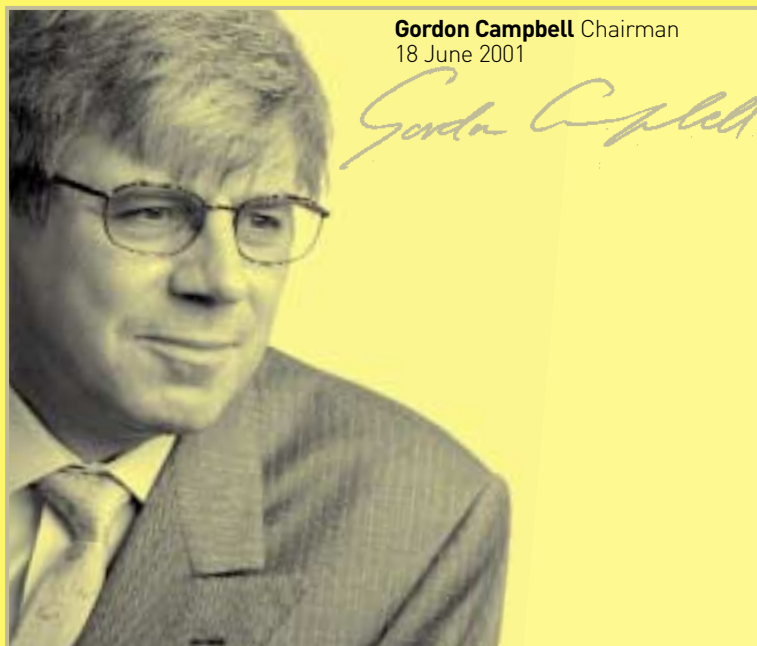
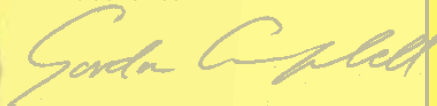


**Gordon Campbell** Chairman  
18 June 2001



I was absolutely delighted to become chairman of your company. For people of my generation and educational background, Babcock conjures up an immediate image of process engineering and boilermaking. Over three decades, Babcock has changed enormously, but still commands respect around the world, and the Babcock brand is a great asset to us. However, the change we are currently going through is at least as large as anything that has gone before and many times more exciting. Shortly before I arrived, the Board announced a clear strategy which had three main elements. First, we would return some of the cash in the Babcock balance sheet to you, the shareholders, by way of a return of capital. £30.6 million of capital will be returned to our shareholders of which £27.9 million was returned in the year. This is the

equivalent of 18p per old share. The second element was to sell our materials handling business and the Railcare business and thirdly to focus on the support services sector. This was a brave strategy and, like all brave moves, requires complete commitment to deliver. However, the successful delivery of this strategy should enhance shareholder value considerably. It will take your company into higher growth markets, reduce exposure to cyclical businesses, and remove our dependence on risky construction contracts.

I fully support this strategy and, along with my Board colleagues, am determined to drive through the execution.

So far we have succeeded in selling the loss-making Railcare business and are embarked upon the disposal of the BMH businesses. The disposal of BMH as a single

## Chairman's introduction

Babcock International is a multinational system in the UK. This year's acquisition of Hunting provided us with a strong platform from which a dedicated services company.

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entity was always going to be difficult, but in the current climate of falling order books, has proved to be impossible. We shall create more value by selling the component parts of BMH and this process is underway. Inevitably, it will take longer than a single sale, but we are committed to seeing it through. The purchase of Hunting plc's Defence Services business (Hunting Defence Services) is a seminal event in the transformation of Babcock. It is an interesting and successful business in its own right, but the acquisition provides a vital first rung on the ladder to becoming a true support services business. It builds on our excellent reputation with the Ministry of Defence (MoD) but also provides a bridge into the civil side of the support services industry.

Unfortunately, during the last year, business conditions deteriorated very markedly, particularly in the

engineering sector. We incurred heavy losses in the Railcare business, which were exacerbated by the need for further redundancies. Railcare cost the business £10.7 million in the year to March 2001 and its ultimate sale was a great relief. However, Railcare was not the only problem business, and conditions in many of the BMH activities have also deteriorated markedly. Operating profits (before exceptional items) fell by nearly 70% as demand collapsed and a £9.6 million provision against a major contract was made. On a more positive note, the BES profits held up well and the order book in the immediate future is on plan.

The results in Railcare and BMH meant a fall in profit before tax from £26.0 million to a loss of £7.3 million after exceptional charges of £22.0 million. Earnings per share before non-operating exceptional charges and goodwill were 0.55p.

However, the Board believes that with the actions taken and the strategy sufficiently robust a final dividend of 1.55p per share can be recommended.

Despite the return of capital and the acquisition of Hunting Defence Services the group remains virtually debt free at the year end.

The results show what a difficult year some of the businesses have had, and my thanks go to all our employees for their dedication and contribution in such trying circumstances. Special thanks are also due to the retiring chairman, Sir John Parker. When John arrived at Babcock in the early '90s, it was close to bankruptcy and he, with the help of all our employees, turned the business round into the robust position it has today. The group now had a strong enough balance sheet to support its strategy, even through

poor trading conditions, and that is the legacy with which John should be associated.

We are embarked upon a strategy clearly designed to enhance shareholder value. If our strategy is implemented successfully, we will have transformed the perception of Babcock from an old engineering business to one of a high growth support services unit. The consequence should be a re-rating of the shares from the depressingly low multiples attributed to engineering businesses to the attractive ones earned in support services. This will not be an easy transformation, but we have made a successful start, with some key disposals and important acquisitions. It is now up to all of us who work in Babcock to deliver the results. I relish the challenge.

ms and services group, headquartered  
plc's Defence Services business has  
we can realign the business to become