Babcock International Group PLC
Annual report and accounts 2002

Focusing on support services

babcock group

Chairman's statement

I am delighted to report that we have made considerable progress during the last year towards meeting our realignment objectives.

Achievements during the year

Delivery

Training and Support has delivered above expectations

Performance

Technical Services continues to perform well

Focusing

Non-core disposal programme on track

New contracts

Over £700m of new contracts secured

Opportunities

Exploring further openings to progress support services

Last year's report outlined the company's strategy which was to become a dedicated support services business. I am delighted to say that we have made considerable progress during the past 12 months towards meeting our strategic objectives. Not only did we acquire the defence services business from Hunting plc, but we also secured major new contracts with the Ministry of Defence, which have transformed your company into a leading supplier of support services and facilities management to the Ministry. We now intend to build on this success by securing further contracts in the defence sector and by developing a complementary position in the civil support services market. The recent agreement to acquire Service Group International (SGI) will accelerate this move. In addition, we have actively pursued our intention of reducing our involvement in the engineering sector. We concluded the sale of Railcare and continued to dispose of the Materials Handling businesses. The remaining Materials Handling businesses now comprise less than 15% of total group turnover, and we would hope to complete the sale of the residual businesses within the coming year.

The world economy was unfavourable, particularly for materials handling, but we had already downsized these operations prior to 11 September and this minimised the impact. Conversely, the robustness of our support services businesses, with their long-term government contracts, amply indicated the soundness of the Babcock strategy.

We have presented our results this year in a somewhat different format to be more informative and to represent the type of support services businesses in which we operate. (We have, of course, realigned the prior year results so that they are on a consistent basis.)

Total group turnover declined slightly, primarily as a result of disposals made during the year, this being largely offset by the inclusion of the defence services business, which is now reported under our Training and Support segment. Operating profit before goodwill and exceptional items increased by over 50% to £14.9 million, largely as a result of the sale of loss-making businesses. Similar figures for continuing operations showed a slight decrease to £15.4 million. Nevertheless, the action taken to tackle the losses in the Materials Handling businesses should provide the basis for further improvement in the current year.

At Rosyth, which is now reported as a part of the Technical Services segment, the confirmation of the forward programme, despite the budgetary constraints of the Ministry of Defence, was gratifying. So too, was the award of the contract to manage HM Naval Base Clyde. The latter represents a contract of £350 million over the next five years, and this is expected to be extended in time and scope. Equally pleasing was the bid renewal rate in the newly acquired defence services business, which achieved 100%.

The sale process for the Materials Handling businesses proved extremely difficult and confirmed that we were unlikely to achieve book value for the businesses. Thus in addition to the losses incurred on the sale of these businesses the Board has decided to write off the goodwill on the residual businesses. This plus the restructuring charges, resulted in a goodwill and exceptional charge of £27.3 million. As much of this does not affect the group's cash flow we closed the year with a very modest level of debt.

The Board is recommending a final dividend of 1.75p per share, giving a total dividend for the year of 2.85p per share: an increase of 7.5% on the previous year.

The year to March 2002 was one of considerable change at Babcock. In addition to the above operating events, we relocated the Headquarters to Central London to enable us to be closer to our principal customer and to our advisers. The new offices are more in keeping with a modern and service orientated business.

There have also been a number of changes to the Board during the year. We are delighted to welcome Bill Tame as Finance Director who joined us from Scapa plc and John Rennocks as a non-executive Director and Chairman of the Audit Committee. Within the last few weeks, we have been fortunate to recruit Peter Rogers who will join as Chief Operating Officer.

Two executive Directors, Nigel Young and Murray Easton, have left the Board to pursue other career opportunities. My colleagues and I would like to thank them for their contributions during their periods with Babcock. Alan Wheatley will also retire at the Annual General Meeting after nine years as a non-executive Director. Alan has overseen some very significant changes in Babcock and again we thank him for his contribution.

The realignment of Babcock has inevitably created uncertainty amongst all our employees, and I would like to thank them for their forebearance, particularly those people whose jobs have been affected. I am sure you, the shareholders, would wish to be associated with these sentiments.

We are well advanced with the transformation process and must now focus our resources on growing our business. With the continuing trend for corporations and governments to outsource their activities, the opportunities are significant and we are positioning your company to seize them. These growth opportunities are the reasons why support services companies are more highly regarded by the investment community than traditional engineering companies and, by achieving this recognition, we will materially enhance shareholder value, which is the ultimate objective of your Board.

Gordon Campbell

Gordon Campbell Chairman

Update on strategy

Extending our range of skills and expertise in support services and facilities management to become a dedicated services business...

...and realigning the business to fit with our strategy.

Has the realignment enhanced shareholder value?
This depends on the definition of shareholder value. If one looks at the performance of the Babcock share price over the last 12 months, it has outperformed the FTSE All Share Index. This is probably the best measure of relative shareholder value. Our objective is to continue this progress, and we believe that there is still room for further advancement of the share price as more investors recognise the attractions of the Babcock business model.

Has the acquisition of the defence business from Huntings met expectations?
The answer to this is clearly 'Yes'. The business has marginally outperformed the original Information Memorandum's predictions. Only the Acetech business, which supplies technicians to the airline industry, has underperformed and this was more than offset by the other businesses. Acetetch, of course, was one of the few businesses in the Babcock portfolio which was materially affected by 11 September.

What progress has been made on the disposals of the Materials Handling businesses?
We said in the last Annual Report that these businesses would have to be sold in discrete parts rather than a single transaction. Of the seven discrete businesses in the materials handling sector, we have disposed of four, including the largest one, being the cement business. Of the three remaining businesses we intend to keep one, which is involved in servicing pipelines in the United States and which fits with a similar business we have in the UK, and we hope to dispose of the remaining two businesses, which comprise less than 15% of our anticipated turnover, within the year.

Can you develop a business outside the defence market?
We can develop a business outside the defence industry but this will take some time using our own resources. We have been putting these resources in place, and I anticipate some success this year. However, our progress would be substantially enhanced by a suitable acquisition and we keep this possibility under active review.

We note that many companies are concerned about their pension funds and the effect of FRS17. Will this have an impact on Babcock?
Babcock had a very substantial pension surplus, and whilst this may be reduced because of the decline in equity markets, our funds were substantially invested in gilts, compared to many other funds, and we anticipate a comfortable surplus remaining. FRS17 will not affect the funding requirements and we expect to continue with a pension contribution holiday for some time. However, if FRS17 is implemented in its current form, it will have an impact on the accounting treatment of defined benefit schemes. We give further explanation in the 'Notes to the Accounts'.

What are the next steps?
We have three key actions to implement in the coming year. Firstly, we aim to continue with the disposal of the materials handling businesses. Secondly, we are targeting a number of major new contracts with the Ministry of Defence and thirdly, we are looking to develop our non-military businesses. Success in these three areas should see us firmly identified as a support services and facilities management business with the ensuing benefits to shareholders.

Technical Services

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

£208.5m

Turnover £ (2001: £206.5m)

Training and Support

Training, operating and maintenance services primarily for the MoD

£98.7m

Turnover £ (2001: £35.1m)

Materials Handling

Material processing technologies and engineered systems

£51.7m

Turnover £ (2001: £64.1m)

Discontinued businesses

Businesses sold include wood handling, cement, plasterboard drying and BMH Americas

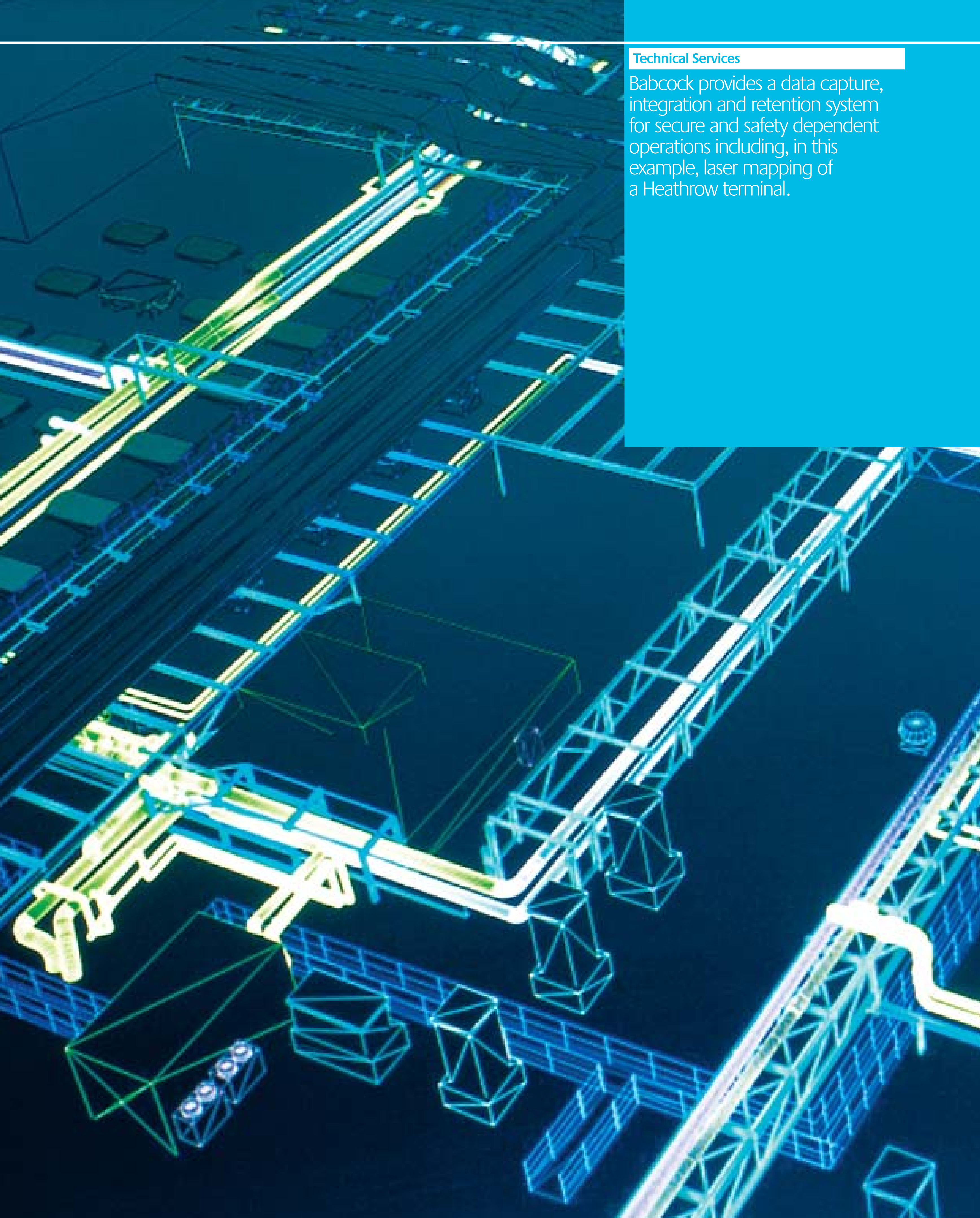
£64.1m

Turnover £ (2001: £135.3m)

Training and Support

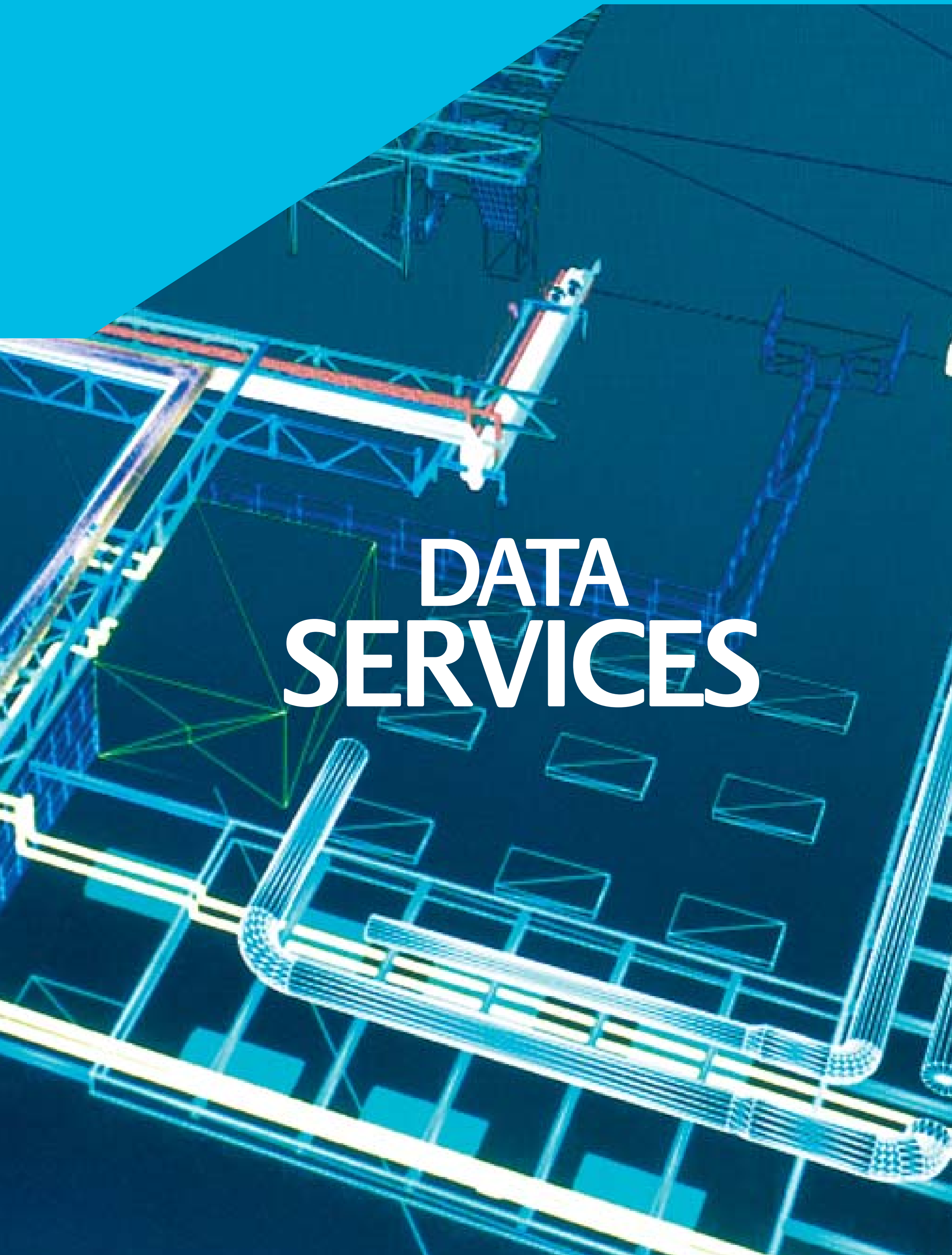
Babcock provides the ground side service and maintenance for the UK's Hercules fleet at RAF Lyneham as part of a £40 million contract which was renewed in 2001/02.

AVIATION SUPPORT



Technical Services

Babcock provides a data capture, integration and retention system for secure and safety dependent operations including, in this example, laser mapping of a Heathrow terminal.



DATA SERVICES

INTEGRATED FACILITIES MANAGEMENT

Training and Support

Babcock manages integrated facilities such as RAF Cranwell where it provides support services from fire protection to aircraft maintenance and flying training, in a £12 million per annum contract renewed again in 2001/02.

Technical Services

Babcock provides complete facilities management for large secure operations such as HM Naval Base Clyde (Faslane) as part of a recently signed £350 million contract. This involves the management of some 2,200 employees on the base.

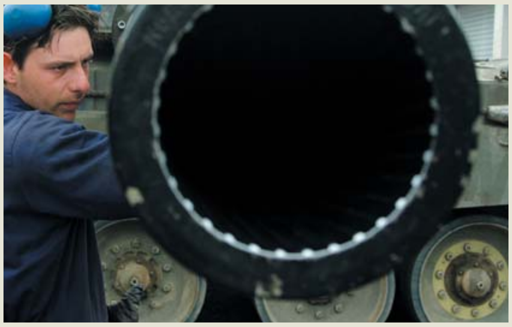
COMPLETE SOLUTIONS

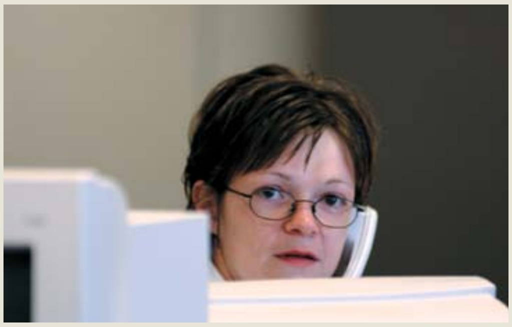
Training and Support

Babcock maintains the RAF's flight simulators and provides training packages for crews at 13 locations in the UK with a contract worth £4.5m per annum renewed in 2001/02.

SPECIALIST TRAINING

Operations review





The two core businesses, being Technical Services and Training and Support, had a good year, with turnover increasing despite the overall difficult economic circumstances. The benefits of long-term orders and a secure customer base showed through. Turnover in both of these two segments rose over the previous year and their order book closed at £237 million. These figures exclude the contract to manage the naval base on the Clyde (Faslane and Coulport), which totals some £350 million over a five year period and with an option to renew for a further five years. The results from the Materials Handling segment were distorted by the disposal process which occurred during the year. However, the environment in which the Materials Handling businesses operate was extremely hostile, and losses occurred until the final quarter. Despite this, in the final quarter the cost cutting implemented in the residual businesses resulted in a small profit.

Babcock is now a significantly changed business, with the disposal of the Materials Handling businesses almost complete and the focus clearly on supplying support services, largely to the Ministry of Defence. The business is characterised now by longer term order books, with good visibility of earnings and a business which is much more service orientated and with less investment in fixed assets.

Technical Services

The Technical Services segment includes the businesses which were previously described as BES and the pipeline services business of Eagleton in the United States. The BES group of businesses increased turnover slightly on the previous year and operating profits, pre-exceptionals and goodwill, increased by 14%. This was due to an exceptionally good performance from the dockyard offset by a disappointing year in FBM, the fast ferry design and build unit. The dockyard at Rosyth completed the refit of HMS Ark Royal on time even with a 50% increase in the extent of the contract from its original inception. Despite the completion of the Ark Royal, the order book increased, with confirmation of refits for five Type-23 frigates and the commencement of the refit of HMS Invincible. HMS Invincible is scheduled to complete in November 2002 and will then be replaced by a larger contract to refit HMS Illustrious. This gives Rosyth a full order book for the next two-three years.

In addition to the refit work contracts were secured for new build. Five new vessels were completed for the RNLI for work on the River Thames, and building was commenced for six aircrew training vessels (three of which will be built in the facility in the Philippines) and for 16 landing craft for the Royal Navy. In addition, the order for 22 Mega-3 rail freight wagons was confirmed and delivery will commence shortly.

FBM had a particularly poor year, although the order book improved considerably in the final quarter. There remain many opportunities for FBM designed vessels, with the largest current opportunity to upgrade bridge erection barges for the US Army.

The operation in New Zealand, which provides services primarily to the New Zealand Navy, had an excellent year.

At the end of the year the government confirmed its intention to award the management contract for the naval base on the Clyde (Faslane and Coulport) to Babcock. We anticipate this programme to commence around October 2002. 1,750 government employees will be transferred to Babcock and some 500 naval staff seconded. Babcock will be responsible for all the non-military activities on the naval bases except for security and the handling of nuclear weapons. The contract is worth £350 million over the next five years and this is expected to be extended both in time and scope. The basis of the contract is that Babcock and the Ministry of Defence will share the cost savings that will be made.

The pipeline services business of Eagleton in the United States saw profits decline after an excellent previous year. However, this business, which is not dissimilar to one carried out in the United Kingdom for the Ministry of Defence, has solid underlying profitability and can make outstanding profits if a large contract is secured. This was the case in the year ending March 2001.

Training and Support

This segment comprises the HCS support services business acquired from Hunting plc in March 2001 and the business in Southern Africa. Because of the acquisition, sales increased significantly to £99 million.

HCS comfortably exceeded expectations in both turnover and profit despite a setback in the Acetech operation which provides temporary and permanent maintenance personnel to major airlines and other blue chip companies in a variety of segments. Acetech, of course, suffered badly after 11 September but began to recover towards year-end. The main business exceeded the forecast in the original Information Memorandum. HCS had 100% success in contract renewals or extensions. These renewals or extensions were achieved for the facilities management and engineering maintenance contract at RAF Lyneham, for the multi-activity contract at the RAF College, Cranwell, the flying and maintenance of the Royal Navy Hawks at Culdrose, and for a number of smaller contracts in the UK and Germany.

During the year, bids were submitted for three major contracts, being the management of the Royal School of Military Engineering (RSME), the Airfield Support Services Project and the Armoured Vehicle Training Service. This latter project would absorb the contract that we already hold at Bovington to train soldiers of the Royal Armoured Corps in gunnery, driving and communication skills. These contracts, were they all to be won, would be worth in excess of £3.3 billion to Babcock over a 20-30 year period.

The RSME bid is the most advanced and Babcock is now one of two short-listed companies bidding for this contract. The contract is expected to go to preferred bidder status before the completion of this calendar year. The costs of preparing these bids have been charged to the profit and loss account of HCS.

Africa had a good year in terms of increased turnover, although the depreciation of the Rand against Sterling had a significant effect. The African operations traded profitably but margins are still lower than is desirable. This is expected to improve in the current year and sales are anticipated to grow further.

Materials Handling

The remaining Materials Handling businesses are the Marine business, which supplies ship-unloading systems, and Chronos Richardson, which supplies equipment for bagging and batching of powders. The Marine business had a poor year as orders continued to decline in the first half. However, an aggressive downsizing of the operation restored it to breakeven in the final quarter and the order book, going into the current financial year, was modestly better.

Chronos Richardson struggled throughout the year but showed some improvement in the final quarter. Both these businesses remain for sale, although the Marine business will have to establish a profit record before this is achievable.

Discontinued businesses
During the year we sold the wood handling business in Finland, the plasterboard dryer business in the United States and the major part of the Materials Handling segment, being the cement business based in Germany. Shortly after the year end we also sold the residual Materials Handling businesses in the United States.

The Railcare business was also sold in May 2001 as announced in last year's Report and Accounts.

These disposals had comprised some 70% of the turnover in Materials Handling and Railcare and it is anticipated that, in the current year, the Materials Handling businesses will be less than 15% of the group's turnover.

The disposals, however, showed that the book value (including goodwill) of the Materials Handling businesses was above their realisable value. The goodwill of the residual Materials Handling businesses has, therefore, been written off.

Summary and prospects
A very material change has been implemented in the past 12 months. The service side of the business has increased and the engineering side has been significantly reduced. Babcock is now clearly a supplier of support services and facilities management, mainly to the Ministry of Defence. This will provide a secure base-load to take the Babcock business forward, and Babcock will seek to grow the business by securing further contracts with the Ministry of Defence and by developing a civil arm. These markets are growing rapidly and Babcock is well placed to take its share of this growth.

Achievements during the year

Turnover from continuing operations

Up 17% to £358.9m

Cash flow from operating activities

£19.8m up from £(11.0)m

Earnings per share pre non operating exceptionals and goodwill

4.51p from (0.35p)

Dividend

Up 7.5% to 2.85p

Financial review

Improved working capital management and operating profit pre-goodwill amortisation yielded cash flow from operations of £19.8 million, an improvement of £30.8 million from last year.

In this the second year of the group's transition from an engineering based conglomerate into a support services business, the results reflect a full year's trading from HCS, acquired in March 2001 from Hunting plc, as well as the disposal of the majority of the Materials Handling businesses. The impact of this transition and the external economic, legislative and market environments have impacted significantly upon the financial results for the year to 31 March 2002.

Turnover and operating profit

Turnover from continuing businesses increased by 17.4% to £358.9 million, including a full year's sales in Training and Support from HCS at £63.6 million as well as a high level of naval vessels refitting activity at the Rosyth dockyard within Technical Services. Sales from the remaining Materials Handling businesses declined by £12.4 million as a result of poor economic conditions generally and a weak marine sector in particular. Group operating profit from continuing businesses, pre-goodwill amortisation and exceptional charges, was £15.4 million compared to £15.8 million last year after losses within Materials Handling, which increased from £1.0 million to £4.2 million this year. HCS, in its first full year within the group, generated operating profits of £5.7 million.

Including discontinued businesses, Group turnover decreased to £423.0 million from £441.0 million last year whilst operating profit pre-goodwill amortisation and exceptional charges increased by £5.3 million to £14.9 million, reflecting the positive effect of the disposals of the loss making businesses of Railcare and the majority of the Materials Handling businesses as set out in note 30.

Goodwill amortisation

Following a review of the carrying value of the remaining investments in the Materials Handling businesses, an exceptional write off of £7.9 million has been included in the goodwill charge for the year. As the write off relates to acquisitions made in prior years there were no cash consequences within the year. Amortisation of goodwill arising on the acquisition of HCS, which is amortised over 20 years, is included for a full year, generating a total net charge of £10.0 million for the year to 31 March 2002 against a net credit for last year of £1.5 million.

Operating exceptional charges

Restructuring charges incurred in reducing the operational gearing of the Materials Handling businesses totalled £2.9 million in the year and assisted the return to profitability of the continuing operations in the final quarter of the financial year. Costs of £0.6 million in respect of an aborted acquisition project were incurred during the first half of the year and have been taken to profit and loss through exceptional charges.

Group operating profit/(loss)

After charging goodwill amortisation and operating exceptional items, the group operating profit was £1.4 million, improving £6.1 million from a loss of £4.7 million in the previous year.

Non-operating exceptional charges

Following the decision of the Board to focus the group on support services and to exit the Materials Handling businesses, the programme of disposal commenced within the year to 31 March 2002. In the current uncertain economic environment, it has not been possible to dispose of the businesses as one division and as a result the operation has been handled on a business-by-business basis. The process has also not been helped by poor operating results from these companies during the year. For the year to 31 March 2002, losses on disposal and asset value impairment write downs relating to Materials Handling businesses totalled £13.8 million.

Interest (payable)/receivable

Bank borrowings taken out to finance the acquisition of HCS in March 2001 and a return of cash to shareholders left the group marginally borrowed during the second half of 2001/02 and led to a net interest payable position for the year of £1.0 million. Committed facilities of £40 million were available to the group of which £20.0 million were drawn at 31 March 2002 as detailed in note 22.

Following the year end the group purchased the business and assets of SGI Limited for an initial cash consideration of £21.3 million. This transaction was financed from additional banking facilities. A further £5.5 million of consideration, payable in cash, is conditional upon the future success of the acquired business in securing specific contracts.

Review of results

£ million	Turnover		Operating profit/(loss) pre-goodwill and exceptionals		Goodwill		Operating exceptional charges		Group Operating Profit/(Loss)	
	2001/02	2000/01	**2001/02**	2000/01	**2001/02**	2000/01	**2001/02**	2000/01	**2001/02**	2000/01
Technical Services	**208.5**	206.5	**16.2**	18.1	**2.1**	2.5		(0.3)	**18.3**	20.3
Training and Support	**98.7**	35.1	**6.1**	0.8	**(3.1)**	(0.2)			**3.0**	0.6
Materials Handling	**51.7**	64.1	**(4.2)**	(1.0)	**(8.7)**	(0.7)	**(1.6)**	(9.8)	**(14.5)**	(11.5)
Unallocated			**(2.7)**	(2.1)			**(0.6)**		**(3.3)**	(2.1)
Continuing	**358.9**	305.7	**15.4**	15.8	**(9.7)**	1.6	**(2.2)**	(10.1)	**3.5**	7.3
Discontinued	**64.1**	135.3	**(0.5)**	(6.2)	**(0.3)**	(0.1)	**(1.3)**	(5.7)	**(2.1)**	(12.0)
Group	**423.0**	441.0	**14.9**	9.6	**(10.0)**	1.5	**(3.5)**	(15.8)	**1.4**	(4.7)

Loss before tax, earnings per share and dividends

Including the group's share of losses of associated companies, the loss before tax for the year to 31 March 2002 was £13.9 million, up from a loss of £7.3 million in 2000/01. The significant adverse impact of the Materials Handling businesses, in terms of operating losses, losses on disposal and asset value impairment write downs, fully justifies the decision to exit these businesses.

Operating losses and losses on disposals were principally incurred overseas such that no corresponding profits were available for offset and hence the group's tax charge of £3.1 million arose principally on profits generated by the UK support services businesses. The effective rate on underlying profit is 25.8% (2000/01: 49.6%).

The basic loss per share was 11.68p (2000/01: loss 3.34p). Excluding non-operating exceptional items and goodwill amortisation, basic earnings per share were 4.51p (2000/01: loss 0.35p). The Board is recommending a final dividend per share of 1.75p per 60p ordinary share in issue making a total for the year of 2.85p. This represents an increase over last year of 7.5% and reflects the Board's confidence in the strong performance of the support services businesses. At this level and based upon attributable profit before non-operating exceptional items and goodwill amortisation, the dividend on ordinary shares is covered 1.6 times.

Pensions

The group operates a number of defined benefit schemes for its employees as described in note 25. Based upon the most recent actuarial valuations as set out in the notes to the accounts, the principal defined benefit schemes were in substantial surplus and as such, after taking actuarial advice, the group made no contribution to the schemes during the year. The contribution holiday will continue at least until the next actuarial reviews.

The group continues to apply SSAP 24 in accounting for retirement benefits and the impact on the financial statements of the group is as set out in note 25. As described below, FRS17, Retirement Benefits, was issued in 2001. For the accounts to 31 March 2002, the Board have applied the transitional rules as required by the standard and the relevant disclosures are set out in note 25. The pension fund surplus to be included in the balance sheet at 31 March 2002 would have been £133.8 million, before providing for deferred tax.

Cash flow from borrowings

Improved working capital management and operating profit pre-goodwill amortisation yielded cash flow from operations of £19.8 million, an improvement of £30.8 million from last year. Capital expenditure and financial investment including the effect of finance leases increased by £2.1 million from last year to £9.3 million, the majority of which related to additional investment in the Technical Services businesses.

Cash and debt movement arising from acquisitions and disposals of £11.8 million includes payments of deferred consideration and adjustments to consideration following the agreement of completion accounts on prior year acquisitions of £7.4 million and net cash transferred on disposals net of consideration received of £6.5 million. After payment of interest, tax and dividends of £8.3 million and movement in share capital of £2.7 million, the net financing requirement fell from £105.2 million in 2000/01 to £7.1 million in the year to 31 March 2002.

Net borrowings at the year-end increased to £8.4 million from £1.3 million at the previous year end. The Group maintains committed bank facilities in the UK as set out in note 22. It is Group policy to ensure sufficient un-drawn facilities are in place to cover volatility in its current operational and financial commitments.

Treasury operations and controls

Foreign currency risk: It is group policy that operating businesses maintain forward cover for foreign exchange exposure in relation to transactions in as risk averse a way as possible. Speculation on future exchange rate movements is forbidden. When foreign currency options provide the most effective means of cover for transactions, for example where flows are uncertain, these instruments may be used with the express permission of the Group

Group operating profit/(loss)

£ million	**2001/02**	2000/01
Group operating profit/(loss)	**1.4**	(4.7)
Share of losses of associates	**(0.5)**	(0.1)
Non-operating exceptional charges	**(13.8)**	(6.2)
Interest (payable)/receivable	**(1.0)**	3.7
Loss before tax	**(13.9)**	(7.3)
Taxation	**(3.1)**	(1.2)
Loss after tax	**(17.0)**	(8.5)

Finance Director. It is not group policy to hedge foreign currency exposure on translation of profits and net assets of overseas subsidiaries.

Management of net debt: Details of sources of debt, maturity and interest rates are set out in note 22. Currency borrowings are taken out in relation to overseas businesses operational requirements and as such will provide a partial hedge against the effect of currency volatility on overseas net assets and income. Surplus cash is invested with prime rated counterparties.

Accounting developments

A number of new accounting standards introduced during the past 18 months have been reflected in the reported results for the year. FRS17, Retirement Benefits, requires companies operating defined benefit schemes to incorporate scheme surpluses or deficits into the balance sheet.

Year to year movements in the surplus or deficit are required to be charged either to the profit and loss account or statement of total recognised gains and losses, depending on the origin of the movement. Full implementation of the standard is mandatory for accounts prepared in respect of year-ends falling after 22 June 2003. Transitional rules apply for the year under review such that disclosure of the value of scheme assets and liabilities and the assumptions used in arriving at the valuations is required and this is set out in note 25 to the accounts. Under the assumptions used in arriving at the FRS17 position at 31 March 2002, FRS17 would not have had a material effect on the group's profit before tax. The net balance sheet surplus would have been higher than that currently reported under SSAP 24. There would have been no cash flow impact of the change.

FRS18, Accounting Policies, requires the Directors to regularly review the accounting policies adopted and to ensure that they are appropriate for the circumstances of the group. The review has been undertaken and the Directors are satisfied that the requirements of the Standard have been met.

FRS19, Deferred Tax, requires deferred tax to be provided for on a 'full provision' basis on most types of timing difference. The Standard was adopted for the first time by the group in the Interim accounts to 30 September 2001 with a consequent adjustment to comparative numbers, the effect of which is set out in note 12 to the accounts.

The Urgent Issues Task Force (UITF) issued UITF Abstract 34 – Pre-contract costs in May 2002. The Abstract requires that pre-contract costs incurred before it is virtually certain that a contract will be obtained should be charged immediately as expenses. Directly attributable costs incurred after that point should be recognised as an asset and charged as expenses during the period of the contract. Costs that have already been charged to the profit and loss account should not be reinstated as an asset when a contract is obtained. This Abstract is of particular relevance to the group in the context of its PFI and PPP bid activity. Group policy has been and will continue to be to expense all such costs in line with the requirements of the Abstract and therefore there has been no impact of this in the period under review.

Bill Tame Group Finance Director
17 June 2002

Cash flow and borrowings

£ million	**2001/02**	2000/01
Cash flow from operations	**19.8**	(11.0)
Capital expenditure and financial investment	**(9.3)**	(7.2)
Acquisitions and disposals	**(11.8)**	(59.8)
Interest, tax and dividends	**(8.3)**	(2.6)
Issue and redemption of share capital	**2.7**	(25.3)
Translation differences	**(0.2)**	0.7
Financing requirement	**(7.1)**	(105.2)

Directors and Company Secretary

G A Campbell (Age 55)
Joined the Board as Group Chief Executive on 10 October 2000. Appointed Chairman on 1 January 2001. Former Chairman of Acordis Group, which had been formed through combining the fibres operations of Akzo Nobel and Courtaulds plc and, previously, Chief Executive of Courtaulds plc. Currently a non-executive Director of British Nuclear Fuels plc, Wade Allied Holdings Ltd, Jupiter Split Trust plc and is a Trustee Director of the British Heart Foundation. Mr Campbell is Vice President of the Royal Academy of Engineering.

The Rt Hon Lord Hesketh KBE (Age 51)**
Joined the Board on 6 October 1993. Appointed non-executive Deputy Chairman on 26 April 1996. A non-executive Director of BAE SYSTEMS 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.

J L Rennocks (Age 56)*
Joined the Board on 13 June 2002. Mr Rennocks was, until last year, Finance Director of Corus Group PLC and is currently non-executive Chairman of KS Biomedix PLC and Deputy Chairman of Inmarsat Ventures plc. Mr Rennocks also holds several other non-executive positions. Member of Babcock International Group PLC's Audit and Senior Appointments and Remuneration Committees. Mr Rennocks will become the Chairman of the Audit Committee following Mr Wheatley's retirement at the forthcoming Annual General Meeting.

P L Rogers (Age 54)
Joined the group as Chief Operating Officer on 1 June 2002 and appointed to the Board on 13 June 2002. Formerly Deputy Chief Executive of Acordis Ltd and a former Main Board Director of Courtaulds plc.

D J Shah (Age 49)*
Joined the Board on 15 June 1999. Mr Shah is Vice President, Acquisitions and Divestments in BP p.l.c. and until recently was a member of DTI's Renewable Energy Advisory Committee 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.

Dr G Schäfer (Age 62)
Appointed Managing Director of BMH Technologies 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.

M J Turner CBE (Age 53)*
Joined the Board on 5 June 1996. Mr Turner is Chief Executive 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.

A E Wheatley (Age 64)*
Joined the Board on 1 January 1993. Deputy Chairman of Ashtead Group PLC and Chairman of Special Utilities Investment Trust plc. Chairman of Babcock International Group PLC's Audit Committee and a member of its Senior Appointments and Remuneration Committee. Mr Wheatley will be retiring at the forthcoming Annual General Meeting.

W Tame (Age 47)
Joined the Board as Group Finance Director on 25 January 2002. Formerly Finance Director of Scapa Group PLC and previously with Akzo Nobel and Courtaulds plc.

Company Secretary
A N Dungate (Age 45)
Appointed as Group Company Secretary and General Counsel on 1 February 2002. A Solicitor, he was formerly General Counsel and Company Secretary of Arjo Wiggins Appleton PLC.

*Denotes independent non-executive Director.

**Denotes senior independent non-executive Director.

Directors' report

The Directors present their Annual Report and the audited Financial Statements of the group for the year ended 31 March 2002.

Result and dividends
The loss attributable to shareholders for the financial year was £17.1 million (2001: loss £5.3 million). An interim dividend of 1.10p per 60p ordinary share was declared in the year (2001: 1.10p per 60p ordinary share). The Directors propose to recommend the payment on 9 August 2002 of a final dividend of 1.75p on each of the ordinary shares of 60p entitled thereto and in issue on 12 July 2002 (2001: 1.55p per 60p ordinary share). The retained loss for the financial year was £21.3 million (2001: loss £9.1 million).

Business review and group structure
The Operations and Financial reviews of the group's activities and future developments are set out on pages 14 to 21. Other matters material to an appreciation of the group's position are contained in the Chairman's statement on pages 1 to 3. The principal subsidiary and associated undertakings are set out on page 61.

Acquisitions and disposals
Details regarding the group's acquisitions and disposals during the course of the year are set out in note 30 on page 58.

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 £35,715 (2001: £13,012) 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. The company had no trade creditors at either the current or previous financial year end.

Directors
The names of the present Directors, together with brief biographical notes, are shown on page 22.

Mr N Young resigned as a Director on 30 November 2001 and Mr M Easton resigned as a Director on 31 May 2002. Lord Hesketh, Dr G Schäfer and Mr D Shah retire by rotation at the company's forthcoming Annual General Meeting under the provisions of Article 101 of the company's Articles of Association and the Combined Code. Being eligible, they offer themselves for re-election at that meeting. If he is not re-elected, the remaining period of employment under Dr Schäfer's service agreement will be three months. Lord Hesketh and Mr D Shah's appointments are terminable at will. Mr J Rennocks, Mr P Rogers and Mr W Tame, who were appointed to the Board on 25 January 2002 (Mr Tame) and 13 June 2002 (Mr Rennocks and Mr Rogers), retire as directors at the forthcoming Annual General Meeting, under the provisions of Article 108 of the company's Articles of Association and, being eligible, offer themselves for election. Should Mr P Rogers or Mr W Tame fail to be elected at the forthcoming Annual General Meeting, the remaining period of employment under their service agreements would be 12 months. Mr Rennocks' appointment as a Director is 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 30 and 31.

Significant shareholdings

As at 17 June 2002, the company has been notified of the following major interests in its ordinary shares which represent 3% or more of its issued ordinary share capital in accordance with Sections 198 to 208 of the Companies Act 1985.

Name	Number of 60p ordinary shares	%
UBS Global Asset Management (UK) Limited and its associates in the UK	15,916,601	10.75
Schroder Investment Management Limited	15,024,444	10.15
HSBC Asset Management (Europe) Limited	14,840,982	10.02
Fidelity International Limited	14,676,806	9.91
Zurich Financial Services	8,805,973	5.95
Lazard Freres & Co., LLC	6,838,362	4.62
Legal & General Investment Management Limited	5,857,764	3.96

Sharesave scheme

The Babcock International Group PLC Sharesave Scheme was launched in December 1997. The options so far granted under that Scheme matured on 1 February 2001 and during the period 1 April to 31 July 2001 options were exercised over 323,801 shares at an option price of 62.3p.

The Babcock Approved Employee Share Ownership Plan ('AESOP')

The partnership shares element of the AESOP was launched in December 2001 with the group's employees having the opportunity to purchase shares in Babcock, on a monthly basis, in a cost effective and tax efficient way.

Personnel

The group comprises a diverse range of companies that have all developed and implemented progressive policies, within the overall framework of each Division, to ensure that Babcock's principle of recognising the talent of our employees and encouraging improvement is actively followed. This includes structured training and development programmes ranging from apprentice to technician and management.

Communication systems include regular cascade briefings, director/employee briefings throughout the organisation, employee consultation, weekly newsletters, newspapers, e-mail and the Babcock website. In many of our companies there is a regular briefing on market prospects and company performance to Trade Union representatives, resulting in a highly constructive and healthy dialogue.

We give full consideration 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, our 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 the Sharesave Scheme, AESOP 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.

Health, safety and the environment

We maintain as a primary objective the highest standards of safety of our employees, the public and the environment. All companies operate comprehensive health, safety and environmental management and training programmes, for which Divisional Managing Directors have clear operational responsibility. These (including risk assessment activities, incidents, claims and benchmarking data) are reported on to, and reviewed at, every Board Meeting and are also the subject of monthly reporting to and review by the Executive Committee. Both internal and external audits of compliance with legal requirements and company policies are carried out. In the Technical Services Division the operations at Rosyth have been awarded the British Safety Council 5 Star Award for their Safety Management System. Best practice is communicated and shared across the group.

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 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 Berkeley Hotel, Wilton Place, Knightsbridge, London SW1X 7RL on Friday, 26 July 2002, at 11.00 am. The notice of meeting is on page 62 of this document.

Special business
Resolutions 4(1) to 4(7) set out in the notice of Annual General Meeting constitute special business.

Resolution 4(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 17 June 2002, is exercisable with a minimum purchase price of 60p 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 31 December 2003 or, if earlier, on the conclusion of the Annual General Meeting of the company to be held in 2003. 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 17 June 2002 was 8,704,246, representing 5.88% of issued share capital. If the full authority to buy back shares were to be used, the said outstanding options would represent 6.53% of issued share capital.

Resolution 4(2), which will be proposed as a Special Resolution, requests authority to adopt new Articles of Association. The company adopted the current Articles of Association in July 1999 and these were amended in October 2000. It is now proposed that the Articles of Association be replaced by new Articles to take account of recent developments, including in particular electronic communications.

The adoption of new Articles of Association is designed to bring the company's Articles into line with modern best practice and to consolidate the effect of recent relevant changes in legislation. The principal differences between the company's existing Articles of Association and the proposed new Articles of Association are summarised below.

Share capital – following the redemption by the company of all the issued 'B' redeemable preference shares of 18p each (the "B' Shares'), the directors intend to exercise their power to consolidate and reclassify the authorised 'B' Shares into ordinary shares of 60p each prior to the Annual General Meeting. Following the exercise of this power, it is intended that all references to the 'B' Shares and to the rights attaching to them will be removed from the Articles of Association.

Electronic communications – in December 2000, the Companies Act 1985 (Electronic Communications) Order 2000 (the 'Order') came into force. This permits a company, if shareholders so agree, to issue notices of general meetings, annual reports and accounts and summary financial statements and to receive proxy appointments by electronic means. It is regarded as best practice that companies should take appropriate steps to amend their Articles of Association specifically to facilitate the use of electronic communications as soon as possible. The amendments are in accordance with the Order and the guidelines recommended by the Institute of Chartered Secretaries and Administrators. None of the changes will require either the company or any individual shareholder to send or receive documents or notices by electronic mail, they merely permit this to occur where both the company and the relevant shareholder agree.

Register of Members – the Uncertificated Securities Regulations 2001 (the 'Regulations') have made certain changes to the law relating to the Register of Members of companies whose shares participate in CREST, principally to the effect that as regards shares held in CREST, the records held by CREST, rather than the records held by a company's registrars, constitute the Register of Members of a company. The opportunity is being taken to conform the company's new Articles of Association to the Regulations.

Retirement of Directors – the requirement in the company's existing Articles for one-third of the Directors who are subject to retirement by rotation to retire by rotation at each Annual General Meeting has been deleted and a new Article added providing for Directors to submit themselves to reappointment at every third Annual General Meeting as required by the Combined Code, a practice which the company follows in any event.

The other differences between the existing Articles and the proposed new Articles of Association are of a minor or technical nature.

Resolutions 4(3) and 4(4), which will be proposed as ordinary resolutions, relate to the appointment of new Auditors and the authorisation of the Directors to fix the Auditors' remuneration.

Resolutions 4(5) and 4(6), which will be proposed as ordinary resolutions, seek your authority to amend the rules of The Babcock International Group PLC Sharesave Scheme (the 'SAYE Scheme'), The Babcock 1999 Approved Executive Share Option Scheme (the 'Approved Scheme') and The Babcock 1999 Unapproved Executive Share Option Scheme (the 'Unapproved Scheme').

The change to the rules of the SAYE Scheme would remove the 3% in three years and 5% in five years limits on the number of shares over which subscription options can be issued as set out in rules 5.2 and 5.3 of the SAYE Scheme. Such inner flow limits are no longer required by the guidelines issued by the Association of British Insurers and shareholder approval for removal of equivalent limits in the Approved Scheme and the Unapproved Scheme was obtained at the 2000 Annual General Meeting. The amendments to the Unapproved Scheme would give the Directors discretion where an employee dies or ceases employment for a good reason as set out in rule 9.5 of the Unapproved Scheme (for example ill–health, retirement and redundancy) to allow any subsisting option to be exercised in respect of more than a time apportioned proportion of the shares covered by the option provided that the Remuneration Committee believes that any applicable performance target is likely to be met. Similarly, in the event of a change of control of the company the amendments would allow any subsisting options under both the Unapproved Scheme and the Approved Scheme to be exercisable in respect of more than a time apportioned proportion, again provided that the Remuneration Committee believes that any applicable performance target is likely to be met. The amendments would take effect in relation to existing as well as future options.

The changes to the SAYE Scheme and Approved Scheme will only take effect once the Inland Revenue has confirmed that the approved status of each scheme will not thereby be affected.

Special business (continued)
Resolution 4(7) will be proposed as an Ordinary Resolution. The company and its subsidiaries have a clear policy of not making cash donations to political parties in the sense that the term 'donation' is commonly understood. It is the Board's intention to continue with this policy. Last year, however, legislation came into force which widens the concept of 'making donations'. The legislation restricts the making of donations in a wide sense, but as it is broadly defined the possible extent of the restrictions is not certain. They might possibly extend to some of the company's and the group's normal activities in communicating with government and political parties or politicians at local, national and European level. The restrictions might also extend to expenditure on activities such as taking stands and exhibition space at political conferences, advertising sponsorship and attendance at policy discussions and business liaison events organised by political parties, membership or activities relating to organisations concerned with policy review and law reform, or the representation of the business community or sections of it or with the representation of other communities or special interest groups.

The Board believes it is in the interests of the company and its shareholders for the company to continue with its policy of not making cash contributions to political parties, but at the same time to be able to participate in matters of opinion forming and public debate without inadvertently infringing the new legislation. The Board is therefore seeking approval from shareholders to make political expenditure, as defined by the Act referred to in the Resolution, subject to a maximum aggregate amount of £50,000 in each of the next three financial years of the company inclusive of the current Financial Year.

Auditors
In the UK an agreement for the partners and personnel of Arthur Andersen to join Deloitte & Touche has recently been concluded subject to regulatory consent. As a consequence of this, the Board has concluded that it is now appropriate to propose as special business as required by the company's articles of association, a resolution at the Annual General Meeting to appoint Deloitte & Touche as auditors to the group for the ensuing year. It is the intention of the Board to review the appointment during the forthcoming year.

Corporate governance
The company is committed to the principles of Corporate Governance contained in the Combined Code which is appended to the Listing Rules of the Financial Services Authority and for which the Board is accountable to shareholders.

Statement of compliance with the Combined Code
During the year ended 31 March 2002 the company complied with the requirements of Section 1 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 as Executive Chairman. 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 appointment of Mr Rogers as Chief Operating Officer will also serve to distinguish the role of the Executive Chairman from day-to-day operational matters.

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 five non-executive Directors (although at the forthcoming Annual General Meeting the number of non-executives will reduce to four). 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.

b) Directors' remuneration
Full details of Directors' remuneration and a statement of the company's policy on executive Directors' remuneration are set out on pages 27 to 32.

c) 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.

d) 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. Following publication of guidance for Directors on internal control (The Turnbull Guidance), the Board confirm that there has been a process for identifying, evaluating and managing significant risks throughout the period and at the date of the approval of the Financial Statements and that this process is in accordance with Internal Controls: Guidance for Directors on the Combined Code published in September 1999. The group's systems are designed to manage rather than to eliminate the risk of failure to achieve business objectives, recognising that any system can only provide reasonable and not absolute 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 the 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 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

J L Rennocks (since 13 June 2002)

The biographical details of these Directors are set out on page 22.

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. The Committee also acts as the Nominations Committee making recommendations to the Board on the appointment of new Directors.

Service contracts

Mr G Campbell, Mr P Rogers and Mr W Tame, each have service agreements on a one year rolling basis. Dr G Schäfer's service agreement was varied in August 2000 so that he now has a fixed period contract expiring on his 63rd birthday in November 2002. Dr Schäfer's normal retirement date of 62 was extended so that the company could continue to benefit from his expertise and experience in the Materials Handling businesses sale process. 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 Director has separate predetermined compensation provisions in the event of termination that exceeds 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 based incentives 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 2002 are set out in the table below:

Directors	Salary or fee £'000	Bonus £'000	Benefits £'000	Compensation for loss of office £'000	**Total 2002 £'000**	Total 2001 £'000
Executive						
Mr G A Campbell (Chairman)	397	229	–	–	**626**	238
P L Rogers	–	–	–	–	**–**	–
Dr G Schäfer	218	40	12	–	**270**	226
W Tame (Group Finance Director)	56	27	4	–	**87**	–
M S Easton*	187	79	19	–	**285**	265
N R Young*	125	–	18	207	**350**	284
Sir John Parker*	–	–	–	–	**–**	872
Non-executive						
The Rt Hon Lord Hesketh KBE	50	–	–	–	**50**	50
J Rennocks	–	–	–	–	**–**	–
D J Shah	25	–	–	–	**25**	25
M J Turner CBE	25	–	–	–	**25**	25
A E Wheatley	35	–	–	–	**35**	35
Total	1,118	375	53	207	**1,753**	2,020

The remuneration above relates to the period of service of each director during the year.
*Former Director.

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 their contracts are terminable at will, although it is intended that their initial appointment will be for a three year term. 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

Mr W Tame is a member 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:

Director	Increase in pension accrued, in excess of inflation, during the year ended 31 March 2002 £'000	Transfer value of the increase in pension accrued during the year ended 31 March 2002 £'000	Accrued pension entitlement at 31 March 2002 £'000	Accrued pension entitlement at 31 March 2001 £'000
W Tame	**1**	**6**	**1**	–
M S Easton*	**3**	**25**	**15**	12
N R Young*	**3**	**29**	**14**	11
Sir John Parker*	**–**	**–**	**–**	11

*Former Director.

1) Inflation has been assumed to be 3.3% 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, Mr W Tame and Mr N R Young, no account has been taken of any retained benefits which they may have.

Other pension arrangements

For UK based executive Directors whose earnings exceed the Inland Revenue earnings cap, the company will, on request, unless a salary enhancement has been agreed in lieu of such an arrangement, 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. Mr W Tame participates, and Mr M S Easton and Mr N R Young participated, in these arrangements.

Contributions to the FURBS for Mr Tame 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. Neither Mr G A Campbell nor Mr P L Rogers have any pension arrangements with the company. Their overall salaries have been set so as to reflect this.

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

Director	2002 £'000	2001 £'000
Dr G Schäfer	**17**	17
W Tame	**–**	–
M S Easton*	**15**	13
N R Young*	**13**	12
Sir John Parker*	**–**	642
	45	684

*Former Director.

Directors' share interests

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

Director	At 31 March 2002	At 1 April 2001
G A Campbell	**49,685 (a)**	9,685 (a)
The Rt Hon Lord Hesketh KBE	**8,249 (a)**	8,249 (a)
	– (b)	2,000 (b)
Dr G Schäfer	**–**	–
W Tame	**7,113 (a)**	–
D J Shah	**8,333 (a)**	8,333 (a)
M J Turner CBE	**16,666 (a)**	16,666 (a)
A E Wheatley	**8,333 (a)**	8,333 (a)
M S Easton*	**22,355 (a)**	22,355 (a)
N R Young*	**250,936 (a)**	14,022 (a)

*Former Director.
(a) Ordinary shares of 60p each
(b) Non-cumulative redeemable 'B' preference shares of 18p each

There were no changes in the Directors' interests in shares between 31 March 2002 and 17 June 2002. Details of options over shares in the company granted to Directors up to 17 June 2002 are given in the following section. Each executive Director is also interested as a potential beneficiary in the shares held by the Babcock Employees' Share Trust.

Long-term incentives

i) Executive share option 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 previous schemes, performance criteria apply. The Committee is currently of the view that, given the nature of the company's business, performance criteria for the vesting of options under its Executive Share Option Schemes will be based on total shareholder return ('TSR') rather than growth in earnings per share. The company's performance over the three financial years beginning with the financial year in which the option grant is made will be assessed in relation to a range of comparable companies (namely the Engineering and Machinery section of the FTSE All share Index) and, in so far as the company's TSR performance is in the top quartile, share option awards will vest in full; in so far as the company's performance falls below the median, no options will vest. It is the company's present intention that, unless there are exceptional circumstances, the maximum grant per year to any individual will not exceed one times base annual salary (save in the case of grants made on appointment when up to two times salary may be justified). Mr N R Young exercised 461,061 options under the Executive share option schemes during the year of account and also exercised 34,383 options between 31 March 2002 and 17 June 2002 at a gain of £5,415.

The recruitment package negotiated at the time of the appointment of Mr G A Campbell as Chief Executive of the company, included the issue of a share option contract by the Trustee of the Babcock Employees' Share Trust. The Trustee subsequently granted to Mr Campbell, on 22 November 2000, an option to purchase a maximum of 560,975 shares in the company (equivalent in value to twice Mr Campbell's then rate of basic salary). The option takes the form of a bilateral contract between the Trustee and Mr Campbell on terms, including performance criteria, which mirror those governing options granted under The Babcock 1999 Unapproved Executive Share Option Scheme (the 'Unapproved Scheme'), save only that if the company comes under the control of another person or persons in consequence of a general takeover offer, such option shall become immediately exercisable in respect of all of the shares over which it is held. The performance criterion applicable under the option contract at the time it was made was, in common with options then being granted under the 1999 Unapproved Scheme, based on eps growth. The performance measure now applicable under the contract is the TSR based criterion mentioned above (which now applies to outstanding options under the 1999 Unapproved Scheme). The provisions of the option contract cannot be altered to the advantage of Mr Campbell without the prior approval of the company's shareholders in general meeting. The benefits under the option contract are not pensionable.

The recruitment package negotiated at the time of the appointment of Mr P L Rogers as Chief Operating Officer of the company included provision for the granting, at the earliest opportunity following his appointment, of an option in the form of a bilateral contract, similar in terms to that of Mr Campbell's above-mentioned share option contract with the Trustee of the Babcock Employees' Share Trust, over shares equivalent in value to twice Mr Rogers' basic salary on appointment.

Long-term incentives (continued)

ii) Babcock International Group PLC Sharesave Scheme

The scheme was introduced in December 1997 and enables the grant of share options 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 £250 per month for three years. Subject to common service criteria, the scheme must be open to all UK employees (including executive Directors) of the group. Options granted in 1998, the only grant so far made, were exercisable during the six month period from maturity, 1 February 2001 to 1 August 2001.

The option price is 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 the relevant offer date and may be discounted by up to 20%. In 1998 the price was set by reference to the days preceding 26 November 1997 and discounted by 20%.

iii) All Employee Share Ownership Plan 'AESOP'

The Finance Act 2000 made provision for a new form of all-employee share plan, commonly referred to as an AESOP, and rebranded as a share incentive plan, which has favourable tax treatment in the UK. An AESOP allows participating employees to purchase 'partnership' shares in the company, on a monthly basis, out of pre-tax income, and can also be used to award free and/or matching shares. The shares are held on behalf of the participants in a tax-approved employee trust, and must generally be kept in the trust for at least three years to obtain any tax advantages, and for five years to obtain maximum tax advantages. To date employees have been given the opportunity to acquire partnership shares, but the company has not made an offer of matching or free shares.

Details of Director/*former Director share options are set out in the table below:

Director	Option scheme	Number of options at 1 April 2001	Granted during the year	Exercised during the year	Lapsed during the year	**Number of options at 31 March 2002**	Exercise price (p)	Mid market price at date of exercise (p)	Notional gain on exercise of share options £	Exercisable from	Expiry date
G A Campbell	e	560,975				**560,975**	123.00			Nov 2003	Nov 2010
	c	–	30,202			**30,202**	99.33			Jun 2004	Jun 2011
	d	–	282,573			**282,573**	99.33			Jun 2004	Jun 2011
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
	d	225,268				**225,268**	96.30			Jun 2003	Jun 2010
W Tame	c	–	28,754			**28,754**	104.33			Jan 2005	Jan 2012
	d	–	201,285			**201,285**	104.33			Jan 2005	Jan 2012
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
	b	239,700				**239,700**	89.00			Jul 2001	Jul 2008
	b	179,591				**179,591**	122.50			Jul 2002	Jul 2009
	d	186,858				**186,858**	96.30			Jun 2003	Jun 2010
	d	–	75,000			**75,000**	99.33			Jun 2004	Jun 2011
N R Young*	a	34,383				**34,383**	87.25			Aug 2000	Aug 2007
	b	210,125		210,125		**–**	87.25	103.00	33,094	Aug 2000	Aug 2007
	b	250,936		250,936		**–**	89.00	102.00	32,621	Jul 2001	Jul 2008
	b	188,298				**188,298**	122.50			Jul 2002	Jul 2009
	d	54,675				**54,675**	96.30			Jun 2003	Jun 2010
	d	–	75,000		55,343	**19,657**	99.33			Jun 2004	Jun 2011

a Babcock International Group PLC Approved Executive Share Option Scheme
b Babcock International Group PLC Unapproved Executive Share Option Scheme
c Babcock 1999 Approved Executive Share Option Scheme
d Babcock 1999 Unapproved Executive Share Option Scheme
e Share Option Agreement

There were no changes in the current Directors' share options between 31 March 2002 and 17 June 2002.

The company's mid-market share price at close of business on 31 March 2002 was 106.50p. The highest and lowest mid-market share prices in the year ended 31 March 2002 were 120.50p and 59.00p 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 P L Rogers, Dr G Schäfer and Mr W Tame, is limited by the Committee to 50% of their base salaries. Mr G A Campbell'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 28.

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 28.

Annual bonuses do not form part of pensionable earnings.

2002/2003 performance-related bonuses
For the year 2002/2003 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 17 June 2002.

By order of the Board

A N Dungate Secretary
17 June 2002

Independent Auditors' report to the shareholders of Babcock International Group PLC

We have audited the Financial Statements of Babcock International Group PLC for the year ended 31 March 2002 which comprise the Profit and loss account, Balance sheets, Cash flow statement, Statement of total recognised gains and losses and Reconciliation of movement in shareholders' funds and the related notes numbered 1 to 33. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards and set out in the Statement of Directors' responsibilities. Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the Financial Statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the Corporate governance statements reflect the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if they do not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information described in the contents section of the Annual Report 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and 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 2002 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen Chartered Accountants and Registered Auditors

180 Strand,
London WC2R 1BL

17 June 2002

Group profit and loss account

For the year ended 31 March 2002

	Notes	2002 Before goodwill and exceptional items £'000	2002 Goodwill and exceptional items £'000	2002 Total £'000	2001 Before goodwill and exceptional items £'000	2001 Goodwill and exceptional items £'000	2001 Total (as restated) £'000
Continuing operations		**358,861**	**–**	**358,861**	305,755	–	305,755
Discontinued operations		**64,123**	**–**	**64,123**	135,286	–	135,286
Group turnover	2	**422,984**	**–**	**422,984**	441,041	–	441,041
Cost of sales	3	**(348,820)**	**–**	**(348,820)**	(359,344)	(9,630)	(368,974)
Gross profit		**74,164**	**–**	**74,164**	81,697	(9,630)	72,067
Net operating expenses	3	**(59,236)**	**(13,507)**	**(72,743)**	(72,040)	(4,689)	(76,729)
Continuing operations		**15,426**	**(11,881)**	**3,545**	15,825	(8,517)	7,308
Discontinued operations		**(498)**	**(1,626)**	**(2,124)**	(6,168)	(5,802)	(11,970)
Group operating profit/(loss)	2	**14,928**	**(13,507)**	**1,421**	9,657	(14,319)	(4,662)
Share of operating loss of joint ventures and associates	2	**(529)**	**–**	**(529)**	(163)	–	(163)
Loss on sale of operations	5	**–**	**(13,798)**	**(13,798)**	–	(6,200)	(6,200)
Loss on ordinary activities before interest		**14,399**	**(27,305)**	**(12,906)**	9,494	(20,519)	(11,025)
Net interest and similar charges	6			**(1,004)**			3,715
Loss on ordinary activities before taxation				**(13,910)**			(7,310)
Tax on loss on ordinary activities	8			**(3,089)**			(1,215)
Loss on ordinary activities after taxation				**(16,999)**			(8,525)
Minority interests	28			**(143)**			3,244
Loss for the financial year				**(17,142)**			(5,281)
Dividends paid and proposed	10			**(4,168)**			(3,807)
Retained loss for the financial year	27			**(21,310)**			(9,088)
Loss per share							
– Basic	11			**(11.68)p**			(3.34)p
– Diluted	11			**(11.66)p**			(3.31)p
Earnings/(loss) per share before non operating exceptional items and goodwill							
– Basic	11			**4.51p**			(0.35)p
– Diluted	11			**4.50p**			(0.35)p

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

Group balance sheet

As at 31 March 2002

	Notes	2002 £'000	2002 £'000	2001 (as restated) £'000	2001 (as restated) £'000
Fixed assets					
Intangible assets	13				
Development costs			**1,236**		1,507
Goodwill					
– Goodwill		**66,670**		88,279	
– Negative goodwill		**(9,384)**		(14,916)	
			57,286		73,363
			58,522		74,870
Tangible assets	14		**22,396**		37,213
Investments	16				
Investments in joint ventures					
Share of gross assets		**1,831**		2,548	
Share of gross liabilities		**(1,256)**		(2,069)	
		575		479	
Investments in associates		**600**		537	
Other investments		**3,010**		1,624	
			4,185		2,640
			85,103		114,723
Current assets					
Stocks	17		**15,143**		27,975
Debtors – due within one year	18	**71,441**		98,806	
Debtors – due after more than one year	18	**68,810**		81,181	
			140,251		179,987
Cash and bank balances			**14,142**		25,228
			169,536		233,190
Creditors – amounts due within one year	19		**(143,968)**		(199,291)
Net current assets			**25,568**		33,899
Total assets less current liabilities			**110,671**		148,622
Creditors – amounts due after more than one year	20		**(2,897)**		(2,542)
Provisions for liabilities and charges	23		**(26,799)**		(37,221)
Net assets			**80,975**		108,859
Capital and reserves					
Called up share capital	26		**88,571**		90,588
Share premium account	27		**37,921**		37,542
Capital redemption reserve	27		**30,631**		27,863
Profit and loss account	27		**(76,195)**		(50,357)
Equity interests			**80,928**		102,868
Non-equity interests	26		**–**		2,768
Shareholders' funds			**80,928**		105,636
Equity minority interests	28		**47**		3,223
			80,975		108,859

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

Company balance sheet
As at 31 March 2002

	Notes	2002 £'000	2001 £'000
Fixed assets			
Investment in subsidiary undertakings	15	**136,301**	136,301
Investment in own shares	16	**2,923**	1,536
		139,224	137,837
Current assets			
Debtors	18	**6,790**	2,720
Cash and bank balances		**73,867**	70,332
		80,657	73,052
Creditors – amounts due within one year	19	**(41,847)**	(28,460)
Net current assets		**38,810**	44,592
Net assets		**178,034**	182,429
Capital and reserves			
Called up share capital	26	**88,571**	90,588
Share premium account	27	**37,921**	37,542
Capital redemption reserve	27	**30,631**	27,863
Profit and loss account	27	**20,911**	26,436
Equity interests		**178,034**	179,661
Non-equity interests		**–**	2,768
Shareholders' funds		**178,034**	182,429

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

The Financial Statements on pages 34 to 61 were approved by the Board on 17 June 2002 and signed on its behalf by:

G A Campbell Director

W Tame Director

Group cash flow statement

For the year ended 31 March 2002

	Notes	2002 £'000	2002 £'000	2001 £'000	2001 £'000
Cash inflow/(outflow) from operating activities	29a		**19,834**		(10,977)
Returns on investments and servicing of finance					
Net interest and similar charges		**(1,012)**		3,895	
Dividends paid to B shareholders		**(78)**		(1,400)	
Net cash (outflow)/inflow from returns on investments and servicing of finance			**(1,090)**		2,495
Taxation					
UK corporation tax (paid)/received		**(2,273)**		77	
Overseas tax paid		**(1,128)**		(820)	
Net cash outflow from taxation			**(3,401)**		(743)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		**(6,665)**		(6,553)	
Payments to acquire own shares		**(1,387)**		(969)	
Payments to invest in joint ventures		**(707)**		(150)	
Receipts from sale of tangible fixed assets		**270**		509	
Net cash outflow from capital expenditure and financial investment			**(8,489)**		(7,163)
Acquisitions and disposals					
Payments to acquire subsidiary undertakings	29d	**(7,434)**		(64,622)	
(Payments)/receipts on sale of subsidiary undertakings	29d	**(6,473)**		5,000	
Net cash outflow from acquisitions and disposals			**(13,907)**		(59,622)
Equity dividends paid			**(3,823)**		(4,335)
Cash outflow before management of liquid resources and financing			**(10,876)**		(80,345)
Management of liquid resources					
Cash placed on short-term deposit			**(2,917)**		–
Financing					
Shares issued for cash		**1,017**		3,356	
Issue of shares by group companies to minority shareholders		**3,200**		–	
Redeemable preference shares redeemed ('B' shares)		**(2,768)**		(28,713)	
Increase in borrowings		**14,006**		7,207	
Repayments of capital element of finance lease rentals		**(537)**		(399)	
Net cash inflow/(outflow) from financing			**14,918**		(18,549)
Increase/(decrease) in cash in the year	29b		**1,125**		(98,894)

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 2002

	2002 £'000	2001 (as restated) £'000
Loss for the financial year	**(17,142)**	(5,281)
Currency translation differences on foreign currency net investments and related loans	**(1,647)**	(649)
Total recognised gains and losses relating to the year	**(18,789)**	(5,930)
Prior year adjustment	**(4,522)**	–
Total recognised gains and losses since last annual report and financial statements	**(23,311)**	(5,930)

Reconciliation of movements in group shareholders' funds
For the year ended 31 March 2002

	2002 £'000	2001 (as restated) £'000
Shareholders' funds at start of year	**110,158**	143,932
Prior year adjustment	**(4,522)**	(3,102)
Shareholders' funds at start of year, as restated	**105,636**	140,830
Ordinary shares issued in the year	**1,017**	3,356
Redeemable 'B' preference shares redeemed in the year	**(2,768)**	(28,813)
Total recognised losses relating to the year	**(18,789)**	(5,930)
Dividends	**(4,168)**	(3,807)
Net movement in shareholders' funds	**(24,708)**	(35,194)
Shareholders' funds at end of year	**80,928**	105,636

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

Notes to the financial statements

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

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 each year. 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 20 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 impairment 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 machinery and motor vehicles	6.6% 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 impairment in 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.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

The adoption of the full provision method of accounting for deferred tax, as set out in FRS19, represents a change in accounting policy. The cumulative effect of this change in accounting policy has been recognised as a prior year adjustment and comparative figures have been restated. The effect of this change in accounting policy is described in note 12.

1. Accounting policies (continued)

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.

The group has adopted the transitional disclosure requirements of Financial Reporting Standard 17: 'Retirement benefits'. FRS 17 adopts a market value approach to the measurement of retirement benefits. The Standard does not require full implementation of the change in measurement approach until the year ending 31 March 2004.

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 financial statements.

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.

	2002 Group turnover £'000	2002 Group operating profit/(loss) before goodwill and operating exceptional items £'000	2002 Goodwill and operating exceptional items £'000	2002 Group operating profit/(loss) £'000
Continuing operations				
Technical Services	**208,515**	**16,195**	**–**	**16,195**
Training and Support	**98,666**	**6,108**	**–**	**6,108**
Materials Handling	**51,680**	**(4,163)**	**(1,626)**	**(5,789)**
Unallocated costs and other income	**–**	**(2,714)**	**(625)**	**(3,339)**
	358,861	**15,426**	**(2,251)**	**13,175**
Goodwill amortisation	**–**	**–**	**(9,630)**	**(9,630)**
Total continuing operations	**358,861**	**15,426**	**(11,881)**	**3,545**
Discontinued operations				
Discontinued operations	**64,123**	**(498)**	**(1,298)**	**(1,796)**
Goodwill amortisation	**–**	**–**	**(328)**	**(328)**
Total discontinued operations	**64,123**	**(498)**	**(1,626)**	**(2,124)**
Group total	**422,984**	**14,928**	**(13,507)**	**1,421**

2. Segmental information (continued)

	2001 Group turnover £'000	2001 Group operating profit/(loss) before goodwill and operating exceptional items £'000	2001 Goodwill and operating exceptional items £'000	2001 Group operating profit/(loss) £'000
Continuing operations				
Technical Services	206,549	18,110	(267)	17,843
Training and Support	35,135	789	–	789
Materials Handling	64,071	(963)	(9,804)	(10,767)
Unallocated costs and other income	–	(2,111)	–	(2,111)
	305,755	15,825	(10,071)	5,754
Goodwill amortisation	–	–	1,554	1,554
Total continuing operations	**305,755**	**15,825**	**(8,517)**	**7,308**
Discontinued operations				
Discontinued operations	135,286	(6,168)	(5,721)	(11,889)
Goodwill amortisation	–	–	(81)	(81)
Total discontinued operations	**135,286**	**(6,168)**	**(5,802)**	**(11,970)**
Group total	**441,041**	**9,657**	**(14,319)**	**(4,662)**

The turnover, not included above, relating to joint ventures was £1.6 million (2001: £3.6 million). The loss of £529,000 (2001:£163,000) from joint ventures and associates relates to the Technical Services segment.

Group turnover By geographic area of origin	United Kingdom £'000	Rest of Europe £'000	North America £'000	Africa £'000	Rest of the World £'000	Group Total £'000
2002						
Continuing operations	**258,616**	**36,237**	**18,099**	**35,060**	**10,849**	**358,861**
Discontinued operations	**5,701**	**38,166**	**17,700**	**–**	**2,556**	**64,123**
Group total	**264,317**	**74,403**	**35,799**	**35,060**	**13,405**	**422,984**
2001						
Continuing operations	193,707	51,566	20,270	31,483	8,729	305,755
Discontinued operations	42,522	64,472	25,579	–	2,713	135,286
Group total	236,229	116,038	45,849	31,483	11,442	441,041

Group turnover By geographic area of destination	United Kingdom £'000	Rest of Europe £'000	North America £'000	Africa £'000	Rest of the World £'000	Group Total £'000
2002						
Continuing operations	**242,116**	**27,082**	**20,266**	**38,811**	**30,586**	**358,861**
Discontinued operations	**5,666**	**28,582**	**11,068**	**2,940**	**15,867**	**64,123**
Group total	**247,782**	**55,664**	**31,334**	**41,751**	**46,453**	**422,984**
2001						
Continuing operations	183,681	25,401	22,102	34,275	40,296	305,755
Discontinued operations	42,461	44,724	26,437	3,783	17,881	135,286
Group total	226,142	70,125	48,539	38,058	58,177	441,041

2. Segmental information (continued)

Group operating profit/(loss) before goodwill – geographic origin	United Kingdom £'000	Rest of Europe £'000	North America £'000	Africa £'000	Rest of the World £'000	Group Total £'000
2002						
Continuing operations	**17,811**	**(5,699)**	**(70)**	**436**	**697**	**13,175**
Discontinued operations	**(125)**	**(178)**	**(1,614)**	**–**	**121**	**(1,796)**
Group total	**17,686**	**(5,877)**	**(1,684)**	**436**	**818**	**11,379**
2001						
Continuing operations	11,564	(10,678)	3,862	415	591	5,754
Discontinued operations	(10,785)	2,570	(3,959)	–	285	(11,889)
Group total	779	(8,108)	(97)	415	876	(6,135)

Operating net assets – by activity	2002 £'000	2001 £'000
Technical Services	**22,331**	22,994
Training and Support	**3,818**	9,376
Materials Handling	**3,186**	6,216
Unallocated	**17,126**	15,857
Operating net assets	**46,461**	54,443
Operating net assets – by geographic area		
United Kingdom	**46,625**	47,425
Europe	**(3,480)**	(3,062)
North America	**(4,314)**	1,566
Africa	**5,822**	7,612
Rest of the World	**1,808**	902
Operating net assets	**46,461**	54,443
Investment in own shares	**2,923**	1,536
Net debt	**(7,710)**	(212)
Finance lease obligations	**(734)**	(1,126)
Taxation	**(14,715)**	(16,876)
Dividends	**(2,536)**	(2,269)
Net goodwill	**57,286**	73,363
Non-operating assets	**34,514**	54,416
Net assets	**80,975**	108,859

Technical Services and the United Kingdom include £0.6 million (2001: £0.5 million) of operating net assets in respect of associates.

Technical Services and the Rest of the World include £0.6 million (2001: £0.5 million) in respect of joint ventures.

3. Net operating expenses

	2002 Cost of sales £'000	2002 Distribution expenses £'000	2002 Administration expenses £'000	2002 Net operating expenses £'000
Continuing operations	**301,744**	**9,078**	**44,494**	**53,572**
Discontinued operations	**47,076**	**7,049**	**12,122**	**19,171**
Group total	**348,820**	**16,127**	**56,616**	**72,743**

	2001 Cost of sales £'000	2001 Distribution expenses £'000	2001 Administration expenses £'000	2001 Net operating expenses £'000
Continuing operations	260,728	8,753	28,966	37,719
Discontinued operations	108,246	6,941	32,069	39,010
Group total	368,974	15,694	61,035	76,729

In 2002, administration expenses includes £3.5 million of operating exceptional items, comprising; £1.6 million of restructuring costs within continuing operations and £1.3 million of restructuring costs that relate to discontinued operations of Materials Handling; and £0.6 million of unallocated costs in relation to a proposed acquisition that did not proceed. In 2002, administration expenses also includes a goodwill charge of £9.6 million in continuing operations and £0.3 million in discontinued operations. The goodwill amortisation within continuing operations includes an exceptional operating item of £7.9 million for impairment write-downs of the remaining Materials Handling businesses.

In 2001, cost of sales included £9.6 million in respect of operating exceptional items, administration expenses included a goodwill amortisation credit of £1.6 million for continuing operations and a charge of £0.1 million for discontinued operations.

4. Operating profit/(loss)

	2002 £'000	2001 £'000
Operating profit/(loss) is stated after charging/(crediting)		
Depreciation on tangible fixed assets		
– Owned	**10,354**	11,844
– Leased assets	**196**	275
Loss on the disposal and write-off of tangible fixed assets	**89**	193
Operating lease rentals		
– Plant and machinery	**2,004**	1,242
– Land and buildings	**2,423**	4,130
– Short-term plant hire	**317**	420
– Other	**304**	–
Auditors' remuneration (audit services)	**612**	510
Research and development		
– Expenditure	**1,595**	2,692
– Amortisation charge (note 13)	**271**	264
Net goodwill amortisation	**9,958**	(1,473)

In addition to the amounts disclosed above, the group auditors and their associates were paid £281,000 (2001: £435,000) in relation to non audit services in the UK.

5. Exceptional items

(a) Operating exceptional items

Exceptional costs of £2.9 million have been incurred in restructuring businesses within the Materials Handling Division and exceptional costs of £0.6 million have been incurred in relation to a proposed acquisition that did not proceed. Of the £2.9 million restructuring costs £1.6 million related to continuing businesses and £1.3 million to discontinued businesses. Goodwill amortisation includes an exceptional charge of £7.9 million for impairment of the goodwill in the remaining Materials Handling businesses.

(b) Non-operating exceptional items

The non-operating exceptional charge of £13.8 million for the loss on sale of operations includes a loss of £12.0 million on the disposal of Materials Handling businesses (see note 30) and a provision of £1.8 million for a loss on the disposal of the business and assets of the remaining cement operations of the Materials Handling division, based in the US, which reflects the estimated impairment in the value of its goodwill (£0.5 million) and other assets (£1.3 million) held at 31 March 2002 in light of its disposal on 30 April 2002 (see note 33).

6. Net interest and similar charges

	2002 £'000	2001 £'000
Interest payable and similar charges		
– Bank loans and overdrafts	**(1,602)**	(967)
– Finance lease interest	**(131)**	(209)
– Other	**(11)**	–
	(1,744)	(1,176)
Other interest receivable and similar income	**811**	5,042
Share of joint ventures	**(71)**	(93)
Share of associates	**–**	(58)
	(71)	(151)
	(1,004)	3,715

7. Employee costs

	2002 £'000	2001 £'000
Particulars of employees, including executive Directors, are as follows:		
Employee costs		
– Wages and salaries	**138,944**	137,821
– Social security costs	**15,141**	16,121
– Other pension costs (note 25)	**1,464**	1,192
	155,549	155,134

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

	2002 Number	2001 Number
Technical, training and maintenance services	**5,635**	4,961
Administration and management	**1,107**	1,346
	6,742	6,307

The number of people employed by the group at 31 March 2002 was 5,901 (2001: 7,737).

Information in respect of Directors' remuneration and share interests is contained within the Directors' report on pages 27 to 32.

8. Tax on loss on ordinary activities

	2002 £'000	2001 (as restated) £'000
United Kingdom corporation tax charge at 30%	**5,634**	3,239
Double taxation relief	**(9)**	(6)
	5,625	3,233
Consortium relief	**–**	(1,275)
Deferred taxation (note 24)	**(252)**	(1,419)
Overseas taxation	**666**	433
Share of associates	**–**	(4)
Adjustments in respect of prior years		
– UK current tax	**(2,893)**	672
– UK deferred tax	**–**	(352)
– Overseas current tax	**158**	(73)
– Overseas deferred tax	**(215)**	–
	3,089	1,215

Excluding the net goodwill debit of £10.0 million, results of discontinued operations of a loss of £2.1 million and the non-operating exceptional loss of £13.8 million, the effective rate of 25.8% is lower than the standard UK rate of 30% due to the net effect of prior year items, and non-UK deferred tax assets not recognised. There is no tax relief arising in respect of the exceptional loss. Tax charge includes £0.1 million (2001: credit of £3.3 million) relating to discontinued operations.

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	2002 £'000	2001 £'000
Loss on ordinary activities before tax	**(13,910)**	(7,310)
Add back: share of joint ventures and associates' loss before tax	**600**	314
Group loss on ordinary activities before tax	**(13,310)**	(6,996)
Tax on group loss on ordinary activities at standard UK corporation tax rate of 30% (2001: 30%)	**(3,993)**	(2,099)
Effects of:		
Expenses (including exceptional items and goodwill) not deductible for tax purposes	**5,908**	(13)
Current year timing differences not recognised	**255**	1,419
Overseas timing differences not recognised and difference in rates on overseas earnings	**4,121**	4,782
Adjustments to current tax charge in respect of previous periods	**(2,732)**	(425)
Utilisation of brought forward tax assets not previously recognised	**–**	(1,702)
Group current tax charge for period	**3,559**	1,962

The tax charge in future periods may be affected by results in overseas jurisdictions, together with overseas tax rates, permanent differences in the UK and elsewhere, and the utilisation of tax losses for which no deferred tax asset has been recognised.

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 loss for the financial year is a profit of £1.5 million (2001 profit: £24.5 million) dealt with in the Financial Statements of the company.

10. Dividends

	2002 £'000	2001 £'000
Ordinary shares		
– Interim dividend paid of 1.1p per 60p share (2001: 1.1p per 60p share)	**1,554**	1,538
– Final dividend proposed of 1.75p per 60p share (2001: 1.55p per 60p share)	**2,536**	2,269
	4,090	3,807
Preference shares		
– B preference shares 0.42 per 18p share	**64**	–
– B preference shares 0.36 per 18p share	**14**	–
	78	–
	4,168	3,807

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.

	2002 Number	2001 Number
Weighted average number of shares in issue for basic earnings per share	**146,763,944**	158,325,306
Dilutive effect of share options	**305,350**	1,008,474
Weighted average number of shares in issue for diluted earnings per share	**147,069,294**	159,333,780

	2002 £'000	**2002 Basic (pence)**	**2002 Diluted (pence)**	2001 £'000	2001 Basic (pence)	2001 Diluted (pence)
Loss attributable to shareholders	**(17,142)**	**(11.68)**	**(11.66)**	(5,281)	(3.34)	(3.31)
Add loss on sale or termination of a business	**13,798**	**9.40**	**9.39**	6,200	3.92	3.88
(Loss)/profit before non-operating exceptional items	**(3,344)**	**(2.28)**	**(2.27)**	919	0.58	0.57
Add net goodwill amortisation	**9,958**	**6.79**	**6.77**	(1,473)	(0.93)	(0.92)
Profit/(loss) before non-operating exceptional items and goodwill	**6,614**	**4.51**	**4.50**	(554)	(0.35)	(0.35)

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. Prior year adjustment

The adoption of FRS19: Deferred Tax has resulted in provision for additional deferred tax liabilities primarily in respect of pension prepayments, and the recognition of additional deferred tax assets, primarily in respect of surplus ACT, accelerated capital allowances and short-term timing differences.

The net increase required in the provision for deferred tax at 1 April 2000 was £3,102,000 with an equal reduction in the profit and loss reserve. In the year ended 31 March 2001 the tax charge increased by £1,420,000. This results in an increase in the provision for deferred tax of £4,522,000 at 31 March 2001 compared to that previously reported. The effect of implementing FRS19 on the results for the year ended 31 March 2002 is not material.

13. Fixed assets – intangible assets

	Goodwill £'000	Negative goodwill £'000	Development costs £'000	**Total £'000**
Group:				
Cost				
At 1 April 2001	101,507	(34,406)	6,731	**73,832**
On disposal of subsidiaries (note 30)	(12,459)	8,614	(3,395)	**(7,240)**
Adjustments in the year (note 30)	(233)	–	–	**(233)**
Assets written off	–	–	(368)	**(368)**
At 31 March 2002	**88,815**	**(25,792)**	**2,968**	**65,991**
Accumulated amortisation				
At 1 April 2001	(13,228)	19,490	(5,224)	**1,038**
On disposal of subsidiaries	4,584	(6,098)	3,395	**1,881**
(Charge)/credit for the year	(5,101)	3,016	(271)	**(2,356)**
Impairment loss	(8,400)	–	–	**(8,400)**
Assets written off	–	–	368	**368**
At 31 March 2002	**(22,145)**	**16,408**	**(1,732)**	**(7,469)**
Net book value at 31 March 2002	**66,670**	**(9,384)**	**1,236**	**58,522**
Net book value at 31 March 2001	88,279	(14,916)	1,507	74,870

14. Fixed assets – tangible assets

	Freehold property £'000	Leasehold property £'000	Plant and machinery £'000	**Total £'000**
Group:				
Cost				
At 1 April 2001	31,525	306	80,910	**112,741**
Exchange adjustments	(150)	(11)	(1,865)	**(2,026)**
On disposal of subsidiaries (note 30)	(18,353)	(119)	(20,398)	**(38,870)**
Additions	2,226	879	4,358	**7,463**
Disposals/assets written off	(120)	–	(4,720)	**(4,840)**
Reclassifications	–	(98)	98	**–**
At 31 March 2002	**15,128**	**957**	**58,383**	**74,468**
Accumulated depreciation				
At 1 April 2001	(18,505)	(156)	(56,867)	**(75,528)**
Exchange adjustments	58	5	1,052	**1,115**
On disposal of subsidiaries (note 30)	11,101	83	17,530	**28,714**
Charge for the year	(1,886)	(50)	(8,614)	**(10,550)**
Disposals/assets written off	93	–	4,388	**4,481**
Reclassification	–	41	(41)	**–**
Impairment loss	–	–	(304)	**(304)**
At 31 March 2002	**(9,139)**	**(77)**	**(42,856)**	**(52,072)**
Net book value at 31 March 2002	**5,989**	**880**	**15,527**	**22,396**
Net book value at 31 March 2001	13,020	150	24,043	**37,213**

The net book value of plant and machinery includes £1.8 million (2001: £1.1 million) in respect of assets held under finance leases or hire purchase contracts, comprising cost of £2.1 million less depreciation of £0.3 million.

The net book value of freehold property includes land amounting to £1.0 million (2001: £5.0 million) which has not been depreciated.

15. Fixed assets – investments in subsidiary undertakings

	Shares £'000	Loans £'000	**Total £'000**
Company cost			
At 1 April 2001 and 31 March 2002	91,851	44,450	**136,301**

Information on the principal subsidiary undertakings is given on page 61.

16. 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 2001	479	537	1,536	88	**2,640**	1,536
Exchange adjustment	(9)	–	–	(1)	**(10)**	–
Additions	707	61	1,387	–	**2,155**	1,387
Share of profits or losses	(602)	2	–	–	**(600)**	–
At 31 March 2002	**575**	**600**	**2,923**	**87**	**4,185**	**2,923**

Information on associated undertakings is given on page 61.

During the year the company acquired 1,356,334 ordinary shares at a total cost of £1,386,717 through the Babcock Employee Share Trust (the 'Trust') in respect of its potential obligation under the Babcock 1999 Executive Share Option Schemes. The Trust's acquisition of ordinary shares during the year represented 0.92% of the issued share capital at 31 March 2002. The company meets the operating expenses of the Trust.

16. Fixed assets – investments (continued)
The Trust enables shares in the company to be purchased and made available to employees principally through the grant and exercise of rights under the Babcock 1999 Executive Share Option Schemes. The Trust is a discretionary settlement for the benefit of employees within the group. The company is excluded from benefiting under the Trust. The Trust is controlled and managed outside the UK and has a single corporate trustee which is an independent trustee services organisation. The right to remove the trustee and appoint a new trustee vests in the company. The trustee is required to waive both voting rights and dividends payable on any share in the company in excess of 0.001p, unless otherwise directed by the company. The Trust may not, without the approval by ordinary resolution of the members of the company, hold more than 5.0% of the ordinary shares of the company.

At 31 March 2002, the Trust held 2,698,995 ordinary shares at a total market value of £2,874,429, representing 1.83% of the issued share capital at that date. The company elected to pay dividends to the Trust at the rate of 0.001p per share during the year. All the Trust's shares are under option to employees.

17. Stocks

	Group 2002 £'000	Group 2001 £'000
Stocks and work in progress		
– Raw materials and consumables	**5,807**	12,944
– Work in progress	**6,727**	14,138
– Finished goods and goods for resale	**7,032**	7,148
	19,566	34,230
Less: Progress payments	**(2,719)**	(2,959)
Provisions	**(1,704)**	(3,296)
	15,143	27,975

18. Debtors

	Group 2002 £'000	Group 2001 £'000	**Company 2002 £'000**	Company 2001 £'000
Due within one year:				
Trade debtors	**44,307**	56,469	–	–
Amounts recoverable on contracts	**9,954**	23,294	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**6,130**	2,337
Prepayments and accrued income	**8,774**	12,039	**–**	–
Pension scheme prepayments	**1,669**	256	**–**	–
Other debtors	**6,737**	6,748	**660**	383
	71,441	98,806	**6,790**	2,720

	Group 2002 £'000	Group 2001 £'000	**Company 2002 £'000**	Company 2001 £'000
Due after more than one year:				
Trade debtors	**–**	173	**–**	–
Pension scheme prepayments	**68,810**	78,985	**–**	–
Other debtors	**–**	2,023	**–**	–
	68,810	81,181	**–**	–

Other debtors, due within one year, at 31 March 2002 includes £669,000 of deferred consideration relating to the disposal of BMH AKI Dryers Inc and £347,000 of deferred consideration relating to the disposal of BMH Technologies GmbH.

19. Creditors – amounts due within one year

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Bank overdraft (note 21)	**1,832**	16,512	**–**	–
Bank loans (note 21)	**20,006**	7,548	**20,000**	7,500
Other loans (note 21)	**6**	1,221	**–**	–
Obligations under finance leases (note 21)	**285**	611	**–**	–
Advance payments	**1,609**	864	**–**	–
Payments received in advance of turnover	**12,619**	22,458	**–**	–
Trade creditors	**23,193**	37,798	**–**	–
Contract accruals and provisions	**42,087**	66,359	**–**	–
Bills of exchange payable	**–**	220	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**19,075**	17,798
Other creditors	**8,012**	7,189	**151**	829
Corporation and overseas taxes	**4,546**	6,560	**–**	–
Other taxes and social security	**5,187**	7,141	**–**	–
Accruals and deferred income	**22,050**	22,541	**85**	64
Proposed dividend	**2,536**	2,269	**2,536**	2,269
	143,968	199,291	**41,847**	28,460

20. Creditors – amounts due after more than one year

	Group 2002 £'000	Group 2001 £'000
Other loans (note 21)	**8**	159
Obligations under finance leases (note 21)	**449**	515
Contract accruals and provisions	**2,069**	–
Trade creditors	**–**	95
Other creditors	**297**	1,510
Corporation and overseas taxes	**74**	263
	2,897	2,542

21. Borrowings

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

	2002 Bank loans and overdrafts £'000	2002 Other loans £'000	2002 Finance lease obligations £'000
Within one year	**21,838**	**6**	**285**
Between one and two years	**–**	**8**	**449**
	21,838	**14**	**734**

	2001 Bank loans and overdrafts £'000	2001 Other loans £'000	2001 Finance lease obligations £'000
Within one year	24,060	1,221	611
Between one and two years	–	159	302
Between two and five years	–	–	213
	24,060	1,380	1,126

Security arrangements	Group 2002 £'000	Group 2001 £'000
Loans and overdrafts		
Secured against fixed charge on freehold property of subsidiary undertaking	**6**	–
Unsecured borrowings	**21,846**	25,440
	21,852	25,440

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

22. Derivatives and other financial instruments

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

The group controls credit risk by entering into financial instruments only with highly credit-rated and authorised counter-parties. Counter-party authorisations and positions are monitored on a regular basis.

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 £14.1 million (2001: £25.2 million). Cash deposits are placed on money markets at call, seven-day and monthly rates.

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

	2002 Financial assets	2002 Financial liabilities		
Currency	Total and floating rate £'000	Total £'000	Floating rate £'000	Fixed rate £'000
Sterling	**5,466**	**21,290**	**21,280**	**10**
Euro	**1,146**	**–**	**–**	**–**
US Dollar	**3,333**	**14**	**14**	**–**
South African Rand	**28**	**1,079**	**1,079**	**–**
Swedish Krona	**3,838**	**4**	**–**	**4**
Other currencies	**331**	**199**	**182**	**17**
	14,142	**22,586**	**22,555**	**31**

22. Derivatives and other financial instruments (continued)

Currency	2001 Financial assets Total and floating rate £'000	2001 Financial liabilities Total £'000	Floating rate £'000	Fixed rate £'000
Sterling	7,735	22,715	22,138	577
Euro	10,528	1,134	978	156
US Dollar	3,944	–	–	-
South African Rand	1,191	2,668	2,324	344
Swedish Krona	797	5	–	5
Other currencies	1,033	44	–	44
	25,228	26,566	25,440	1,126

The weighted average interest rates of the Sterling, Euro, Rand and Krona fixed rate financial liabilities, which comprise finance lease obligations, are 14.5%, n/a, n/a and 7.2% (2001: 9.0%, 5.0%, 11.6% and 7.2% 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 2002, in respect of which all conditions precedent had been met, as follows:

	2002 £'000	2001 £'000
Expiring in more than one year but not more than two years	**20,000**	42,500

Currency exposures

The Financial Review on page 20 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.

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 2002, these exposures were as follows:

	Net foreign currency monetary assets/(liabilities)					
Functional currency of group operation	**Sterling £'000**	**US Dollars £'000**	**Euro £'000**	**Swedish Krona £'000**	**Other £'000**	**Total £'000**
Sterling	**–**	**370**	**136**	**(7)**	**(30)**	**469**
US Dollars	**–**	**–**	**(27)**	**–**	**–**	**(27)**
Euro	**–**	**–**	**–**	**–**	**(3)**	**(3)**
Swedish Krona	**(7)**	**297**	**232**	**–**	**37**	**559**
Other	**–**	**69**	**–**	**–**	**–**	**69**
Total	**(7)**	**736**	**341**	**(7)**	**4**	**1,067**

As at 31 March 2001, these exposures were as follows:

	Net foreign currency monetary assets/(liabilities)					
Functional currency of group operation	Sterling £'000	US Dollars £'000	Euro £'000	Swedish Krona £'000	Other £'000	Total £'000
Sterling	–	–	3	2	–	5
US Dollars	–	–	14	30	–	44
Euro	(22)	(406)	–	487	(324)	(265)
Swedish Krona	(101)	36	(112)	–	(3)	(180)
Other	–	–	(91)	7	–	(84)
Total	(123)	(370)	(186)	526	(327)	(480)

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

As at 31 March 2002, the group also held open various forward foreign currency contracts that the group had taken out to hedge expected future foreign currency movements.

22. Derivatives and other financial instruments (continued)

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/(liabilities).

	2002 Book value £'000	**2002 Fair value £'000**	2001 Book value £'000	2001 Fair value £'000
Forward foreign currency contracts	**3,912**	**3,476**	38,888	42,069

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.

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 2001	3,783	(602)	3,181
Gains and losses arising in previous years that were recognised in the year ended 31 March 2002	(3,753)	601	(3,152)
Gains and losses arising before 1 April 2001 that were not recognised in the year ended 31 March 2002	30	(1)	29
Gains and losses arising that were not recognised in the year ended 31 March 2002	382	(846)	(464)
Unrecognised gains and losses on hedges at 31 March 2002	412	(847)	(435)
Of which:			
Gains and losses expected to be recognised in the year ending 31 March 2003	412	(782)	(370)
Gains and losses expected to be recognised in the year ending 31 March 2004 or later	–	(65)	(65)

23. Provisions for liabilities and charges

	Pensions and similar obligations (a) £'000	Deferred taxation (note 24) £'000	Deferred consideration (b) £'000	Insurance provisions (c) £'000	Closure or disposal of businesses (d) £'000	Total £'000
At 1 April 2001 as previously reported	8,613	5,986	7,300	6,512	4,288	32,699
Prior year adjustment	–	4,522	–	–	–	4,522
At 1 April 2001 as restated	8,613	10,508	7,300	6,512	4,288	37,221
On disposal of subsidiaries	(4,832)	(1,940)	–	–	–	(6,772)
Exchange adjustments	(97)	(25)	–	–	–	(122)
Provided in the year	551	–	–	782	751	2,084
Utilised in the year	(162)	–	(6,550)	(1,319)	(47)	(8,078)
Released	(196)	(467)	–	–	–	(663)
Advance corporation tax utilised against current year tax liability	–	2,720	–	–	–	2,720
Reclassified from/(to) creditors	409	–	–	–	–	409
At 31 March 2002	**4,286**	**10,796**	**750**	**5,975**	**4,992**	**26,799**

(a) Provisions for unfunded pension liabilities principally in respect of Materials Handling operations in Germany.

(b) Deferred consideration relates to the acquisition of Air Power International Limited on 29 January 2001 and is limited to a maximum of £750,000.

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

(d) 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 two years.

24. Deferred taxation

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

	2002 Provided £'000	2001 Provided (as restated) £'000	2002 Full potential £'000	2001 Full potential £'000
Accelerated capital allowances	**(1,837)**	(1,459)	**(2,037)**	(1,479)
Pension surpluses	**21,144**	23,455	**21,144**	23,455
Other timing differences	**(1,895)**	(1,465)	**(2,147)**	(7,179)
Tax losses	**(124)**	(811)	**(22,122)**	(25,293)
	17,288	19,720	**(5,162)**	(10,496)
Recoverable advance corporation tax	**(6,492)**	(9,212)	**(6,492)**	(9,212)
	10,796	10,508	**(11,654)**	(19,708)

There is no unprovided deferred tax liability in the company.

25. Pension arrangements

The group has continued to account for pension costs in accordance with SSAP 24. Full adoption of the requirements of FRS17 – Retirement Benefits will not be mandatory for the group until the year ending 31 March 2004. The transitional disclosures required by FRS17 are set out in Part (b) of this note.

a) SSAP 24 disclosures

The pension cost, calculated in accordance with SSAP 24, included as a charge in arriving at the group operating profit was as follows:

	2002 £'000	2001 £'000
UK schemes	**6,348**	3,939
Overseas schemes	**1,122**	1,042
	7,470	4,981
Interest on pension scheme surpluses	**(6,006)**	(3,789)
	1,464	1,192

The group operates two principal defined benefit pension schemes for employees in the United Kingdom, the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme. Both schemes are funded by payments to separate trustee-administered funds and the level of the group's contributions to the schemes is assessed in accordance with the advice of independent, qualified actuaries. The details of the latest formal actuarial valuations of these two schemes are as follows:

	Babcock International Group	Rosyth Royal Dockyard
Date of last formal actuarial valuation	1 April 2001	31 March 2000
Number of active members at 31 March 2002	248	2,065
Actuarial valuation method	Projected Unit	Projected Unit
Results of last formal actuarial valuation:		
Market value of assets	£ 414 million	£ 460 million
Level of funding	132%	124%
Principal valuation assumptions:		
Excess of investment returns over earnings increases	2% to 2.5%	1.5%
Excess of investment returns over pension increases	3% to 3.5%	3.0%

As a result of the level of surplus the group's contributions to the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme are currently suspended until at least the next formal valuation.

Prepayments of £70.5 million (2001: £79.2 million) are carried in the balance sheet in respect of the group's principal pension schemes.

b) FRS17 additional disclosures

Under the transitional provisions of FRS17 certain additional disclosures are required on the basis of the valuation methodology adopted by FRS17 and the additional defined benefit schemes within the group.

In addition to the two principal defined benefit pension schemes referred to above the group also operates a number of smaller defined benefit pension schemes:

The Babcock Services Pension Scheme – for employees in the HCS business who were previously members of the Principal Civil Service Pension Scheme. A full actuarial valuation of the scheme was carried out at 1 August 2000. The group made a contribution of £0.2 million during the year to 31 March 2002. The group will continue to contribute to the scheme between the rates of 15.0% and 20.0% of pensionable salaries depending on the member categories.

The Babcock Holdings (USA), Inc. Pension Plan – for employees of US subsidiaries of Babcock Holdings (USA), Inc. A full actuarial valuation of the scheme was carried out at 1 January 2001. The group made no contributions during the year to 31 March 2002. The minimum required contribution for the plan year 1 January 2001 to 31 December 2001 is £0.3 million and is due to be paid in September 2002. The future contribution rate has not been finalised and is expected to be between 2.1% and 3.3% of pensionable salaries.

25. Pension arrangements (continued)

The FBM Marine Pension Plan – the scheme is closed to new members and there is no further accrual of benefits for future service. All scheme members are in the process of transferring to the Babcock International Group Pension Scheme. A full actuarial valuation of the scheme was carried out at 1 April 1999. No contributions are being made to the scheme.

The BMH Chronos Richardson GmbH Main Plan and Senior Plan – for German employees of BMH Chronos Richardson GmbH. Both schemes were closed to new members in 1997 and are unfunded, therefore no contributions are made to the schemes. Provision for the scheme liabilities is made on the advice of independent qualified actuaries. Under the projected unit method the current service cost for this scheme will increase as the members of the scheme approach retirement.

For defined benefit schemes the fair values of pension scheme assets at 31 March 2002 are compared with the pension liabilities calculated under the projected unit method. The latest full actuarial valuations of the group's defined benefit pension schemes have been updated to 31 March 2002 by qualified independent actuaries using the following assumptions:

	Babcock International Group Scheme % pa	Rosyth Royal Dockyard Scheme % pa	Other schemes (weighted average) % pa
Rate of increase of future earnings	3.9	3.9	3.7
Discount rate	6.1	6.1	6.4
Expected pension increases	2.9	2.9	2.1
Inflation rate	2.9	2.9	2.8

The fair value of the assets, the present value of the liabilities and the expected rates of return of the Babcock International Group and Rosyth Royal Dockyard defined benefit schemes, together with the aggregated data for the other schemes in the group at 31 March 2002 were as follows:

	Babcock International Group Scheme		Rosyth Royal Dockyard Scheme		Other schemes		Group
	Expected rate of return %	Fair value £'000	Expected rate of return %	Fair value £'000	Weighted average expected rate of return %	Fair value £'000	Fair value £'000
Equities	7.9	85,092	7.9	273,000	7.9	5,560	363,652
Property	7.9	–	7.9	41,000	7.9	179	41,179
Bonds	6.1	305,537	6.1	65,000	7.0	2,671	373,208
Cash	4.0	2,139	4.0	–	4.0	369	2,508
Fair value of assets		392,768		379,000		8,779	780,547
Present value of scheme liabilities		(316,814)		(316,000)		(11,598)	(644,412)
Surplus / (deficit) in the schemes		75,954		63,000		(2,819)	136,135
Irrecoverable surplus		(2,052)		–		(235)	(2,287)
Recognised pension asset/liability)		73,902		63,000		(3,054)	133,848
Deferred tax asset/(liability)		(22,171)		(18,900)		–	(41,071)
Net pension asset /(liability)		51,731		44,100		(3,054)	92,777

The amount of the pension surplus in respect of the Babcock International Group Pension Scheme that can be recognized as an asset has been restricted to the amount that can be recovered through reduced contributions in the future. The pension surplus in respect of the FBM Marine Pension Plan has not been recognised as an asset because the scheme is closed to future accrual of benefits and the surplus cannot be recovered through reduced employer contributions in the future.

If the valuation basis above had been applied in the accounts instead of the SSAP 24 valuation basis, the effect on the group's net assets and profit and loss account reserve at 31 March 2002, after taking into account deferred tax, would have been as follows:

	Net assets £'000	Profit and loss account reserve £'000
As reported	80,975	(76,195)
Add back:		
Pension prepayment under SSAP 24	(70,479)	(70,479)
Provision for pension costs under SSAP 24	4,286	4,286
Related deferred tax liability	21,144	21,144
Excluding pension assets	35,926	(121,244)
Net pension asset under FRS17	92,777	92,777
Including pension assets	128,703	(28,467)

26. Called up share capital

Authorised	Ordinary shares of 60p Number	Redeemable 'B' preference shares of 18p Number	Ordinary shares of 60p £'000	Redeemable 'B' preference shares of 18p £'000
At 1 April 2001 and 31 March 2002	**190,833,333**	**194,444,444**	**114,500**	**35,000**

Allotted, issued and fully paid:	Ordinary shares of 60p Number	Redeemable 'B' preference shares of 18p Number	Ordinary shares of 60p £'000	Redeemable 'B' preference shares of 18p £'000	Group and company Total £'000
At 1 April 2001	146,366,731	15,378,763	87,820	2,768	90,588
15,378,763 redeemable 'B' preference shares redeemed	–	(15,378,763)	–	(2,768)	(2,768)
Ordinary 60p shares issued on exercise of options	1,251,740	–	751	–	751
As at 31 March 2002	**147,618,471**	**–**	**88,571**	**–**	**88,571**

The remaining 'B' shares were redeemed during the year.

Of the 1,251,740 60p ordinary shares, having a nominal value of £0.8 million, issued in respect of the exercise of options, 323,801 with a nominal value of £0.2 million were subscribed for by the Babcock International Group PLC Qualifying Employee Share Ownership Trust (the 'QUEST') at a market value of £0.3 million. These shares were allocated to employees, including executive directors, in satisfaction of options exercised under the Babcock International Group PLC Sharesave Scheme.
The company provided £0.1 million to the QUEST for this purpose. The premium on issue, that involved no cash outflow from the group, has been credited against the retained profits of the company (see note 27).

Outstanding share options

The company has granted options to subscribe for ordinary shares of the company under Executive Share Option Schemes. At 31 March 2002 the outstanding options were as follows:

Scheme	Number of shares under option	Subscription price per share	Exercise period
Executive share option schemes	1,012,971	114.510p	15.12.1996 to 14.12.2003
	27,000	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
	165,000	74.500p	19.12.1999 to 18.12.2006
	160,000	62.500p	31.03.2000 to 30.03.2007
	165,680	84.500p	19.06.2000 to 18.06.2007
	34,383	87.250p	11.08 2000 to 10.08.2007
	396,926	82.000p	24.12.2000 to 23.12.2007
	1,929,651	89.000p	20.07.2001 to 19.07.2008
	775,195	122.500p	08.07.2002 to 07.07.2009
	1,196,741	118.000p	09.09.2002 to 08.09.2009
	1,365,721	96.330p	23.06.2003 to 22.06.2010
	560,975	123.000p	22.11.2003 to 21.11.2010
	1,496,800	99.330p	25.06.2004 to 24.06.2011
	52,978	79.500p	28.11.2004 to 27.11.2011
	230,039	104.330p	31.01.2005 to 30.01.2012
	134,615	104.000p	20.02.2005 to 19.02.2012
Total outstanding share options	10,058,963		

Options granted to Directors are summarised in the Directors' report on pages 30 to 31 and are included in the outstanding options set out above.

27. Reserves

	Group share premium account £'000	Group capital redemption reserve £'000	Group profit and loss account (as restated) £'000
At 1 April 2001	37,542	27,863	(50,357)
Shares issued on exercise of options	379	–	–
Amounts deducted in respect of shares issued to the QUEST (see note 26)	–	–	(113)
Arising on issue and redemption of redeemable 'B' preference shares	–	2,768	(2,768)
Loss on foreign currency translation	–	–	(1,647)
Retained loss for the financial year	–	–	(21,310)
At 31 March 2002	**37,921**	**30,631**	**(76,195)**

	Company share premium account £'000	Company capital redemption reserve £'000	Company profit and loss account £'000
At 1 April 2001	37,542	27,863	26,436
Shares issued on exercise of options	379	–	–
Amounts deducted in respect of shares issued to the QUEST (see note 26)	–	–	(113)
Arising on issue and redemption of redeemable 'B' preference shares	–	2,768	(2,768)
Retained loss for the financial year	–	–	(2,644)
At 31 March 2002	**37,921**	**30,631**	**20,911**

28. Equity minority interests

	£'000
At 1 April 2001	3,223
Share of profits	143
New investments by minorities	4,414
Sale of subsidiary	(7,733)
At 31 March 2002	**47**

29. Group cash flow statement

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

	2002 £'000	2001 £'000
Group operating profit/(loss)	**1,421**	(4,662)
Depreciation and amortisation charges	**12,906**	10,910
(Increase)/decrease in stocks	**(1,599)**	2,628
(Increase)/decrease in debtors	**(2,040)**	13,449
Increase/(decrease) in creditors	**1,623**	(33,595)
(Decrease)/increase in provisions	**(439)**	103
Other items	**89**	190
Impairment of goodwill	**7,873**	–
Net cash inflow/(outflow) from operating activities	**19,834**	(10,977)
Net cash inflow/(outflow) from operating activities comprises:		
Continuing operating activities	**11,959**	7,021
Discontinued operating activities	**7,875**	(17,998)
	19,834	(10,977)

Companies sold in the year contributed £7.9 million to the group's net operating cash flows, paid £0.9 million in respect of net returns on investment and servicing of finance, paid £0.1 million in respect of taxation and utilised £1.2 million for capital expenditure.

The operating cash flows include cash outflows relating to operating exceptional items, being restructuring, of £1.6 million within continuing activities and £1.3 million within discontinued activities.

29. Group cash flow statement (continued)

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

	2002 £'000	2001 £'000
Increase/(decrease) in cash in the year	**1,125**	(98,894)
Increase in liquid resources in the year	**2,917**	–
Cash flow from increase in debt and lease financing	**(13,469)**	(6,808)
Change in net funds resulting from cash flows	**(9,427)**	(105,702)
Loans and finance leases on acquisition of subsidiary	**2,152**	(209)
New finance leases	**(790)**	(26)
Loan from minority shareholder in subsidiary capitalised	**1,214**	–
Translation differences	**(255)**	699
Movement in net debt in the year	**(7,106)**	(105,238)
Net (debt)/funds at 1 April	**(1,338)**	103,900
Net debt at 31 March	**(8,444)**	(1,338)

c) Analysis of changes in financing during the year:

	At 1 April 2001 £'000	Cash flow £'000	New finance leases £'000	Subsidiaries disposed £'000	Other movements £'000	Exchange movement £'000	At 31 March 2002 £'000
Cash in hand and at bank	25,228	(13,555)	–	–	–	(448)	**11,225**
Overdrafts	(16,512)	14,680	–	–	–	–	**(1,832)**
	8,716	1,125	–	–	–	(448)	**9,393**
Debt	(8,928)	(14,006)	–	1,698	1,214	2	**(20,020)**
Finance leases	(1,126)	537	(790)	454	–	191	**(734)**
	(10,054)	(13,469)	(790)	2,152	1,214	193	**(20,754)**
Liquid resources	–	2,917	–	–	–	–	**2,917**
Total	(1,338)	(9,427)	(790)	2,152	1,214	(255)	**(8,444)**

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

	2002 Disposals £'000	2002 Acquisitions £'000	2001 Disposals £'000	2001 Acquisitions £'000
Net cash consideration	**6,600**	**(7,258)**	5,000	(66,328)
Net cash (disposed) of/acquired	**(11,438)**	**–**	–	1,706
Other payments	**(1,635)**	**(176)**	–	–
Net cash flow	**(6,473)**	**(7,434)**	5,000	(64,622)

i) Disposals The cash outflow in respect of disposals comprises an inflow of £5.3 million from the disposal of Railcare and an outflow of £11.8 million from the disposal of Materials Handling businesses.

The cash inflow from the Railcare disposal comprises consideration received £4.6 million, bank overdraft disposed of £1.7 million and costs of £1.0 million. The net cash outflow from the disposal of Materials Handling businesses comprises consideration received £2.0 million, cash disposed of £13.2 million and costs £0.6 million.

ii) Acquisitions The cash outflow in respect of acquisitions comprises: the payment of £6.0 million of deferred consideration due on the purchase of the Rosyth Dockyard in January 1997; the payment of £0.9 million of additional consideration and £0.2 million of costs for the purchase of Hunting Defence Services in March 2001 following agreement of completion accounts; the payment of £0.3 million of deferred consideration for the purchase of Armstrong Technology Associates Ltd in January 2000; and the payment of £0.1 million of deferred consideration for the purchase of the Chronos Richardson Group in June 2000.

30. Acquisitions and disposals

a) Acquisitions

The group made no acquisitions during the year ended 31 March 2002.

The fair value of the net assets acquired and the consideration payable in respect of the acquisition of Hunting Defence Services on 9 March 2001 were included in the accounts for the year ended 31 March 2001 on a provisional basis.

The adjustments required, set out in the table below, comprise: an increase in creditors retained by the vendor; an increase in the consideration following agreement of the completion accounts; and the finalisation of estimated costs. The goodwill arising is consequently reduced by £523,000.

	Fair value as stated in the 2001 accounts £'000	Adjustments £'000	Fair value as now restated £'000
Tangible fixed assets	2,003	–	2,003
Current assets			
Stocks and work in progress	236	–	236
Debtors	7,881	–	7,881
Cash	741	–	741
Creditors			
Borrowings	(157)	–	(157)
Other creditors	(8,013)	97	(7,916)
Net assets acquired	2,691	97	2,788
Consideration			
Cash	62,089	99	62,188
Costs	2,500	(525)	1,975
	64,589	(426)	64,163
Goodwill arising	61,898	(523)	61,375

The fair value of the net assets acquired and the consideration payable in respect of the acquisition of the Chronos Richardson Group on 20 June 2000 that were included in the accounts for the year ended 31 March 2001 have been adjusted as set out in the table below.

The adjustments required, comprise: the alignment of accounting policies on depreciation of computer equipment; the write-off of irrecoverable stocks and work in progress; additional provisions for bad and doubtful debts; the recognition of additional contract and other costs; an additional provision for unfunded pension liabilities; and a reduction in deferred consideration payable. The goodwill arising is consequently increased by £590,000.

	Fair value as stated in the 2001 accounts £'000	Adjustments £'000	Fair value as now restated £'000
Tangible fixed assets	1,563	(105)	1,458
Current assets			
Stocks and work in progress	4,876	(167)	4,709
Debtors	7,732	(121)	7,611
Cash	1,353	–	1,353
Creditors			
Borrowings	(363)	–	(363)
Other creditors	(10,933)	(330)	(11,263)
Provisions for liabilities and charges	(3,173)	(48)	(3,221)
Net assets acquired	1,055	(771)	284
Consideration			
Cash	1,440	–	1,440
Deferred consideration	241	(181)	60
Costs	469	–	469
	2,150	(181)	1,969
Goodwill arising	1,095	590	1,685

30. Acquisitions and disposals (continued)

b) Disposals

The group sold a number of subsidiary undertakings during the year.

i) On 23 May 2001 the group sold its 60% interest in Railcare Ltd, which, together with its subsidiaries, carried on the group's rail maintenance business. Up to the date of disposal profits included within the current year results are £nil (2001: loss of £10.7 million).

ii) On 30 August 2001 the group sold its 100% interests in Babcock Holdings (Finland) Oy and BMH Wood Technology AB, which, together with their respective subsidiaries, carried on the Nordic Wood business of the Materials Handling division. Up to the date of disposal the Nordic Wood business contributed £0.1 million (2001: profit £0.3 million) to group results.

iii) On 31 December 2001 the group sold its 100% interest in BMH Technologies GmbH, the parent company of the group's non-US based cement business, which formed part of the Materials Handling division. Up to the date of disposal the non-US based cement businesses achieved a loss of £0.3 million (2001: profit £2.5 million).

iv) On 1 February 2002 the group sold its 100% interest in the wallboard equipment business, BMH AKI Dryers, Inc, which formed part of the Materials Handling division. Up to the date of disposal BMH AKI Dryers, Inc achieved a loss of £0.7 million (2001: loss of £0.5 million).

The profits attributable to these businesses are included within discontinued operations in the profit and loss account and in the notes to the accounts.

The net assets disposed of and the related sale proceeds were as follows:

	Railcare £'000	Materials Handling £'000	Total £'000
Tangible fixed assets	1,605	8,547	10,152
Current assets			
Stocks and work in progress	8,618	3,237	11,855
Debtors	8,324	21,143	29,467
Pension prepayment	9,685	–	9,685
Cash	–	13,165	13,165
Creditors			
Borrowings	(2,095)	(1,784)	(3,879)
Other creditors	(11,049)	(32,991)	(44,040)
Provisions for liabilities and charges	(1,955)	(4,831)	(6,786)
Net assets	13,133	6,486	19,619
Minority interest	(7,733)	–	(7,733)
Related goodwill	(2,516)	7,875	5,359
	2,884	14,361	17,245
Loss on sale	–	(12,020)	(12,020)
Net sale proceeds	2,884	2,341	5,225
Satisfied by:			
Cash	4,597	2,003	6,600
Deferred cash consideration	–	1,011	1,011
Costs	(1,713)	(673)	(2,386)
	2,884	2,341	5,225

£0.8 million of the deferred consideration receivable on the disposal of Materials Handling businesses was received in April and May 2002. The remainder is due to be received on or before 30 September 2002.

31. Financial commitments

Capital commitments

	2002 £'000	2001 £'000
Authorised future capital expenditure of the group at 31 March that was contracted for but not provided for in the Financial Statements	**62**	327

The company had no capital expenditure contracted for at 31 March 2002 (2001: £nil).

31. Financial commitments continued

Operating lease commitments

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

	2002 Land and buildings £'000	**2002 Plant machinery and vehicles £'000**	2001 Land and buildings £'000	2001 Plant machinery and vehicles £'000
Leases expiring:				
Within one year	**647**	**139**	265	426
Within two to five years	**1,201**	**1,791**	1,851	780
Thereafter	**2,325**	**–**	2,141	37
	4,173	**1,930**	4,257	1,243

Company The company has an operating lease commitment for land and buildings as at 31 March 2002 with an annual commitment expiring after more than five years of £1.7 million (2001: £1.7 million).

32. Contingent liabilities

a) The company has guaranteed or has joint and several liability for bank facilities of £60.0 million (2001: £74.5 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 2002 these amounted to £38.6 million (2001: £86.6 million), of which the company had counter-indemnified £32.0 million (2001: £57.3 million).

c) The company has given guarantees on behalf of group companies in connection with the completion of contracts within specification, including responsibility for maintenance.

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 Support Services 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.

e) In 1995 the group sold its energy business, which included a former boilermaking business that had previously been conducted by or on behalf of Babcock International Limited (BIL) a continuing subsidiary of the company. As a consequence of the insolvency of an employer's liability insurer, the group may no longer be fully insured against known and potential claims from former employees of this business. In this regard, BIL considers that pursuant to the terms of the contract by which this business was sold, all related liability was effectively transferred with the business. Moreover, while the obligation to discharge such liability is currently the subject of legal proceedings, BIL, believes, having taken independent legal advice, that it is likely to succeed in the current legal proceedings, and consequently, the Directors have decided not to make any provision in respect of such liability.

f) The company has given certain indemnities in the course of disposing of companies. The company believes that these are unlikely to have a material effect on the group's financial position.

g) The group is involved in disputes and litigation which have arisen in the course of normal trading. The Directors do not believe that the outcome of these matters will result in any material adverse change to the group's financial position.

33. Subsequent events

a) On 30 April 2002 the group sold the business and assets of the last remaining part of the Materials Handling cement business, based in the US. Consequently the results are included within discontinued operations. The estimated impairment in the value of its goodwill (£0.5 million) and other assets (£1.3 million) held at 31 March 2002 has been included in the loss on sale of operations.

b) On 5 June 2002 the group announced that it had agreed to purchase the business and assets of Service Group International Ltd (SGI), a facility and property management business providing management and professional consultancy services relating to the property estates of the MoD, Local Authorities, Central Government and the Private Sector, for a cash consideration of £21.3 million. A further £5.5 million of consideration, payable in cash, is conditional upon the future success of the acquired business in securing Specialist and Regional Prime Contracts covering maintenance and new capital works for the MoD.

Subject to the satisfaction of conditions precedent, completion of the acquisition is expected to take place no later than 12 July 2002. No cash or debt will be acquired with the business.

The net assets of SGI at completion are expected to be £2.35 million. SGI's unaudited results for the year to 31 December 2001 showed an operating profit of £1.6 million on a turnover of £27.6 million.

Principal subsidiary and associated undertakings

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

Air Power International Limited
Armstrong Technology Associates Limited
Babcock Defence Systems Limited
Babcock Engineering Services Limited
Babcock New Zealand Holdings Limited (New Zealand)
Babcock New Zealand Limited (New Zealand)
Babcock Support Services Limited (formerly Babcock Rosyth Defence Limited)
Babcock Design & Technology Limited (formerly Babcock Rosyth Engineering Limited)
Babcock Rosyth Industries Limited
CMR Consultants Limited
FBM Babcock (Lairdside) Limited
FBM Babcock Marine Holdings (UK) Limited
FBM Babcock Marine Limited
FBMA Babcock Marine Inc. (50%) (Philippines)**
Rosyth Regeneration Limited (20%)*
Rosyth Royal Dockyard Limited
Babcock Eagleton Inc (USA)

Training and Support
Training, operating and maintenance services primarily for the MoD:

Acetech Personnel Limited
Hiberna FM Limited
Babcock Africa (Pty) Limited (South Africa)
Babcock Africa Contracting (Pty) Limited (South Africa)

Materials Handling

Materials processing technologies and engineered systems:

Babcock Holdings (Sweden) AB (Sweden)
Babcock Holdings (USA), Inc (USA)
BMH Americas Inc (USA)
BMH Chronos Asia Pacific Sdn Bhd (Malaysia)
BMH Chronos Richardson (Thailand) Ltd (49%) (Thailand)
BMH Chronos Richardson GmbH (Germany)
BMH Chronos Richardson Inc (USA)
BMH Chronos Richardson Limited
BMH Chronos Richardson SA (France)
BMH Chronos Richardson Srl (Italy)
BMH Chronos Richardson India (Private) Ltd (40%) (India)
BMH Kellve AB (Sweden) (90%)
BMH Marine AB (Sweden)
BMH Technologies (Holdings) GmbH (Germany) (formerly Claudius Peters GmbH)
Chronos Holdings Limited

Others

Babcock Employees' Trustees Limited
Babcock Holdings Limited
Babcock HSPS Trustees Limited
Babcock International Holdings BV (Netherlands)
Babcock International Holdings Limited
Babcock International Limited
Babcock Investments Limited
Babcock Management Limited
Babcock Overseas Investments Limited
Chepstow Insurance Limited (Guernsey)
Rosyth Royal Dockyard Pension Trustees Limited

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 thirteenth Annual General Meeting of the members of Babcock International Group PLC will be held at The Berkeley Hotel, Wilton Place, Knightsbridge, London SW1X 7RL, on Friday, 26 July 2002, at 11.00 am for the transaction of the following business:

1. To receive the Directors' and Auditors' reports and the audited Financial Statements of the company for the year ended 31 March 2002.

2. To declare a final dividend for the year ended 31 March 2002.

3.1) To elect Mr J L Rennocks as a Director of the company;

3.2) To elect Mr P L Rogers as a Director of the company;

3.3) To elect Mr W Tame as a Director of the company;

3.4) To re-elect Lord Hesketh as a Director of the company;

3.5) To re-elect Dr G Schäfer as a Director of the company;

3.6) To re-elect Mr D J Shah as a Director of the company.

4. As special business, to consider and, if thought fit, to pass the following Resolutions:

Special Resolutions

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 60p 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 14,809,275;

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 31 December 2003 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.

2) That the new Articles of Association set forth in the printed document produced to this meeting and signed by the Chairman for the purposes of identification be and are hereby adopted in substitution for and to the exclusion of the existing Articles of Association.

Ordinary Resolutions

3) That Deloitte & Touche be and are hereby appointed as Auditors to the company to hold office from the conclusion of the meeting until the conclusion of the next general meeting at which accounts are laid.

4) That the Directors be and they are hereby authorised to fix the remuneration of the Auditors as they shall in their discretion see fit.

5) That the Directors be and are hereby authorised, subject to the approval of the Board of Inland Revenue, to amend the rules of The Babcock International Group PLC Sharesave Scheme (the 'SAYE Scheme') by deleting rules 5.2 and 5.3; and to amend further the rules of the SAYE scheme to take account of any comments of the Inland Revenue so as to maintain the approved status of the SAYE Scheme.

6) That the Directors be and are hereby authorised:

a) to amend the rules of The Babcock 1999 Unapproved Executive Share Option Scheme and, subject to the approval of the Board of Inland Revenue, to amend the rules of the Babcock 1999 Approved Executive Share Option Scheme (the 'Approved Scheme') to vary the option exercise provisions and make other consequential amendments as described in the explanatory notes contained in the Directors' report on page 25; and

b) to amend further the rules of the Approved Scheme to take account of any comments of the Inland Revenue so as to maintain the approved status of the Approved Scheme.

7) That the company and any company which is or becomes a subsidiary of the company during the period to which this resolution relates be and is hereby authorised for the purposes of Part XA of the Companies Act 1985 to make Donations to EU Political Organisations or incur EU Political Expenditure during the period ending on the date of the company's Annual General Meeting in 2005 provided that any such donations and expenditure made by the company together with those made by any subsidiary company while it is a subsidiary of the company shall not exceed in aggregate £50,000 in each of the next three financial years of the company (inclusive of the current financial year). For the purposes of this resolution, the expressions 'Donations', 'EU Political Organisations' and 'EU Political Expenditure' have the meanings set out in Part XA of the Companies Act 1985 (as amended by the Political Parties, Elections and Referendums Act 2000).

By order of the Board.

A N Dungate Secretary
17 June 2002

Registered Office:
2 Cavendish Square
London W1G 0PX

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) Copies of the following will be available for inspection at the Registered Office of the company and also at the offices of Pinsent Curtis Biddle, Dashwood House, 69 Old Broad Street, London EC2M 1NR during normal business hours on weekdays (Saturdays and public holidays excepted) until the close of the Annual General Meeting and also at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting:

a) the existing articles of association together with the proposed new articles of association; and
b) the existing rules of The Babcock 1999 Unapproved Executive Share Option Scheme showing the amendments proposed to be made.
c) the existing rules of The Babcock 1999 Approved Executive Share Option Scheme showing the amendments proposed to be made.
d) the existing rules of The Babcock International Group PLC Sharesave Scheme.

Five year financial record

	2002 £m	2001 £m	2000 £m	1999 £m	1998 £m
Group turnover	**423.0**	441.0	470.7	495.0	568.3
Operating profit/(loss)*	**0.9**	(4.8)	20.8	22.8	14.0
Exceptional items	**(13.8)**	(6.2)	1.0	6.1	(18.7)
(Loss)/profit on ordinary activities before interest	**(12.9)**	(11.0)	21.8	28.9	(4.7)
Net interest and similar charges	**(1.0)**	3.7	4.2	2.5	0.2
(Loss)/profit on ordinary activities before taxation	**(13.9)**	(7.3)	26.0	31.4	(4.5)
Tax on ordinary activities	**(3.1)**	(1.2)	(4.5)	(5.3)	(2.9)
(Loss)/profit on ordinary activities after taxation	**(17.0)**	(8.5)	21.5	26.1	(7.4)
Minority interests	**(0.1)**	3.2	1.0	(0.6)	(1.3)
(Loss)/profit attributable to shareholders	**(17.1)**	(5.3)	22.5	25.5	(8.7)
Fixed assets	**85.1**	114.7	58.7	47.9	50.7
Net current assets	**25.6**	33.9	129.1	122.8	97.9
Non-current liabilities and provisions	**(29.7)**	(39.7)	(36.0)	(34.1)	(33.8)
Total net assets	**81.0**	108.9	151.8	136.6	114.8
Shareholders' funds	**81.0**	105.7	143.9	126.8	105.7
Minority interests	**–**	3.2	7.9	9.8	9.1
	81.0	108.9	151.8	136.6	114.8
Earnings/(loss) per share – basic	**(11.68)p**	(3.34)p	13.26p	15.07p	(5.12)p
Dividends per share	**2.85p**	2.65p	2.55p	2.20p	1.80p

*Includes operating profit/(loss) of joint ventures and associates. Years prior to 2001 have not been restated following adoption of FRS19.

Shareholder information

Financial calendar
Financial year end
31 March 2002

2001/02 preliminary results announced
18 June 2002

Annual General Meeting
26 July 2002

Final dividend payment date
(record date 12 July 2002)
9 August 2002

Registered office and company number
2 Cavendish Square
London, W1G 0PX.

Registered in England.
Company number 2342138

Registrars
Computershare Investor
Services PLC
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 Investor Services PLC at their address given above.

Auditors
Arthur Andersen
180 Strand
London WC2R 1BL

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

Investment bankers
Credit Suisse First Boston
(Europe) Limited
1 Cabot Square
London E14 4QJ

Stockbrokers
Cazenove Group PLC
12 Tokenhouse Yard
London EC2R 7AN

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 0870 600 2050 or alternatively, to write to NatWest Stockbrokers Limited, Babcock International Group Information, FREEPOST, London E1 8BR or e.mail contactces@natwest.com, please quote 'Babcock'.

Return of capital to shareholders
A return of capital to ordinary shareholders by way of a bonus issue of redeemable 'B' Shares of 18p each, out of the company's share premium account, was approved at an Extraordinary General Meeting of the company held on 10 October 2000. The majority of shareholders elected to have their 'B' Shares redeemed on 23 October 2000 and 23 April 2001. Holders of 'B' Shares registered at 23 March 2001 were paid a dividend of 0.41834p per share on 23 April 2001 and holders of 'B' shares registered at 21 September 2001 were paid a dividend of 0.35792p per share on 23 October 2001, both in respect of the six month periods ended on 23 April and 23 October 2001. On 23 October 2001 the company compulsorily redeemed the remaining 3,747,563 'B' shares in issue.

Taxation
A guide to the general tax position of United Kingdom shareholders under the return of capital described above is given in Part IV of the circular to shareholders dated 15 September 2000. Copies of the Part IV guide are available, on request, from the Company Secretary, at Babcock International Group PLC's Registered Office (see back cover).

Market values of Babcock International Group PLC new ordinary shares of 60p and 'B' Shares for the purpose of taxation of chargeable capital gains (CGT) are as follows:

	New ordinary shares	'B' shares
23 October 2001	112.5p	17.75p

1. The market values stated above are used to allocate the base cost of the existing ordinary shares, between the new ordinary shares and 'B' shares in calculating any CGT liability.

2. Being the first day of trading of the new ordinary shares and the 'B' shares.

Designed and produced by **Radley Yeldar** London Photography on cover and page 10 courtesy of The Royal Navy

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