
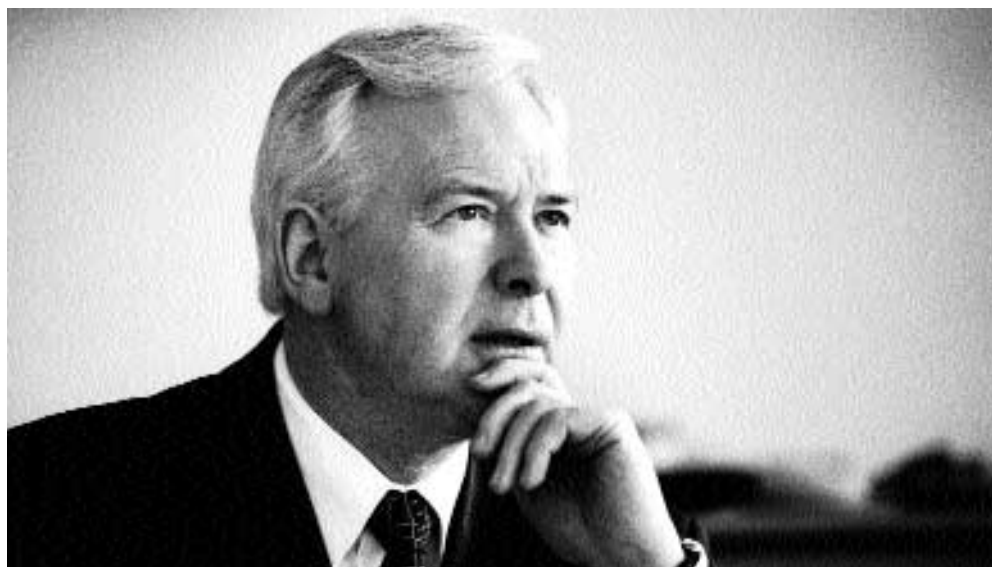


Chairman's statement

Well placed to take advantage of significant opportunities



Dr T John Parker Chairman
16 June 2000



Overview

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

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

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

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

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

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

Defence Services

There was an excellent performance during the year at Rosyth in the Division's principal activity of naval refitting, dominated by the major refits of nuclear submarines HMS Sceptre and HMS Spartan and the aircraft carrier HMS Ark Royal. Our principal customer, the UK Ministry of Defence ('MoD') continues to be highly satisfied with our progress in achieving significant cost reductions, timely completions

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

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

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

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

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

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

Marine Services

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

At the close of the year BES also acquired FBM Marine Limited ('FBM') a designer and builder of modern multi-hull fast ferries and paramilitary craft. This business also extends the scope of BES's products and services. It will leverage off the skills and modern facilities at Rosyth by assembling the fast ferries at that facility. In addition FBM has

a 50% stake in a low cost, efficient construction facility in the Philippines to service the Far East ferry markets.

Rail Engineering Services

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

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

Facility Management and Specialist Engineering Services

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

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

BMH – material processing technologies and engineered systems

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

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

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

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

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

E-Business

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

Outlook

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

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

Babcock today

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

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

BMH Division Materials processing technologies and engineered systems.

10.5m

Operating profit € (1999: €13.3m)

10.1m

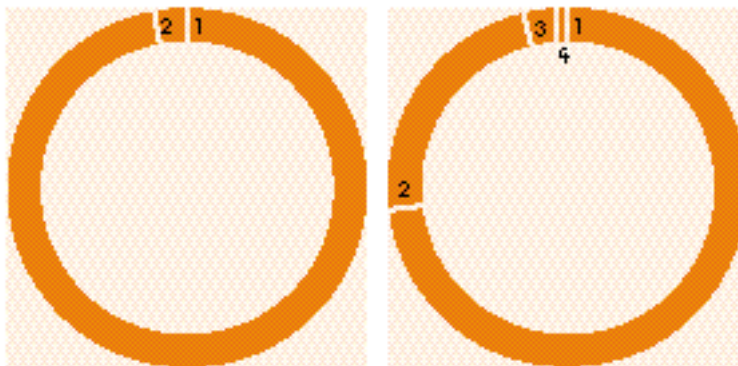
Operating profit € (1999: €8.4m)

241.8m

Turnover € (1999: €280.2m)

228.9m

Turnover € (1999: €214.8m)

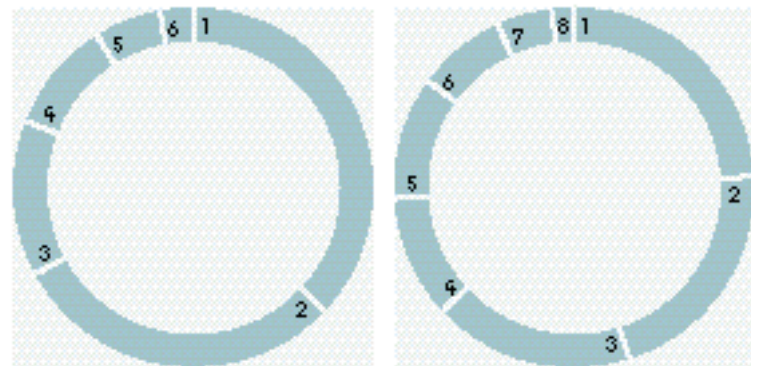


1 UK
2 Australasia

17% 3%
1 Defence - UK 75%
2 Rail 23%
3 Defence - non UK 3%
4 Marine 1%

Sales by destination

Sales by activity

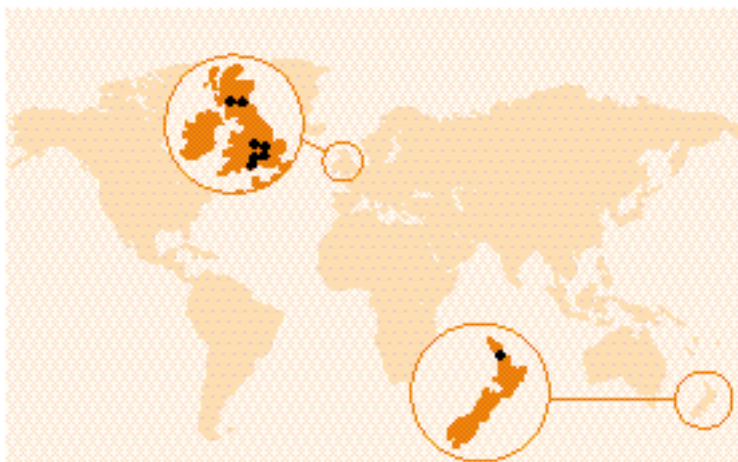


1 North America 37%
2 Europe 30%
3 Africa 14%
4 Asia 10%
5 South America 4%
6 Middle East 3%

1 Cement 24%
2 Marine 21%
3 Pipeline engineering 18%
4 South Africa 17%
5 Engineered building products 11%
6 Power, iron and steel 8%
7 Bio-energy and wood 5%
8 Others 2%

Sales by destination

Sales by activity



Geographic spread



Geographic spread