Richardson Ltd) in June 2000 for total consideration of £2.2 million (£0.2 million deferred). The Group has also paid US\$1.0 million of deferred consideration following the Group's acquisition of AKI Dryer Manufacturers (now renamed BMH AKI Dryers Inc.) in September 1998.

Reconciliation of net funds

For the six months ended 30 September 2000 (unaudited)

	At 1 April 2000 £'000	Cash flow £'000	Exchange movement £'000	At 30 September 2000 £'000
Cash in hand and at bank	112,215	(2,556)	45	109,704
Overdrafts	(5,270)	(10,784)	12	(16,042)
	106,945	(13,340)	57	93,662
Debt	(1,668)	28	1	(1,639)
Finance leases	(1,377)	189	25	(1,163)
	(3,045)	217	26	(2,802)
	103,900	(13,123)	83	90,860

Group results by Division

For the six months ended 30 September 2000 (unaudited)

	Group turnover Sept 2000 £'000	Group operating profit before operating exceptional items Sept 2000 £'000	Group operating exceptional items Sept 2000 £'000	Group operating profit after operating exceptional items Sept 2000 £'000	Share of operating profit of joint ventures and associates Sept 2000 £'000	Trading profit including joint ventures and associates Sept 2000 £'000
Continuing operations – other						
BES	97,582	6,759	–	6,759	(89)	6,670
BMH	94,210	4,208	–	4,208	–	4,208
Unallocated costs and other income	–	(1,067)	–	(1,067)	–	(1,067)
	191,792	9,900	–	9,900	(89)	9,811
Goodwill amortisation	–	446	–	446	–	446
Total continuing operations – other	191,792	10,346	–	10,346	(89)	10,257
Railcare	21,125	(2,072)	(1,190)	(3,262)	–	(3,262)
Goodwill amortisation	–	315	–	315	–	315
Total Railcare	21,125	(1,757)	(1,190)	(2,947)	–	(2,947)
Group total	212,917	8,589	(1,190)	7,399	(89)	7,310

BMH includes turnover of £9.0 million and a loss before interest and tax of £0.1 million from acquisitions in the period.

	Group turnover Sept 1999 £'000	Group operating profit before operating exceptional items Sept 1999 £'000	Group operating exceptional items Sept 1999 £'000	Group operating profit after operating exceptional items Sept 1999 £'000	Share of operating profit of joint ventures and associates Sept 1999 £'000	Trading profit including joint ventures and associates Sept 1999 £'000
Continuing operations – other						
BES	96,700	6,693	–	6,693	–	6,693
BMH	109,722	4,012	–	4,012	–	4,012
Unallocated costs and other income	–	(945)	–	(945)	–	(945)
	206,422	9,760	–	9,760	–	9,760
Goodwill amortisation	–	723	–	723	–	723
Total continuing operations – other	206,422	10,483	–	10,483	–	10,483
Railcare	27,178	193	(2,152)	(1,959)	–	(1,959)
Goodwill amortisation	–	315	–	315	–	315
Total Railcare	27,178	508	(2,152)	(1,644)	–	(1,644)
Group total	233,600	10,991	(2,152)	8,839	–	8,839

Group statement of total recognised gains and losses

For the six months ended 30 September 2000

Year ended 31 March 2000 £'000		Six months ended 30 September 2000 (unaudited) £'000	Six months ended 30 September 1999 (unaudited) £'000
22,453	Profit for the financial period	9,468	10,267
(1,067)	Currency translation differences on foreign currency net investments and related loans	89	(265)
21,386	Total recognised gains and losses relating to the period	9,557	10,002

Reconciliation of movements in shareholders' funds

For the six months ended 30 September 2000

Year ended 31 March 2000 £'000		Six months ended 30 September 2000 £'000	Six months ended 30 September 1999 £'000
126,755	Shareholders' funds at start of year	143,932	126,755
109	Shares issued in the period	395	31
21,386	Total recognised gains and losses relating to the period	9,557	10,002
(4,318)	Dividends	(1,560)	(1,524)
17,177	Net movement in shareholders' funds	8,392	8,509
143,932	Shareholders' funds at end of period	152,324	135,264

Reconciliation of operating cash flow

For the six months ended 30 September 2000

Year ended 31 March 2000 £'000		Six months ended 30 September 2000 (unaudited) £'000	Six months ended 30 September 1999 (unaudited) £'000
20,754	Trading profit including share of joint ventures and associates	7,310	8,839
10,854	Depreciation	6,024	4,871
200	Amortisation of intangibles	136	119
(2,057)	Amortisation of goodwill	(761)	(1,038)
45	Share of joint ventures/associates	89	-
8,189	Movement on working capital	(25,505)	(18,968)
161	Other items	-	-
38,146	Cash flow from operating activities	(12,707)	(6,177)