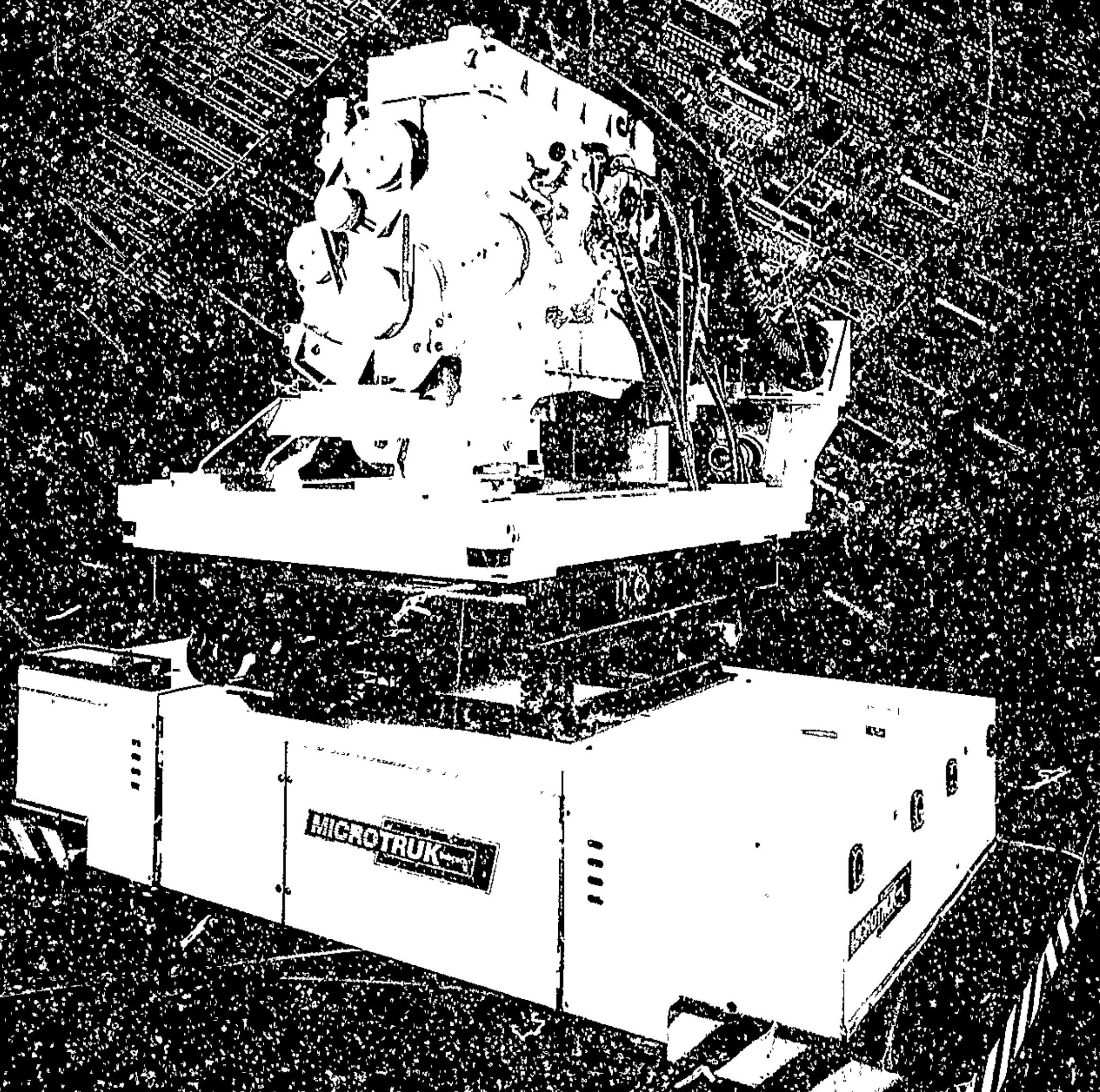
Babcock
International plc



Annual Report 1985

Group profile

Babcock is a worldwide group of companies supplying a diverse range of engineering plant, products and services. The Group has particular capabilities in design, engineering, contracting, manufacturing and plant erection.

Activities include the manufacture and provision of:

Boilers and ancillaries for conventional and nuclear power stations and for industrial and marine applications
Fluidised bed and other combustion equipment
Coal and ore milling equipment
High and low pressure pipework
Pressure vessels and steel fabrications of all types
Steelworks, petrochemical and process plant
Food processing and packaging plant
Bulk material handling equipment
Cement and gypsum plant
Instrumentation and process control systems
Water treatment, sewage purification, reverse osmosis and desalination plant
Automated foundry and casting equipment
Underground mining machinery and roof supports
Electrical distribution equipment
Automated guided vehicles
Automated storage and retrieval systems
Unit handling and sortation systems
Wire and cable machinery
Chain and chain products
Aerial tow cables
Cable controls for motor vehicle, aerospace and industrial uses
Furniture hardware
Motor vehicle fittings and trim
Engine testing systems for the aero, automobile, marine and vehicle industries
Railway bogies

Services provided include:

Design engineering
Turnkey project management for contracting activities
Maintenance of oil and gas offshore installations
Mechanical construction
Research and development
Regeneration of spent hydrochloric acid
Specialised welding services
Rural and urban electrification
International installation and field service in instruments and control systems

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The year in brief

	1985 £000	1984 £000
Turnover	1,098,926	1,129,764
Profit before taxation	34,549	31,600
Per 25p ordinary share:		
net assets	147p	160p
earnings	19·7p	16·2p
dividends	8·4p	8·0p
Dividend cover	2·3	2·0
Return on total funds employed	12·5%	12·0%
Average number of employees:		
United Kingdom	13,774	13,052
Overseas	12,811	11,866
Total	26,585	24,918
Turnover per employee based on the above average	£41,336	£45,339

The front cover shows an automated guided vehicle which will form part of an automated engine test facility ordered by Cummins Engine Company Inc. The contract involves co-ordinating the activities of four Babcock companies – Froude Consine Limited, Froude Engineering Inc, Babcock FATA Limited and Acco Babcock Inc.

Babcock

Contents

Board of directors

The Rt Hon Lord King of Wartnaby	*Chairman*
*The Rt Hon Sir Frank Cooper, GCB, CMG	*Deputy Chairman*
M. R. Hoffman, BSc(Eng) Hons, CEng, FIMechE, FIProdE	*Managing Director*
R. H. Campbell, OBE, BSc(Eng), FEng, FIEE, FRSA	
A. T. Harvey, CEng, FIEE	
*Sir George Jefferson, CBE, HonBSc (London), FEng, HonFIMechE, FRAeS, FRSA, FCGI	
B. J. Knightley, FCA	*Finance Director*
*The Rt Hon C. E. Parkinson, MP	
*G. S. Stone, FCA	

*Non-executive director

Secretary
J. H. Dodd, LL.M

Registered office
Cleveland House
St James's Square
London SW1Y 4LN

Auditors
Coopers & Lybrand

Registrars and transfer office
Ravensbourne Registration Services Limited
Bourne House
34 Beckenham Road
Beckenham, Kent BR3 4TU

Notice of meeting

Notice is hereby given that the eighty-seventh annual general meeting of Babcock International plc will be held at the Royal Over-Seas League, Over-Seas House, Park Place, St James's Street, London SW1 1LR on Friday 23rd May 1986 at 12.30 pm for the following purposes:

1 To receive and adopt the statement of accounts for the financial year ended 29th December 1985 together with the reports of the directors and auditors thereon.

2 To declare an ordinary dividend.

3 To elect directors.

4 To reappoint Coopers & Lybrand as auditors and to authorise the directors to fix their remuneration.

As **special business**, to consider and, if thought fit, to pass the following six resolutions:

5 **As an ordinary resolution**
'That the authorised capital of the Company be increased from £40,000,000 to £50,000,000 by the creation of 40,000,000 ordinary shares of 25p each.'

6 **As an ordinary resolution**
'That the directors be generally and unconditionally authorised, in accordance with Section 80 of the Companies Act 1985:

i) to exercise all powers of the Company to allot (within the meaning of that Section) relevant securities, as defined therein, up to an aggregate nominal amount of £16,297,323·50, inclusive of the shares to be allotted pursuant to Resolution No 7, at any time and from time to time on or before 23rd May 1991, or in pursuance of such an offer or agreement as is mentioned below; and

ii) to make on behalf of the Company at any time and from time to time on or before 23rd May 1991 any offer or agreement which would or might require relevant securities to be allotted after that date; and

iii) that the previous authority granted on 25th May 1984 be and is hereby revoked.'

7 **As an ordinary resolution**
'That the sum of £3,040,267·75 (or, if different, the sum that equals ten per cent of the nominal amount of the Company's issued ordinary share capital at the close of business on 25th April 1986), being part of the amount for the time being standing to the credit of the Company's reserve accounts, be capitalised by applying such sum in paying up in full at par such unissued ordinary shares of 25p each of the Company as are required to allot and distribute, as fully paid shares to the holders of ordinary shares on the register at the close of business on 25th April 1986, new ordinary shares in the proportion of one such new ordinary share for every ten existing ordinary shares then held by such holders (and on the basis that fractions of shares will not be allotted to shareholders but will be aggregated and sold in the market for the benefit of shareholders). Such new ordinary shares shall rank *pari passu* with the ordinary shares of 25p in issue at 23rd May 1986 except that they shall not rank for any dividend declared on or before that date.'

8 **As a special resolution** (subject to the passing of resolution No 6)
'That the directors, being generally authorised for the purposes of Section 80 of the Companies Act 1985 to allot relevant securities of the Company, be further empowered in accordance with Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94) for cash as if Section 89(1) did not apply thereto, provided that this power shall be limited:

i) to the allotment of equity securities where, in connection with a rights issue in favour of holders of ordinary shares, the directors deem it necessary or expedient to make such exclusions or other arrangements as are appropriate in order to deal with fractional entitlements that would otherwise arise, or with legal or practical problems arising under the laws of, or arising under the requirements of any recognised regulatory body in, any territory; and
ii) to the allotment (otherwise than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal amount of £2,150,000; and shall (unless previously revoked or varied) expire at the end of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.'

9 **As an ordinary resolution**
'That the Babcock Overseas Executive Share Option Scheme to be constituted by rules produced to this meeting and for the purpose of identification initialled by the Chairman thereof be and is hereby adopted and that the directors be and are hereby authorised to do all acts and things which they may consider necessary or expedient for the purpose of carrying the same into effect.'

10 **As an ordinary resolution**
'That the present rule 2(a) of the Babcock Executive Share Option Scheme (1984) be deleted and substituted by the following:

> Subject to the limitations and conditions hereinafter contained and unless prohibited by law, the directors may invite applications for Options including Parallel Options from any Executive who is not within two years of his Normal Retirement Date. Applications as aforesaid shall be in a form prescribed by the directors.'

J. H. Dodd
Secretary
Cleveland House
St James's Square
London SW1Y 4LN

10th April 1986

Explanation of special business

Resolution No 5

This ordinary resolution proposes to increase the authorised share capital of the Company by the creation of an additional 40,000,000 ordinary shares. There is no present intention of issuing these additional shares in the immediate future and no such issue effectively altering the control of the company would be made without the prior approval of the shareholders in general meeting.

Resolution No 6

Upon the adoption of resolution No 5, it will be necessary for the directors to seek a renewal of their authority to allot shares and for the present authority, granted at the annual general meeting held on 25th May 1984, to be revoked. The amount of £16,297,323·50 is the difference between the proposed increased authorised ordinary share capital and the issued ordinary share capital at the date of the notice. Of this, approximately £6,790,000 will be required for the Company's share option schemes and for the proposed capitalisation issue. Accordingly, the directors will have at their disposal no more than £9,500,000 in ordinary shares to issue generally.

Resolution No 7

This ordinary resolution proposes that the sum of £3,040,267·75 is capitalised out of reserves and applied in paying up new shares to be allotted to members on the register at 25th April 1986 in the proportion of one new ordinary share of 25p for every ten ordinary shares then held by shareholders in accordance with the recommendation of the directors as set out in the Chairman's statement. This capitalisation issue will not qualify for the final dividend recommended for 1985 and payable on 27th May 1986, but would rank for subsequently declared ordinary dividends. The resolution is worded so as to allow for a further amount to be capitalised out of reserves in the event of any change in the Company's issued ordinary share capital between the date of this notice and the close of business on 25th April 1986. Any such change would arise only through the exercise of share options or conversion rights attaching to the 7% convertible guaranteed bonds due 1992 of Babcock Nederland BV.

Application will be made to the Council of The Stock Exchange for the admission of the new shares to the Official List and, subject to the approval of the shareholders, it is proposed to mail renounceable share certificates in respect of the new shares on Friday, 30th May 1986, which will permit first dealings in the new shares to take place on Monday, 2nd June 1986.

Any fractions of shares to which shareholders are entitled will be aggregated and allotted to a nominee for sale in the market and the proceeds will be distributed to the shareholders concerned in proportion to their respective entitlements.

Shareholders who wish to dispose of their new shares free of stamp duty will be able, for the period of six weeks to 11th July 1986, to renounce their rights in accordance with the instructions printed on the counterfoil attached to the renounceable share certificate. New certificates in respect of renounced holdings will be issued on 8th August 1986. Those who wish to retain only part of the capitalisation issue may, up to 9th July 1986, apply to the Company's Registrars to divide their holdings. Instructions for splitting will also be included on the counterfoil.

If you have any questions or problems in connection with the proposed issue, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.

Resolution No 8

The purpose of this special resolution is to renew the limited power given to directors to allot equity securities for cash as if the statutory pre-emption rights did not apply to such allotment. The amount of equity securities referred to in paragraph (ii) of the resolution is 5% of the increased issued ordinary share capital (following the capitalisation issue) and the £9,500,000 referred to above.

Resolutions Nos 9 & 10

An explanation of these resolutions is given in the circular enclosed with the 1985 Annual Report.

Notes

1 Pursuant to article 74, holders of the 4% cumulative redeemable preference stock are not entitled to attend or vote at the above meeting.

2 In accordance with the provisions of the Companies Act 1985, any member of the Company entitled to attend and vote may appoint another person (whether a member or not) as his proxy to attend and vote instead of him.

3 Ordinary shareholders registered on 25th April 1986 will receive the dividend payable on 27th May 1986.

4 Copies of the directors' service contracts will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays and public holidays excepted) from 25th April 1986 until 23rd May 1986 and at the place of the annual general meeting from 12.15 pm until the conclusion of the meeting.

Statement by the chairman: Lord King

I am pleased to report another year of progress by the Group. There was an improvement in basic profitability, in addition to which there was a once and for all exclusion from charge of pension fund contributions, totalling £6 million. Earnings per share increased from 16·2 pence to 19·7 pence.

The feature of 1985 was the greatly improved performances of our North American operations. This largely compensated for the losses in our mining equipment operations and the unfavourable effects of exchange rate movements on sterling translations of foreign currency profits. The North American businesses were able to benefit from buoyant domestic markets for products at the lighter end of the engineering spectrum, where the majority of them specialise, including in particular, automotive components and consumer goods. In addition, new operating managements in two areas succeeded in eliminating almost entirely the serious losses which their businesses had incurred in 1984. Conversely, world demand for major new plant installations and heavy equipment remains depressed.

The Company has continued its strategic investment in growth businesses and the worldwide improvement in our automation, hardware, process control and automotive component activities in 1985 was significant. Dependence on the more familiar Babcock activities, related to traditional engineering products and services has diminished. Structural changes in these parts of the business and investment in new facilities at Renfrew and other United Kingdom sites has nevertheless continued. Investments in new businesses, costing a total of £33 million, were made to strengthen existing activities: Faultless Caster Corporation produces castors for industrial and domestic furniture and swivel chair tilt control mechanisms, which complement the North American Group's furniture hardware range sold by Keeler, Weber Knapp and Belwith; the Teleflex industrial cables business brought a new dimension to the product range of Acco's Cable Controls Group; the acquisition of Robey of Lincoln and Towler simplified for the UK Power Group the reorganisation and separation of its industrial boiler business and the divisionalisation of its main activities; Froude Consine and Froude Engineering occupy positions in a niche market for test equipment which often can be linked with the Group's automation systems; and the acquisition of Associated Water Equipment and Northern Iron and Brass Foundry has allowed Babcock Australia to enter the very active market in Australia for products connected with water reticulation schemes and therefore to be less reliant on its currently weak contracting business.

The principal emphasis in 1985, however, was, and continues to be, on the development of advanced technology systems for the Group's automated handling equipment business. Our Italian subsidiaries in the FATA European Group are experts in this field and have designed various types of automated handling equipment with different applications, including an automated guided vehicle (AGV), which we believe to be superior to any equivalent system available in the world today. Hitherto the markets for AGV's have been largely confined to Europe, but more recently demand for such systems in the USA has risen very rapidly, particularly among the automotive manufacturers. It is estimated that during the next three years the requirements in North America of the automotive companies alone could total 5,000 to 7,000 vehicles. With the major vehicle manufacturers currently upgrading their facilities using flexible manufacturing systems based on AGV's, orders to supply more than 700 AGV's to the US motor industry, worth in excess of US$50 million, have already been booked and several more are in the pipeline.

Automation has therefore become an important element in our business with substantial growth potential. It not only embraces a large part of the FATA European Group in Italy, but also the Systems Division of Acco's Material Handling Group and Froude Engineering in North America, and Babcock FATA and Froude Consine in the United Kingdom. With the technology resident in Europe and the most active markets currently in the USA, it has been necessary to develop very rapidly in the North American Material Handling Group the capability for AGV software design and for training a skilled workforce to install and commission the systems. Co-operation with the FATA European Group will allow the Systems Division of the North American Material Handling Group to operate at unprecedented high levels of activity throughout 1986.

It is clear that North America again holds the best prospects for the Group in 1986. Although the average rate of economic growth in the USA is expected to be lower than last year, the outlook is generally good for the sectors in which our businesses operate. The recent fall in oil prices and the related reduction in US dollar interest rates should provide an unforeseen stimulus. Automotive demand has not slackened in the first quarter of the current year and, as yet, there are no indications that imports will cause the predicted decline in the number of units produced by the domestic automotive companies.

The furniture hardware business will again perform well in 1986 and should further improve its results if, as expected, lower interest rates stimulate demand for new housing and, in turn, new furniture. This sector of our business will also benefit from the first full year's profit contribution of Faultless Caster, acquired 31st May 1985. Control mechanisms produced and sold by Faultless Caster have recently been specified as a fitment on chairs for use in US Government Departments, which opens an important sales outlet.

The structure and management of the FATA European Group has been changed and in 1986 it will start to reap the benefit of significant research and development expenditure which has curtailed profitability in recent years. Not only will the orders for AGV's in North America provide a good workload, but substantial new business in Russia, China and India has been developed. In addition, peak activity will be reached on its contracts to construct factories for the manufacture of tools and spare parts in Ethiopia. Progress has also been made in developing food processing technology and a major contract has been secured in Russia.

In the traditional areas of our business, world demand for generating plant remains low. Ordering prospects in the United Kingdom, however, are set to improve but they have not yet materialised because of the long time scale of the Sizewell Inquiry. The Power Group is well-placed for work on Sizewell and the planned succeeding stations, once the go-ahead is given. These orders are unlikely to arise in any significant form before the end of this decade. Accordingly, from the end of 1986 when the current workload starts to decline, the Power Group must be scaled down to a size at which it will be able to maintain, probably for two or three years, a minimum level of profit on a much reduced throughput. Our Renfrew plant is well pepared for the resumption of orders, both nuclear and fossil, because of the investment in facilities and through the agreement negotiated with the trades unions for complete flexibility in working practices of staff and manual workers.

The first phase of the Renfrew investment, completed in 1981, has allowed the Power Group to move away from complete dependence on utility boiler manufacture. Work for the offshore industry and for the defence field continues to take a larger proportion of the plant's output. The initial orders have progressed well and resulted in repeat orders from major US defence contractors, such as McDonnell Douglas and Lockheed. This diversification is not just a short-term measure to fill the gap caused by low world utility boiler orders, but is based on a policy decision to reduce the dependence on boiler work. Renfrew will now concentrate on high technology products and, as has been reported in the national press, we have associated with THORN-EMI to tender for the government contract to run the naval dockyard at Rosyth, where our combined experience and our skills in man management make us strong contenders for this project.

Elements of the mining equipment businesses are currently the weakest segment of the Group. Huwood, which operates in outmoded facilities, has been badly affected by the buying policy of the National Coal Board in the aftermath of the miners' strike. It is apparent that Huwood should operate profitably on a smaller scale and reorganisation plans involve its rehabilitation into a new custom built factory, linked with a change to flexible practices by all employees. I am convinced that Huwood's business can again be made profitable.

The process plant contracting companies improved their profit contribution in 1985 and further consolidation will occur in 1986. Claudius Peters in Germany, which has returned to profit, has become an integral part of the Contracting Group of companies and has a good order book to carry it through the current year.

We foresee little change in the markets of the rest of our overseas companies. Babcock Africa is operating in a weak economy, but its business is at present dominated by the Lethabo power station which is progressing very satisfactorily with the first unit already operating at a high performance. Demand for major plant installations in Australia is also extremely weak, but our new acquisition, servicing the water reticulation industry, is very active and should sustain profitability in that area.

To summarise, in our United Kingdom based businesses, activity in 1986 will be maintained at approximately similar levels to those of last year. Profitability is planned to improve as a result of specific actions already taken. Whilst there is necessity for defensive action in some areas, our strategic plans are essentially aimed at growth in the medium and longer terms. Most of the Group's activities have undergone change in recent years to meet the vigorous challenge of more competitive market conditions. In addition to the long term plans for stabilisation and then growth of the Power and Mining Groups, increased expenditure on research and development has been incurred, following detailed product reviews in each of our companies.

The strength of the North American businesses, the specific opportunity in automation and the commitment to improve performance in the remaining weak areas will give rise to organic growth which, I am convinced, can be further augmented by continuing the successful acquisition programme of 1985 when the right opportunities occur.

Ordinary dividend

Your directors recommend the payment of a final dividend of 4·4 pence per share which, when added to the interim ordinary dividend of 4·0 pence per share paid on 14th October 1985 would make a total payment of 8·4 pence per share (1984: 8·0 pence per share) for the year. Assuming payment of the proposed final dividend, the total ordinary dividend for the year will have been 2·3 times (1984: 2·0 times) covered by earnings.

Her Majesty Queen Elizabeth The Queen Mother, visiting the Babcock stand at The Royal Society. The displays demonstrated the principles of explosive welding using remote-controlled equipment.

Photograph by British Petroleum

Capitalisation of reserves

The directors also propose to recommend for approval at the annual general meeting a capitalisation issue of shares on the basis of one new ordinary share for every ten existing ordinary shares held at the close of business on 25th April 1986. The new shares will not qualify for the final dividend recommended for 1985.

Directorate

Mr Donald Parvin, an executive member of the Board since June 1972, resigned his position as Deputy Managing Director of the Company on 11th February 1986 to accept the appointment as managing director of another publicly quoted engineering company. We are grateful to Mr Parvin for the valuable contribution which he made to the Group and we wish him every success in his new appointment.

Acknowledgement to employees

The continuing reorganisation and modernisation of the Group's businesses places considerable burden and stress on our managers and employees throughout the world. Their dedication has enabled the Group to respond with vigour to the increasingly competitive challenges encountered in our markets. On behalf of the Board and the shareholders, I wish once again to express our sincere appreciation of their loyalty and support.

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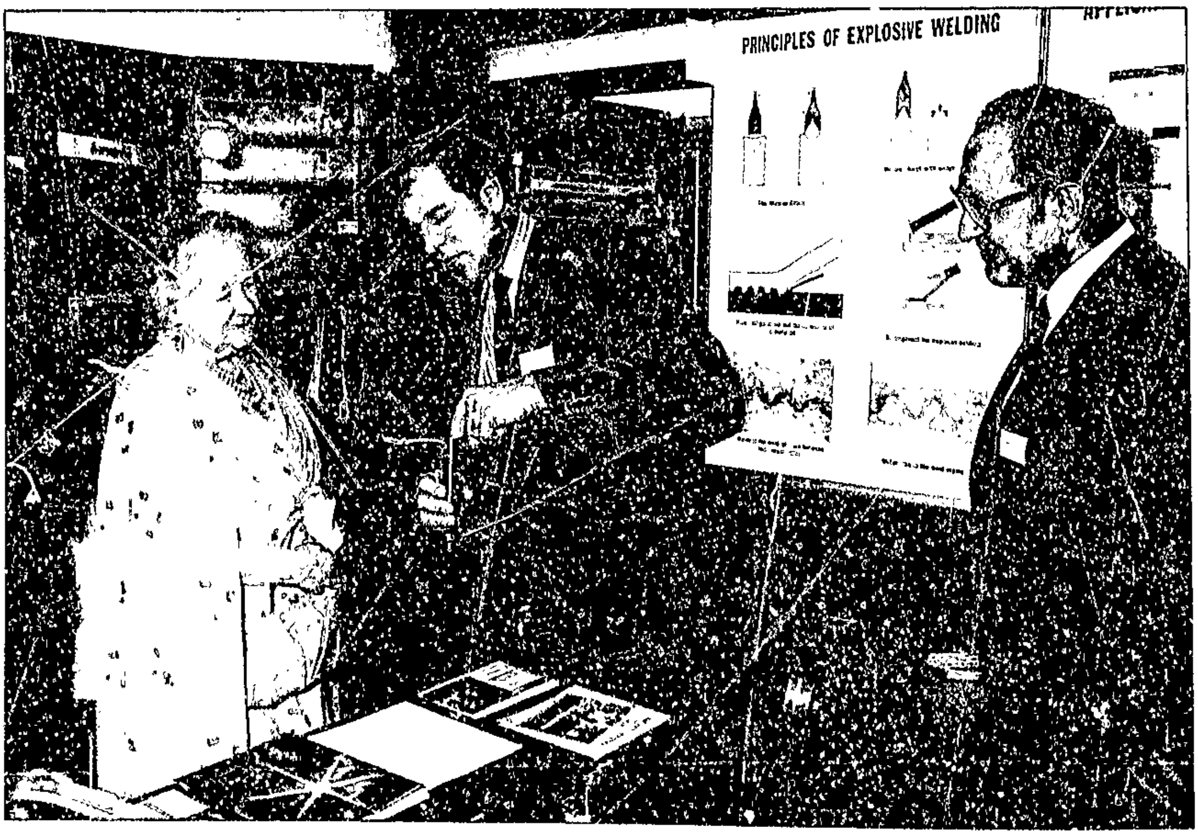


Review of operations by the managing director

Group summary

The external turnover of Group companies in 1985 totalled £1,098·9 million (1984: £1,129·8 million — *adjusted £984·0 million**) and trading profit amounted to £33·6 million (1984: £31·5 million — *adjusted £26·8 million**). The trading profit is stated after deducting £4·8 million (1984: £5·7 million) in respect of redundancy and reorganisation costs and excluding from charge £6·0 million (1984: nil) of pension fund contributions, following an actuarial valuation of the staff pension scheme at 31st December 1984 which revealed a substantial overfunding.

The large differences between the actual and the adjusted figures for 1984 reflect the major movements in exchange rates which occurred during the course of 1985, materially affecting the translation of foreign currencies into sterling and the year on year comparisons of trading performance. The currencies which had the most significant effect on the Group were the US dollar, which depreciated 24 per cent against sterling, from $1·16 to $1·44, and the South African rand, which depreciated 64 per cent from R2·30 to R3·78.

On a currency adjusted basis, interest costs at £5·3 million (1984: £6·0 million — *adjusted £5·4 million**) were little changed, despite an increase in Group borrowings. After crediting £5·4 million (1984: £5·6 million — *adjusted £5·6 million**) in respect of the Group's share of profits less losses of associated companies, the profit before taxation for 1985 amounted to £34·5 million (1984: £31·6 million — *adjusted £27·4 million**).

* The adjusted figures for 1984 represent the respective amounts reported for that year after translating the foreign currency elements therein into sterling at 1985 rates of exchange.

Taxation of £10·4 million (1984: £11·7 million) on the profits of the year represents a net effective rate of 30·1 per cent (1984: 36·9 per cent). The reduction in the net effective rate of charge reflects the proportionately higher contribution to Group profits by companies whose earnings are still sheltered from taxation by unabsorbed past losses. These are principally the subsidiaries in the USA and Claudius Peters AG which returned to profit in 1985.

The geographical analysis of turnover shows that 72 per cent (1984: 75 per cent — *adjusted 72 per cent**) of the Group's business was conducted with customers resident outside the United Kingdom, including exports by United Kingdom companies at a new record of £185·8 million (1984: £160·7 million). Turnover of the United Kingdom companies increased 13 per cent in total and these companies together contributed 43 per cent of the Group turnover, compared with 37 per cent (*adjusted 43 per cent**) in 1984.

North America again featured as the best outlet for the Group's products. In dollar terms, sales by our companies in North America increased 14 per cent, although the distorting effects of exchange rate movements on currency translations make it appear that there was a decline.

Despite the weaker dollar, the North American Group in 1985 was again the major contributor to trading profit by a substantial margin. Expressed in local currency, trading profits increased 77 per cent from $17·8 million to $31·5 million. The principal constituents of the improvement were $7·0 million from loss elimination in the Process Control Group and the Products Division of the Material Handling Group and $4·4 million from Faultless Caster for the first seven months of its ownership. In total, 70 per cent (1984: 62 per cent — *adjusted 57 per cent**) of Group trading profit was generated by overseas companies. The decline in contribution by the United Kingdom operations was chiefly attributable to the downturn in trading results of the UK Power Group and the mining equipment businesses of the Industrial and Electrical Products Group.

The fall in profit in the UK Power Group had been predicted, in view of the changing pattern of workload, and was wholly in line with expectations. On the other hand, activity in mining equipment had been expected to recover after the end of the miners' strike, but a low order volume curtailed profits generally and induced losses in Huwood. New management in the Process Control Division of the Industrial and Electrical Products Group succeeded in correcting cost overruns on contracts and improving overall performance. Changes made towards the end of 1985 in the management of Dataschalt in Germany, however, could not prevent losses in that company. Similarly, in the electrical distribution businesses, and particularly in Whipp and Bourne, improvements in order intake came too late in the year to allow recovery from a marginal loss position. The Manufacturing Division, which includes Gloucester Railway Carriage & Wagon Company and the wire equipment activities, was again profitable.

In the Contracting Group, profits were earned by all the principal businesses, with Babcock Woodall-Duckham continuing as the major contributor. Cost overruns on contracts affected the trading results of Babcock-Moxey, but good progress was made by Ames Crosta with the elimination of losses.

Overseas, Claudius Peters benefited from the rationalisation programme effected in 1984 and returned to profit, but in Australia, where the workload was extremely low, poor performance in the execution of two contracts was sufficient to produce a small negative trading result. In South Africa, ESCOM exercised its option to defer the delivery and construction of the final two boiler units for the Lethabo power station. The consequential impact on trading profits, however, was totally compensated by an increase in interest income, so that pre-tax profits in rand terms were maintained at a similar high level to 1984. The benefit of these profits unfortunately was severely eroded on translation into sterling by the substantial depreciation in the rand exchange rate.

Much had been expected of the FATA companies in 1985, but their overall performance was a disappointment. Factors which had a significant impact on their results were a large bad debt in Italy, the costs of closing the Babcock FATA Limited factory at Milton Keynes and relocating the activity on the Froude Consine site at Worcester and initial losses in Froude Consine in completing contracts on hand at the date of acquisition. Moreover, the concentration of all available resources on the development of AGV's and related automation systems was extremely costly. However, a successful automation system has been designed and the heavy expenditure incurred on research and development in 1985 is already bearing fruit and should result in enhanced business opportunities in future years.

Our associated companies experienced mixed fortunes in 1985. ACC-Babcock Limited in India continued to trade at a loss. The share of loss brought into account was restricted to the carrying value of the investment, which has now been totally written off in our books. This was cushioned by considerably improved profits in Babcock-Hitachi KK.

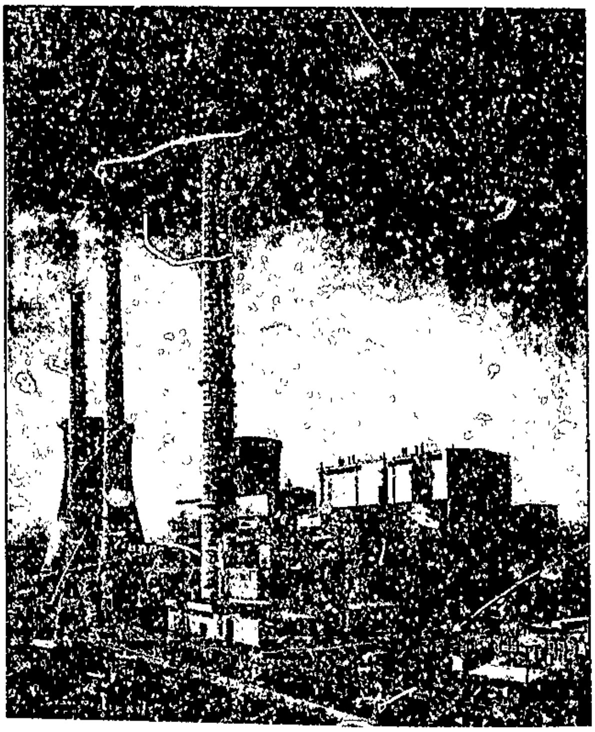
The capital cost of new plant and facilities installed by the Group in 1985, or in course of construction at the end of the year, totalled £31 million, including £4 million which was the subject of leasing arrangements. Of this amount, £15 million related to assets in the United Kingdom. New business acquisitions cost a further £33 million, bringing the total expenditure on capital account to £60 million.

Cash generation during 1985 was not sufficient to cover the total cost of capital expenditure and new investments and, as can be seen from the source and application of funds statement, cash flow in 1985, measured at constant exchange rates, was a negative £44·8 million. The swing from the strongly positive position of the years 1981 to 1984, when cash generation totalled £72·0 million, was caused by long term contracts reaching completion and not being replaced by contracts with similar terms.

Following the introduction of Statement of Standard Accounting Practice No 22, it was necessary to change our policy of accounting for goodwill in 1985. At the start of the year there was a net negative goodwill balance of £3·2 million. Purchased goodwill, relating to the acquisitions in 1985, totalled £4·3 million. These two amounts, netting to £1·1 million, have been written off the balance on profit and loss account as a balance sheet transaction.

A further £21·9 million was written off retained earnings as a result of re-stating the sterling values of the net assets of our overseas companies at the respective rates of exchange ruling at the end of 1985. With a profit retention of £13·3 million, there was accordingly a reduction of £9·7 million in reserves. This reduction in reserves, combined with the decrease in liquidity caused by the negative cash flow, had the effect of increasing the gearing ratio from 25 per cent at the end of 1984 to 48 per cent at the end of 1985.

Hwange power station, showing stage II under construction for the Zimbabwe Electricity Supply Authority.



UK Power Group

	1985	1984
Turnover (£'000)	282,482	254,173
Trading profit (£'000)	5,017	10,698

Ordering of large power units in 1985 continued at a low level throughout the world, but there are signs that conditions are starting to improve. The large margins between installed generating capacity and consumer demand, which have existed in all the developed countries, are narrowing because of increases in demand and the need to take old plant out of service. Orders in the United Kingdom have been delayed by the Sizewell Inquiry. The UK Power Group is well positioned for a PWR station at Sizewell, with orders worth more than £90 million already conditionally awarded, subject only to the Government's decision to proceed after the Inquiry report has been published. The CEGB's current predictions indicate very significant ordering in the period of five years following the start of work on Sizewell, both for an on-going programme of PWR's and for coal-fired plant to new design. This 7,000 to 8,000 megawatt programme contrasts with 3,300 megawatts ordered in the last thirteen years.

In the absence of a large boiler contract, orders booked in 1985 were equivalent to only 50 per cent of annual turnover, reducing the order backlog to just over one year's workload. The policy of concentrating on advanced technology continues to provide high added value work for the Renfrew factory and the proportion of non-boiler orders executed for sectors, such as defence and offshore, is steadily trending upwards. The relatively shorter delivery times of this work have changed the product mix and resulted in an order backlog lower than has been customary.

The third 660 megawatt boiler at Drax came on load ahead of programme, following the pattern set by the first two. Similarly, the first of the four 677·5 megawatt units at the Castle Peak 'B' station in Hong Kong came on load four months ahead of the contract programme and is running steadily at over 700 megawatts.

The six 600 megawatt units for Lethabo had to be designed for use with very poor quality coal, necessitating a much larger than normal furnace with specially developed burners. Commissioning of the first unit has demonstrated that the design performs well.

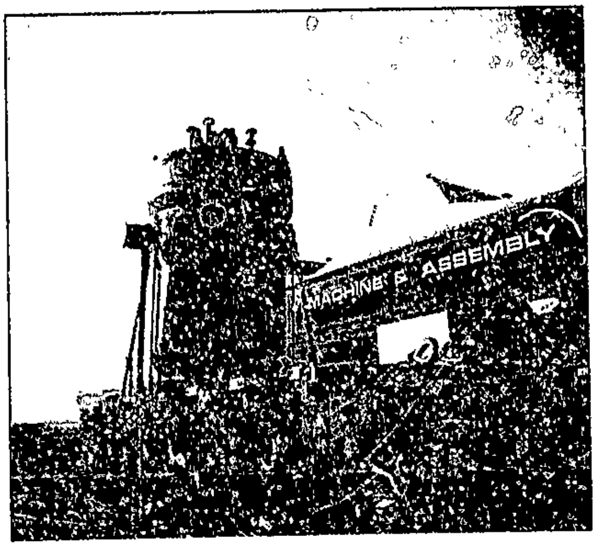
The Group expanded in 1985, following the acquisition of Robey of Lincoln Limited and the Towler boiler business. The purpose of the Robey acquisition was to facilitate implementation of a strategy to enable the Renfrew factory to concentrate only on high technology manufacture. Accordingly, the shell boiler business will be centred on Babcock Robey, as it has been renamed, and the manufacture of all the Group's small boilers, including Compo and Fluidburn units, Babcock Worsley and Towler designs, will be carried out at Lincoln. This rationalisation will also help the Group to contend with the present difficult conditions in the market for small coal-fired boilers caused by low oil prices.

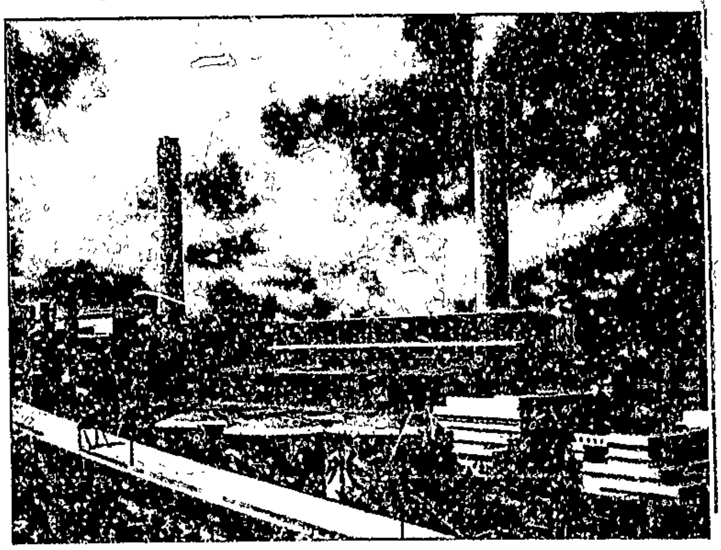
Atlantic Power and Gas, recently renamed Babcock APG, continues to expand its activities in the North Sea supported, where necessary, by the high competence of the UK Power Group in research and development, design, inspection and manufacture.

A very significant agreement has been entered into with the Renfrew workforce, which will achieve complete flexibility of working in both manual and office staff areas over a two year period.

Bottom left: A nuclear reactor pressure vessel for a Trident submarine leaving the machine and assembly shops at Renfrew.

Bottom right: Castle Peak Power Station, Hong Kong. The 'A' and 'B' stations are designed to give 4110 megawatts of new generating capacity.





Contracting Group

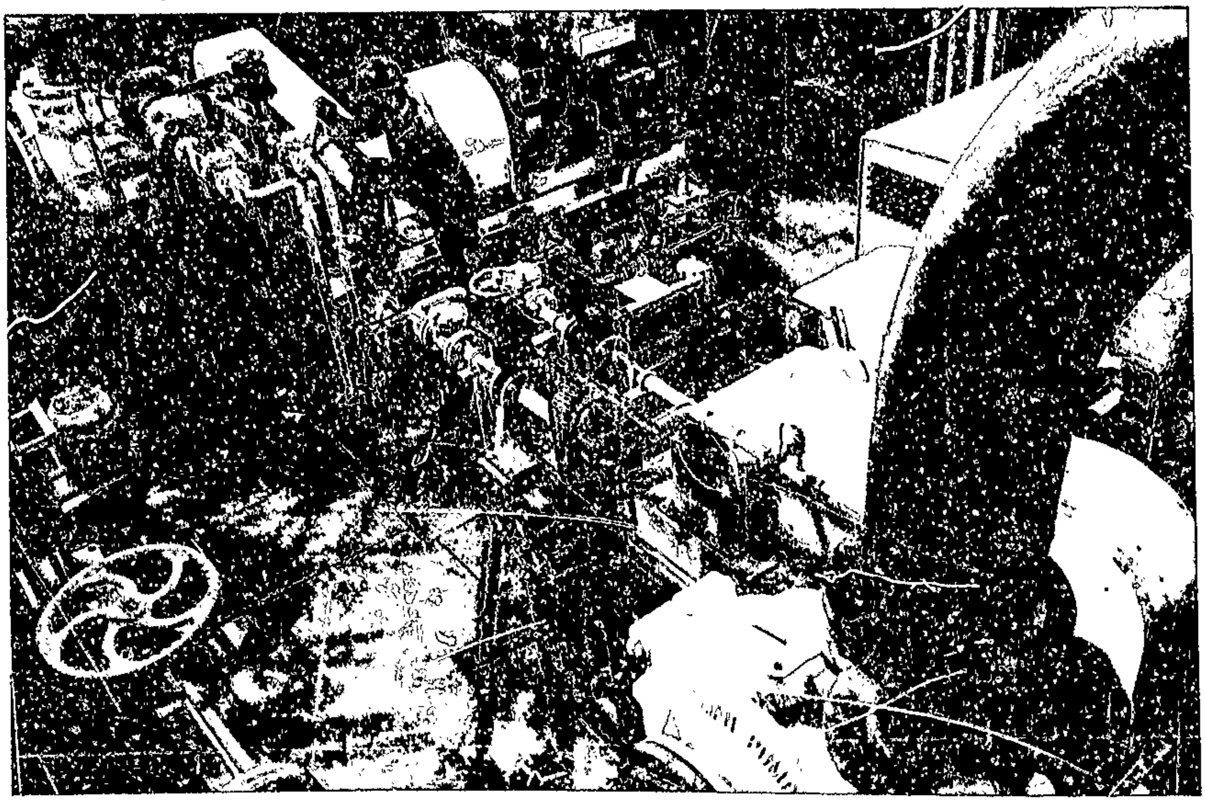
	1985	1984
Turnover (£'000)	80,062	76,578
Trading profit (£'000)	3,678	1,828

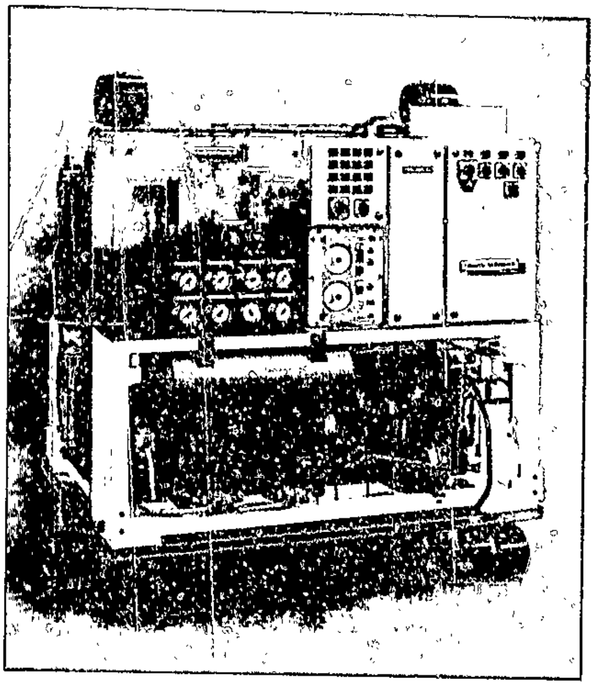
Further progress was made by all units of the Group in 1985 and in some cases the improvement achieved was significant. Babcock Woodall-Duckham, in particular, had another successful year. An expanding order book has led to substantial growth and the company now has a process plant design capability in excess of one million man hours per year. Nuclear engineering contracts formed a large part of the workload and a further order from British Nuclear Fuels was placed towards the end of the year. The first phase of the company's major coke oven project for Acominas in Brazil was successfully commissioned and the second phase is being prepared for operation in May 1986. Work on the catalytic rich gas plant in Hong Kong is proceeding to schedule. Other orders received included the design of coal gasification plant in China, further work associated with the NCB coal liquefaction plant at Point of Ayr, a revamp of the titanium dioxide plant for SCM Chemicals, a landfill gas extraction scheme for Blue Circle Industries and an NPK fertiliser plant for Scottish Agricultural Industries. The variety of this work demonstrates the success of Babcock Woodall-Duckham's policy to operate in a wide range of activities.

Ames Crosta Babcock's efforts to increase its share of the United Kingdom market in water and sewage equipment are showing results. Experience built up over the last ten years in overseas turnkey contracting in the water and sewage field allowed the company to take advantage of opportunities in the home market during 1985, when orders for two significant turnkey water treatment plants were secured. Overseas, major new business has been slow to materialise following reductions in infrastructure expenditure throughout the oil producing countries of the Middle East, which have been the main export markets for Ames Crosta over the past decade. Reverse osmosis remains one of the company's strengths and in 1985 a major order for a reverse osmosis plant to supply water for the island of Lanzarote was obtained in association with Cadagua of Spain.

Babcock-Moxey completed the installation of two continuous ship unloaders — one for Castle Peak power station in Hong Kong and the second for British Steel Corporation works at Port Talbot. Both machines are in operation and performance trials are in progress. A third machine, also at Castle Peak power station, will be put into operation during 1986. The installation of a circular storage/homogenising system at the National Coal Board Hem Heath colliery was completed at the end of 1985 and performance

The interior of the pump house at the CEGB Didcot power station, showing part of the new pumping system designed and installed by Babcock Hydro-Pneumatics Limited. Dust slurry for the four 500 megawatt boilers is pumped via a 7·6 km pipeline to disused gravel pits.





A reverse osmosis sea water desalination unit supplied to Vickers Shipbuilding and Engineering Limited by Ames Crosta Babcock Limited for the type 2400 patrol class submarine.

tests have commenced. A contract for a blending system in Taiwan was won against fierce Japanese competition and, in conjunction with Babcock Engineering Contractors in South Africa, an order was received from the Anglo-American Corporation for a surface mining plant to remove overburden at the New Vaal open-cast mine. The large rapid loading station, incorporated in the Selby mine surface handling contract, is now fully operational and stands as a good reference plant.

Babcock Hydro-Pneumatics was active in 1985 commissioning major projects throughout the world. Large furnace ash submerged chain conveyor systems were successfully put to work at Lethabo in South Africa, Castle Peak and Suralaya in Indonesia. The bulk cement storage silo installations provided by Claudius Peters Limited in the United Kingdom were also successfully commissioned.

Babcock Electrical Projects had another successful year which saw completion of sub-station contracts in Dhamar and Ibb, North Yemen, together with the survey for a further rural electrification contract in the townships of Amran and Bajil. Delivery of the equipment for the latter contract will take place during 1986. The large rural electrification contract for the State of Benue, Nigeria, is progressing satisfactorily and all designs have been completed and presented for approval.

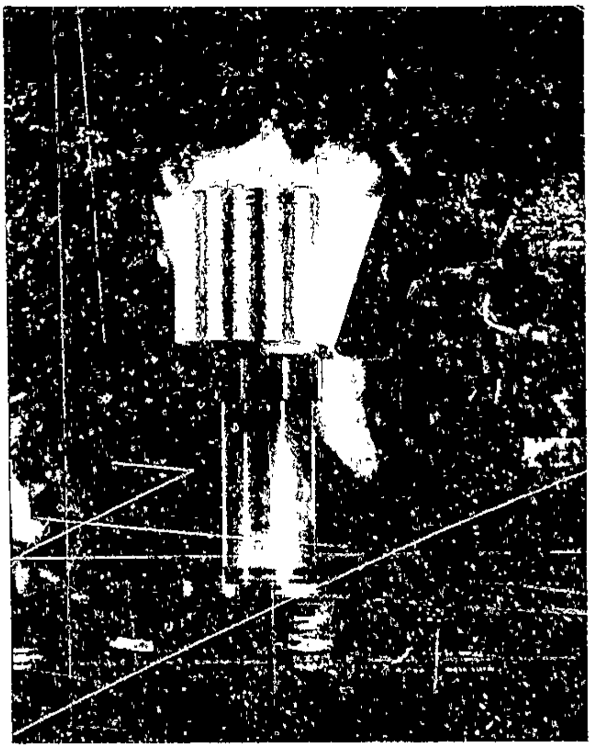
Industrial and Electrical Products Group

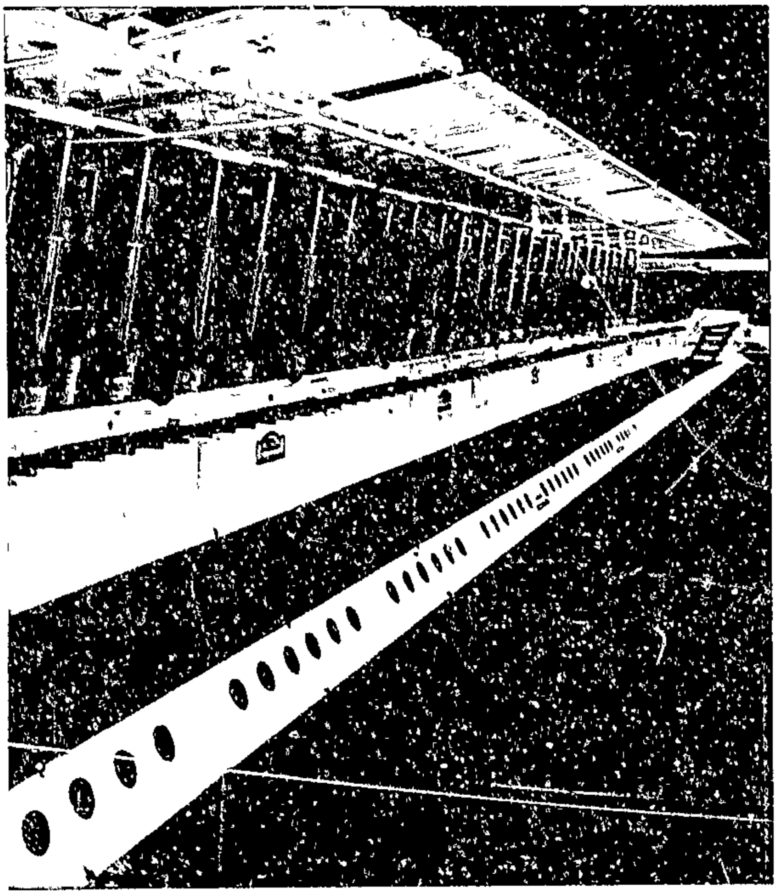
	1985	1984
Turnover (£'000)	114,897	100,227
Trading (loss) (£'000)	(2,655)	(160)

The Process Control Division maintained good progress throughout the year on instrumentation and control systems for the Heysham and Torness nuclear stations and Castle Peak 'B' power station. The latest design of control system, BACUS, for industrial boilers was well received and its prospects appear excellent. Rationalisation of activities resulted in the closure of the Welwyn Garden City site and transfer of its operations to Croydon. Dataschalt GmbH, in West Germany, successfully completed instrumentation and control systems for a semi-submersible repair vessel.

In the Electrical Distribution Division, Whipp & Bourne received orders for the supply of breakers for US Navy surface vessels as well as major contracts for Mass Transit System D C Switchgear in Hong Kong, Australia and the United States. While these orders provide a core workload for the future, they were received too late in 1985 to avoid the implementation of a redundancy programme. Woden Electrical Products suffered from the downturn in the home computer market, but reorganisation and rationalisation of the product range has improved the market position and work was commenced on the development of control systems for defence applications. Babcock Transformers performed well and received a number of major contracts from overseas.

The General Manufacturing Division, which returned to profit in 1984, further consolidated its position with much improved results. Babcock Wire Equipment was particularly active in export markets, shipping braiders to Russia and India, wire drawing machines to China and Trinidad and Conform machines to the USA, Italy, Korea, Japan and Shianzhing in China, where the major order for a Conklad 350 machine was delivered ahead of schedule. Orders for Conform machines increased to £2·5 million in 1985, providing a record high backlog for the start of 1986. Babcock Gears managed to remain in profit, although turnover was affected by reduced demand from the Group's mining equipment businesses. Gloucester Railway Carriage & Wagon Company responded to the workload provided by the Gabon Railways' order for bogies received in 1984 and produced better results. However, it still faces the problem of depressed economies in the developing countries and, although several promising tenders remain outstanding, no major new orders have been received





The mining equipment companies continued to suffer in the aftermath of the miners' strike in the United Kingdom, but nevertheless embarked upon the necessary restructuring programme to meet changing markets.

Chain [illegible] underground during the strike deteriorated less than on the occasions of previous pit closures. The surge in replacement orders in the June quarter was therefore short-lived. As a result, the National Coal Board started de-stocking as well as reducing the usage of chain. Accordingly, Parsons Chain was able to achieve only a modest increase in shipments over the low home sales volumes of 1984. Moreover, surplus chain making capacity in Europe depressed export prices. In the USA, however, a new world record for output of coal from one face was established, using Parsons' chain, which followed the European record achieved with our products at the NCB Killingley colliery earlier in the year.

Industrial chain sales in the United Kingdom held up well, but exports were marginally lower despite the introduction of new products aimed specifically at those markets.

Huwood Electric continued on a path of steady improvement and moved into profit. Export business was substantially higher and further growth is expected in 1986.

The company most seriously affected by the miners' strike and its after effects is Huwood, where an overall reduction in volume and margins, coupled with exclusion from sharing in an NCB contract, resulted in a substantial loss. There is no doubt that Huwood has good products, but needs to become more competitive. Costs are being taken out of the business and, following an agreement to introduce flexible working practices, plans have been developed for restructuring the company, including rehabilitation with modern production facilities.

Research and development continues to be given priority. Advances in the designs of belt conveyors and armoured face conveyors are being made and the use of CAD/CAM systems extended. Considerable attention is also being given to quality and Huwood was the first major supplier to receive joint approval to BS.5750 from the National Coal Board and British Standards Institute.

Top left: An eighteen tooth pinion shaft being heat treated [illegible]

Bottom left: A Babcock mining compatibility trial, prior to underground installation at a National Coal Board mine, involving Huwood mining supports and Huwood armoured face conveyors fitted with Parsons' chain and twin mid-board flight bars

Overseas Group

	1985	1984
Turnover (£'000)	145,876	203,241
Trading profit (£'000)	1,700	1,968

The South African economy was in deep recession throughout 1985 but, despite the resultant low order intake, the Babcock Africa Group performed extremely well, measured in terms of local currency. Most of the profit was earned from processing orders received in prior years. A significant devaluation of the rand in the international currency markets, however, substantially eroded the sterling translation of this achievement.

Babcock Engineering Contractors, the Africa Group's main contracting arm, produced excellent results. The first of the six 600 megawatt units for the Lethabo power station proved highly successful and was handed over to ESCOM on schedule in December 1985. The second unit will be completed in June 1986. The exercise by ESCOM of its contractual option to defer units 5 and 6 reduced trading profit, but BEC derived substantial benefit from interest on surplus funds, placed on deposit at high interest rates, which were available in South Africa for most of the year.

Babcock Industrial Contractors, which engages in the Group's non-boiler contracting activities, operated at close to break-even, mainly as a result of cost overruns on contracts in the Ames Crosta water and sewage treatment business. Babcock Triplejay, which was particularly hard hit by the downturn in the economy in 1984, had to contend with worse trading conditions in 1985 as the recession deepened in the civil engineering and building industries. Losses were incurred in spite of further reductions in staff and running costs.

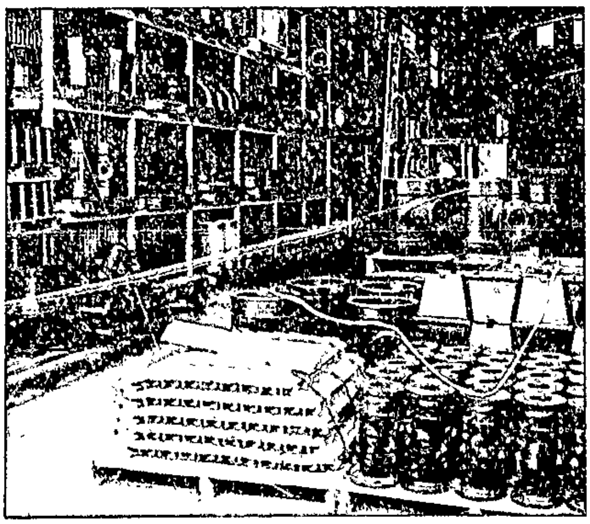
Babcock Australia's traditional engineering and contracting businesses experienced another difficult year of low investment in new plant and equipment by Australian industry. Efforts to expand activities into South-East Asia were encouraging, but no significant new orders resulted. Action was taken to consolidate the company's operations and reduce overhead costs. The two Queensland based businesses acquired towards the end of 1985, Associated Water Equipment and Northern Iron and Brass Foundry, have enjoyed consistent growth in recent years and should make a strong profit contribution in 1986.

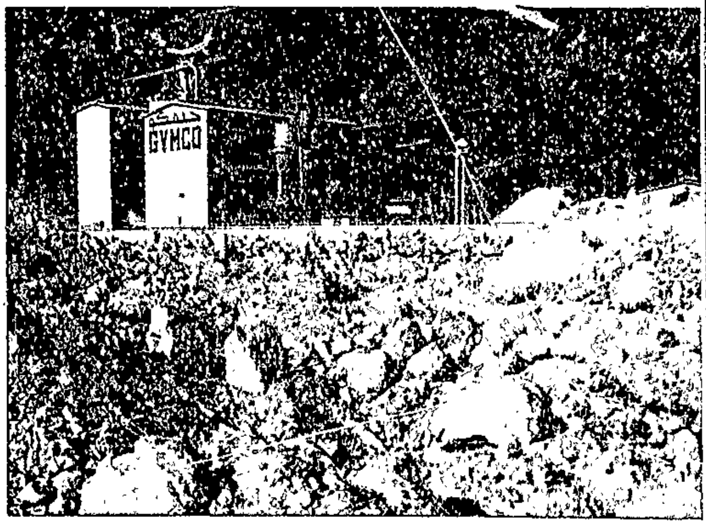
The Claudius Peters Group returned to profit in 1985, greatly assisted by the steps taken in the previous year to reduce staffing levels in the Hamburg based contracting company. In spite of the continuing depression in the worldwide plant contracting business, this company achieved a 20 per cent increase in order intake, with plant for gypsum and other building materials more than offsetting the decline in cement and refinery heaters. Difficulties on the part of customers in arranging finance continued to be a problem, delaying the placing of orders and causing a shortfall in engineering load early in the year. This problem had a similar effect in the manufacturing subsidiary and, despite the savings made by concentrating activity on one site, Claudius Peters-Este achieved little better than a break-even result.

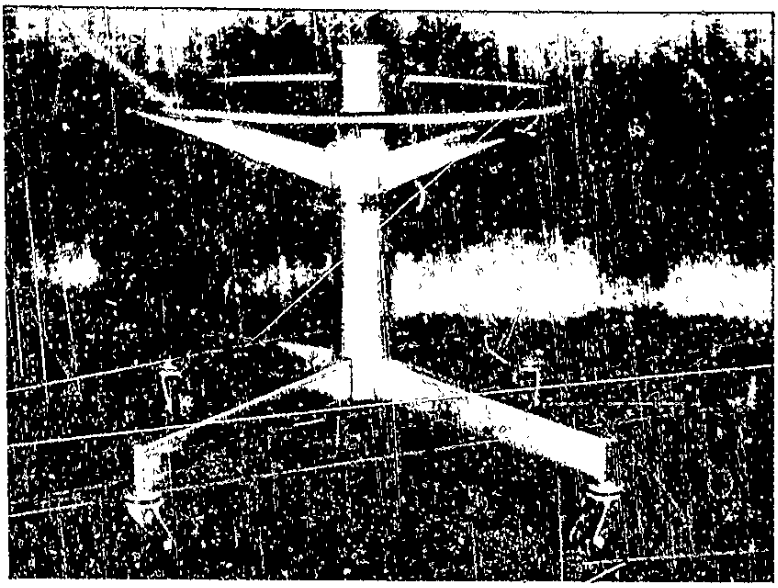
The French subsidiary returned to profit and the Spanish subsidiary also performed well. Lack of activity in the American cement industry continued to cause problems for Claudius Peters Inc.

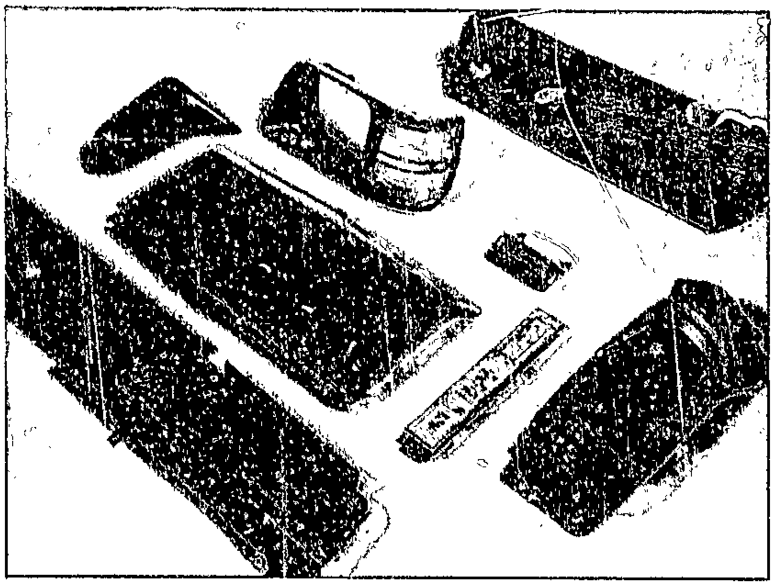
Bottom left: Cast pipe fittings for water reticulation systems awaiting shipment from Northern Iron and Brass Foundry at Innisfail in Queensland, Australia.

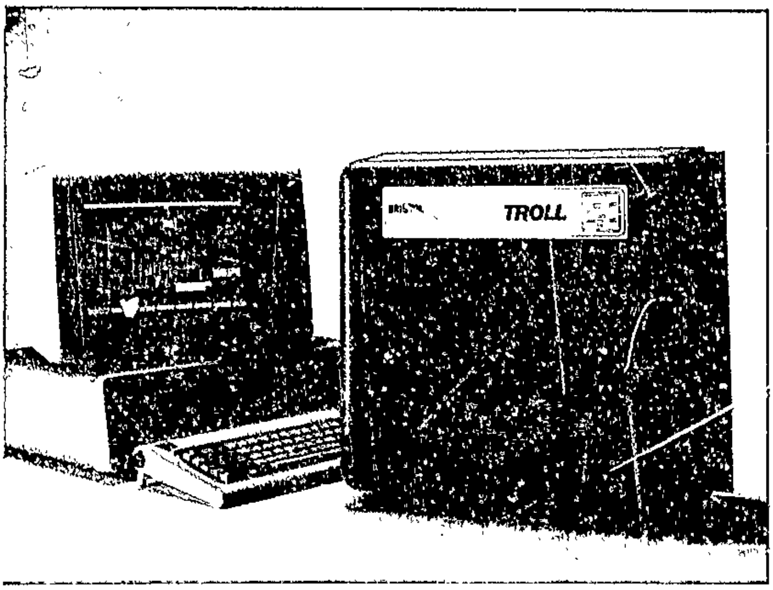
Bottom right: A 1,000 ton per day plaster plant designed and built by Claudius Peter AG for the Egyptian Gypsum and Marble Company at Alexandria, Egypt.











North American Group

	1985	1984
Turnover (£'000)	382,063	415,961
Trading profit (£'000)	21,897	15,350

The USA and North America continued to enjoy favourable trading conditions in 1985. Strong consumer spending was maintained at slightly lower levels than in the previous year, but was more focused on automobile purchases with less emphasis on furniture. Lower interest rates stimulated an improved environment for capital equipment in general and both the Material Handling and Process Control Groups benefited significantly from increased demand, coupled with management changes.

Segments of the North American Group dealing in consumer products tended to mirror the changes in the US economy, with the Automotive and Furniture Hardware Divisions of Keeler Brass, in particular, corresponding closely to the economic trends. Both these divisions were again major contributors in 1985 but, while turnover modestly increased, trading profits were marginally lower in each case. The furniture hardware activities were supplemented in May 1985 by the acquisition of the Faultless Caster Corporation. This company ranks among the leading manufacturers in the world of castors for attachment to industrial, office and domestic furniture and equipment. It also produces diecast decorative hardware for furniture and, in Canada, Faultless-Doerner manufactures bases and tilt and lift control mechanisms for chairs. For the seven months of 1985 that they were in the North American Group, the Faultless companies contributed almost $40 million of turnover and $4·4 million of trading profit.

The increase in automobile production in North America also benefited the Cable Controls Group. The Automobile Division achieved record results and the successful acquisition of an industrial cable control product line from Teleflex Inc was a major factor in a 26 per cent increase in turnover of the Industrial

Top left: Faultless-Doerner produces castors, chair controls, and bases for all types of applications, such as the adjustable foot ring base for use on draughting stools, industrial seating, bar stools, or any application requiring elevated seating.

Centre left: A selection of functional and decorative automotive hardware manufactured by Keeler Brass Company.

Bottom left: In stand-alone systems, or network configurations, the compact TELEMETROLL model 3350 is the most cost-effective solution to remote data acquisition and control requirements in a broad range of industries.

Products Division. Improved performances by BWP Controls in the United Kingdom and La Télédynamique in France produced unprecedented high levels of turnover and trading profit for the European Division. BWP's growth was based upon strengthening demand for its patented auto-adjust clutch cables.

The highlight for the Material Handling Group in 1985, and one of the most significant events of recent years, was the initial success of the FATA/Acco joint venture for offering AGV's to the US marketplace. Automotive companies, particularly General Motors, account for almost 80 per cent of current demand. Co-ordinated efforts to penetrate this market began late in 1984 and led to the award in 1985 of two major contracts for body welding systems in General Motors assembly plants. Excellent progress has been made on both these contracts. A further contract, valued in excess of $33 million, represents one of the largest orders for AGV's ever placed in the USA. This contract will be executed as to approximately two-thirds by FATA European Group and one-third by the Frederick, Maryland facility of the Material Handling Systems Division. In the Products Division of the Material Handling Group, management changes, reorganisation and the beginnings of a market recovery combined to position this business for profitable operation in 1986.

The Chain and Forged Products Group achieved an increase of 17 per cent in trading profit on marginally less turnover than in 1984. The domestic chain industry in the USA and Canada as a whole experienced a decline in activity due to continued depression in their major markets. However, as a result of innovative sales programmes, the American Chain Division succeeded in increasing its market share. The Welland Forge Division also experienced a sharp downturn in its traditional markets, especially those involved with heavy truck components, but compensated for the loss of that business by successfully bidding for orders to supply forged products for military tanks.

Bristol Babcock Inc, as a result of increased instrument sales, cost reduction schemes and improved management of its systems business, returned its process control and instrumentation operations to profit. To a large extent, the improvement in performance was the outcome of a strategy, formulated in the middle of 1984, to focus on telecontrol products, a market segment where the company enjoys a favourable reputation.

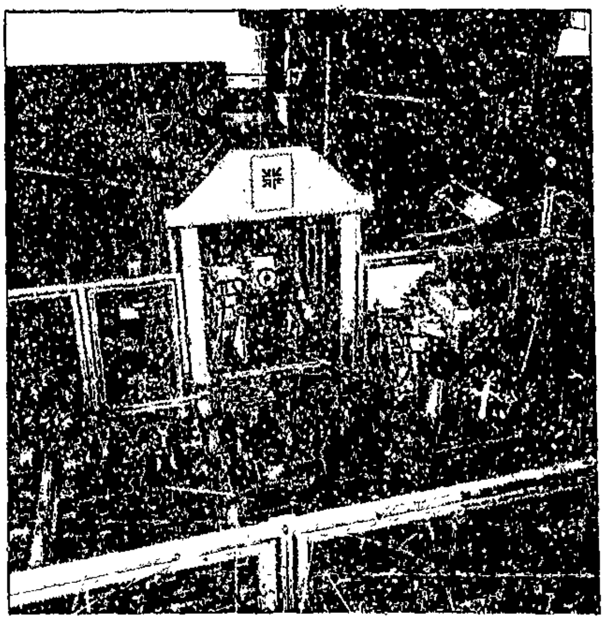
FATA European Group

	1985	1984
Turnover (£'000)	93,546	79,584
Trading (loss)/profit (£'000)	(992)	2,052

High costs of redesigning prototype models of AGV's on customers' sites, together with the rationalisation and reorganisation of the United Kingdom business and working off losses on contracts taken over with the acquisition of Froude Consine, combined to produce a disappointing result for the FATA European Group in 1985. However, the success achieved in developing highly versatile automation systems to suit the currently emerging demand of the market is evident in a strong order book.

A major part of FATA Industriale's resources is now devoted to the AGV contracts for General Motors and deliveries are proceeding to schedule. Continued effort is being applied to improving and refining the electronics of the AGV to maintain FATA's lead in this field. In addition to contracts for AGV's, FATA Industriale also obtained in 1985 orders for the supply and installation of conventional welding lines for Daewoo, Audi and Skoda. Good progress was made on projects, valued at US$50 million, to construct spare parts and tools factories in Ethiopia, although some of the work programmes were late starting due to delays in completing formalities with government departments.

A typical Engine Testing Stand supplied by Froude Consine incorporating engine handling, engine docking and computer controlled power test. This system, installed at Ford's Bridgend Plant, has been in operation for more than five years and has now tested over two million engines.



Review of operations

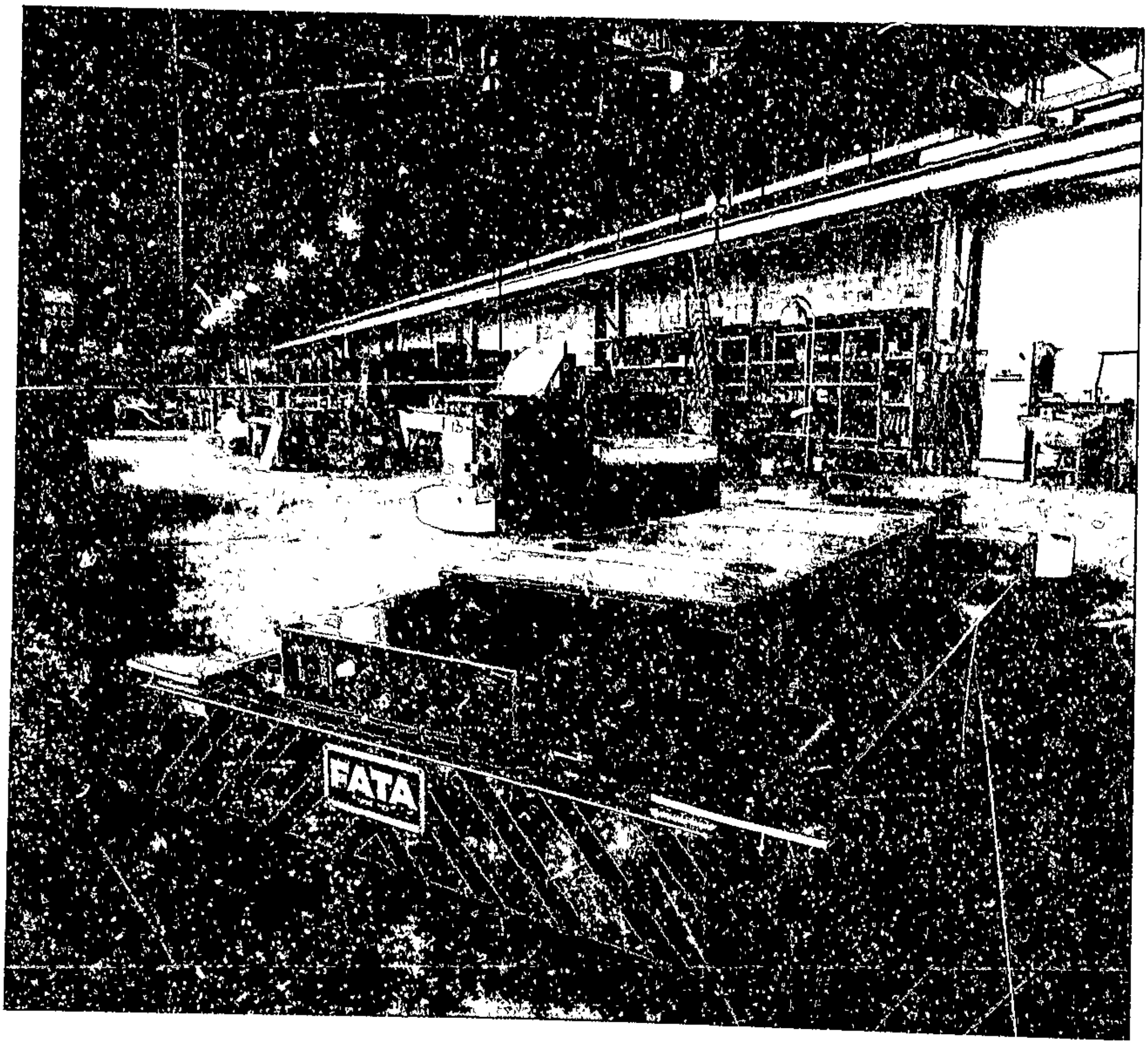
continued

New Hunter Engineering completed delivery of equipment for a milk carton manufacturing system in Moscow and plant for processing and printing cardboard in Kiev. These projects are scheduled to be commissioned in 1986. Contracts completed in 1985 included an aluminium plant in Malaysia and reduction plant for aluminium foil in China. Similar installations are scheduled for completion during 1986 in Kenya and at Leningrad. Significant contracts received by New Hunter Engineering included orders from China and India for aluminium cold rolling mill equipment and a milk carton manufacturing system for Kiev. Efforts by the Food Division to combine in turnkey contracts its own technology with new food processing technology of specialist partners have succeeded with the award of a contract for a plant in the Soviet Union to process and package UHT milk. As an extension of this activity, New Hunter Engineering has undertaken for Russian clients design engineering projects in the field of food preservation and related food processing machinery, which could have interesting prospects in that country.

The aluminium company completed an extensive reorganisation of its production facilities, which has resulted in all activity being concentrated at its Cascine Vica factory, near Turin, where the covered area has been increased by approximately 60 per cent. Orders for casting equipment were received from a number of Comecon countries and prospects are good for contracts in North America.

The acquisition of Froude Consine in February 1985 introduced an activity which was a natural combination with FATA's business. There are several applications for handling equipment, including AGV's, in the engine testing facilities designed by Froude Consine and orders were received in 1985 for such machinery from engine manufacturers in North America.

An AGV [illegible] plant at Linden, New Jersey, undergoing tests after coming off the production line of a FATA European Group factory in Turin



Report of the directors

The directors submit their report and the audited accounts for the financial year ended 29th December 1985.

Principal activities

The principal activities of the Group are in contracting and the manufacture and supply of engineering products and equipment to manufacturers and users of capital goods. A broad description of the Group's more important activities is given opposite page 1, and references to their business and financial performance in 1985 are made in the chairman's statement on pages 6 to 8 and in the review of operations on pages 9 to 18.

Profits and dividends	£000	£000
The profit attributable to members, before extraordinary items, is		23,954
from which has to be deducted: extraordinary items		392
leaving a profit of		23,562
from which has to be deducted:		
preference dividends	66	
final dividend for 1984 paid on new ordinary shares issued between 27th March and 26th April 1985	1	
interim ordinary dividend of 4·0p per share paid on 14th October 1985	4,862	4,929
		18,633
the directors recommend: a final dividend of 4·4p per share		5,350
leaving a balance to be transferred to reserves of		13,283

Acquisitions

Froude Consine Limited/Froude Engineering Inc

As reported last year, Froude Consine Limited and Froude Engineering Inc were acquired by Babcock Contractors Limited and Babcock International Inc respectively on 25th February 1985. After evaluation of the net assets in accordance with the terms of the acquisition agreement, and in the light of subsequent information, it is clear that no further payments will be required to increase the consideration above the amounts of £1,031,000 and US$1,281,000 paid on 25th February 1985.

Faultless Caster Corporation

On 31st May 1985, Babcock International Inc purchased from New Axia Holding Corporation the whole of the issued share capital of Faultless Caster Corporation for a cash consideration of US$33 million. The assets included the wholly-owned subsidiary, Faultless-Doerner Manufacturing Inc of Canada. The purchase was financed by short term dollar borrowings.

Robey of Lincoln Limited

By an agreement dated 12th July 1985, Babcock Power Limited purchased for cash from Firsteel Limited, a company in the Lonrho Group, the whole of the issued share capital of Robey of Lincoln Limited. The total cost of this acquisition, including the discharge of borrowings, amounted to £2,351,000. This company will operate as part of the Babcock Power Group and will trade under the new name of Babcock Robey Limited.

Associated Water Equipment/Northern Iron & Brass Foundry

On 31st October 1985, Babcock Australia Holdings Limited, in a single transaction, acquired from private owners the businesses of Associated Water Equipment and the Northern Iron and Brass Foundry. The consideration, payable in cash, was based on the respective net asset values of these businesses at 31st October 1985 and amounted to A$8,952,000. Of this amount, instalments totalling A$7,952,000 were paid on 31st October 1985 and 20th December 1985 and the balance of A$1,000,000 is payable on 31st October 1986.

Directors

The names of the directors are set out on page 3. The following also served as directors during the year:

A. J. Taylor	retired on 31st March 1985
R. G. Middleton	retired on 24th May 1985
E. A. Madenski	retired on 8th October 1985
D. Parvin	resigned on 11th February 1986

The directors retiring by rotation are Sir Frank Cooper and Sir George Jefferson who, being eligible, offer themselves for re-election. They are non-executive directors and do not have service contracts.

In the last report of the directors it was stated that Mr G. S. Stone had intimated that he would retire from the Board at the close of the next annual general meeting. The Board has, however, asked Mr Stone to remain in office to maintain continuity in view of the changes in the Board that have recently taken place.

Directors' Interests

None of the directors was materially interested at any time during the year, or at the year-end, in any contract with the Company or any of its subsidiaries which was significant in relation to the Group's business.

The interests, all of which are beneficial, of the directors and their families in the share capital of the Company at the dates shown were as follows:

	29th December 1985 Ordinary shares of 25p	30th December 1984 Ordinary shares of 25p
Lord King	1,153,900	1,153,900
Sir Frank Cooper	1,650	1,650
M. R. Hoffman	2,100	1,100
R. H. Campbell	15,400	15,400
A. T. Harvey	1,000	Nil
Sir George Jefferson	2,200	2,200
B. J. Knightley	55,000	55,000
The Rt Hon C. E. Parkinson	2,500	Nil
D. Parvin	44,000	44,000
G. S. Stone	22,000	22,000

At 29th December 1985, directors held options to subscribe for ordinary shares at 155p per share as follows:

	Ordinary shares of 25p
M. R. Hoffman	200,000
R. H. Campbell	104,250
B. J. Knightley	108,750
D. Parvin	111,000

Mr Parvin's option over 111,000 ordinary shares lapsed when he left the Company on 11th February 1986.

There have been no other changes in the directors' interests since 29th December 1985.

Research and development

The Group's management recognises the emphasis which needs to be placed on research and development activities to enhance, or simply to maintain, the competitive position of the Group's products and processes in their respective market places. For this reason, research and development projects feature as an integral part of the Group's business planning procedures.

Fixed assets

The Group's properties were purchased at various dates over a number of years and some have since been revalued. Their aggregate present value is considered by the directors to be in excess of their book values at 29th December 1985. The amount of the excess cannot be ascertained without a complete revaluation, the expense of which is considered not to be justified.

The movement in fixed assets during the year and information on property revaluations are shown in notes 14 to 16 on pages 32 to 34.

Donations

Donations made by the Group during the year for charitable purposes in the United Kingdom amounted to £35,497. A donation of £10,000 to the City and Industrial Liaison Council may be considered to have been given for political purposes, as defined by the Companies Act 1985.

Employment of disabled persons

The policy and practice of the Group is to seek to encourage and assist the employment of disabled persons, subject to their ability to perform the duties of the job without exposing themselves or other employees to abnormal risk. The training, career development and promotion of disabled persons is similarly encouraged and assisted. Arrangements are made, wherever possible, for retraining employees who become disabled to enable them to perform work identified as appropriate to their aptitudes and abilities.

Employee involvement

The Group operates worldwide and is committed to employee involvement. This is not only because Group companies aim to be first class employers, but also because it is good commercial policy to give employees the opportunity to contribute towards the success of the Group. Our employment policies are designed to meet local conditions and requirements and are based on the best practices of each country in which we work. In all instances these policies encourage the provision of employment opportunities for women, racial minorities and disabled people.

In addition to trade union negotiating machinery, joint consultative committees are in operation in many parts of the Group within the United Kingdom. The committee structure also covers pensions and safety. Employees are encouraged to participate in local schemes designed to improve the performance of the businesses in which they work. These schemes include quality circles, joint productivity committees and joint working parties on particular matters of concern.

Employees and their representatives are provided with information, on matters relevant to them, in a variety of ways including financial and operational performance. Communication with employees individually is achieved by different means depending on the size of the operating unit, but it includes the company newspaper 'Babcock World' and the Review of the Annual Report, which are made available to all employees.

Copies of the report lodged with the Department of Trade and Industry under the Code of Conduct for companies with interests in South Africa (Cmnd 7233) are available upon request from the Company Secretary at Cleveland House.

During the year the Group set up a Savings Related Share Option scheme for all employees of United Kingdom companies with two or more years of service. The response from employees to this scheme has been most encouraging.

Report of directors
continued

Taxation

The Company is not, and has not been, a close company within the meaning of the Income and Corporation Taxes Act 1970 (as amended).

For the purpose of capital gains tax, the market values of the Company's share capital at 6th April 1965 and 31st March 1982, adjusted for subsequent issues, were:

	6th April 1965	31st March 1982
Ordinary shares	27·53p	91·82p
6% cumulative preference stock	84p	33·5p
5% cumulative second preference stock	71p	28·5p
4% cumulative redeemable preference stock	55p	33·5p

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the Board
J. H. Dodd
Secretary

26th March 1986

Accounting policies

Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include the revaluation of land and buildings.

As permitted by the Companies Act 1985, no profit and loss account is presented for the Company.

Basis of consolidation

The Group accounts comprise a consolidation of the accounts of the Company and its subsidiaries at 29th December 1985. The principal subsidiaries are listed on pages 42 and 43. The profits and losses of subsidiaries acquired or disposed of during the year are consolidated from or to their respective dates of acquisition or disposal.

The difference between the net assets at date of acquisition and cost of shares in subsidiaries, being either goodwill or acquisition reserve, is taken to retained earnings in the year of acquisition. This represents a change in policy. The balance of acquisition reserve brought forward has been transferred to retained earnings this year.

In accordance with SSAP 1, the Group accounts include the appropriate proportion of the results of the principal associated companies.

Foreign currencies

Foreign currency values in the profit and loss accounts and balance sheets of subsidiary and associated companies are translated into sterling at the rates of exchange ruling at the Group's accounting date.

Differences on the retranslation of foreign currency assets and liabilities, including differences on net assets of overseas subsidiary and associated companies, arising from exchange fluctuations between the beginning and the end of the financial year are dealt with separately in the statement of retained earnings at the foot of the consolidated profit and loss account.

Exchange differences relating to trading transactions during the year are included in profit on ordinary activities before taxation.

Turnover

Turnover, which excludes sales between Group companies and value added and similar taxes, comprises:

i) contract work — the sales value of work done and services rendered, calculated by reference to the total sales value of each contract;

ii) sales (other than contract sales) of goods and services - at invoiced value;

iii) fees for technical aid and other services rendered.

Contract results

A major part of the activity of the Group comprises long term contracts, many of which by their nature involve advanced engineering techniques. Such contracts are subject to regular detailed financial and technical reviews to determine the estimated costs to completion, including provisions for contingencies. A proportion of profits earned on contracts is credited in the accounts on a prudent basis as work progresses, according to the stage of completion. Full provisions are made in respect of foreseeable losses on uncompleted contracts.

Investment income

Income is included on the basis of dividends receivable during the year.

Research and development

Expenditure is charged against profit as incurred.

Taxation

The charge for United Kingdom taxation represents the liability which it is estimated will materialise as a payment of corporation tax on the profits of the year or as advance corporation tax on dividends declared for the year. Overseas taxation is based on profits of overseas subsidiaries and on other overseas income.

Provision is made for deferred taxation on all timing differences where it is considered that a liability may arise in the foreseeable future.

Fixed assets

Freehold and leasehold properties, plant, machinery and equipment are stated at cost or at valuations less depreciation written off. The term 'cost' in this context represents original cost when first purchased by a Group company, less, where appropriate, the amount of United Kingdom investment and regional development grants received or receivable.

Depreciation is charged on cost or valuation on a straight line basis at rates appropriate to the expected useful lives of the assets concerned. In the case of fixed assets acquired for specific contracts, depreciation is charged direct to the contract.

The principal rates of depreciation used are:

Freehold land	Not depreciated
Freehold buildings	2%
Long leasehold land	Over period of lease
Long leasehold buildings	2%
Short leasehold properties	Over period of lease
Plant and machinery	
— heavy production	6⅔%
— other	10%
Motor vehicles	20%
Office equipment and furniture	10%

Leased assets

Assets purchased under hire-purchase agreements are capitalised and depreciated using the rates shown above. Rental and finance charges relating to leased assets, including those held on finance leases, are written off as they fall due.

Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value.

Work in progress is valued at cost, plus a proportion of profits earned on contracts, less any provisions necessary to reduce to net realisable value.

Cost comprises direct materials and, in the case of work in progress, direct labour and works overheads, including depreciation, but excludes selling and administration costs.

Amounts invoiced on account of contracts are deducted from work in progress. Such amounts which have been received and exceed work in progress are included in creditors. Contract provisions in excess of work in progress are similarly treated.

Consolidated profit and loss account

for the financial year ended 29th December 1985

	Note		1985 £000		1984 £000
Turnover	1 and 2		1,098,926		1,129,764
Trading profit	3 and 4		33,616		31,487
Income from investments	7		863		514
			34,479		32,001
Interest payable (net)	8		(5,349)		(6,027)
			29,130		25,974
Share of profits less losses of associated companies	9		5,419		5,626
Profit on ordinary activities before taxation	1		34,549		31,600
Tax on profit on ordinary activities	10		(10,416)		(11,674)
Profit on ordinary activities after taxation			24,133		19,926
Profit attributable to minority interests			(179)		(165)
Profit before extraordinary items			23,954		19,761
Extraordinary items	11		(392)		(3,350)
Profit for the financial year			23,562		16,411
Preference dividends					
6% cumulative preference stock		4		4	
5% cumulative second preference stock		6		6	
4% cumulative redeemable preference stock		56	66	56	66
Ordinary dividends	12		10,213		9,723
Retained profit for the year			13,283		6,622

	Note	1985	1984
Earnings per ordinary share	13	19·7p	16·2p

	Note	1985	1984
Statement of retained earnings	24		
Opening balance		134,284	117,161
Currency adjustments		(21,911)	10,501
Goodwill written off (net)		(1,117)	–
Retained profit for the year		13,283	6,622
Closing balance		124,539	134,284

The accounting policies are set out on page 23.
The notes to the accounts are set out on pages 28-40.
The auditors' report is set out on page 40.

KEG No 65805

Consolidated balance sheet

at 29th December 1985

	Note		1985 £000		1984 £000
Fixed assets					
Tangible assets	14		154,867		156,862
Investments	16		25,336		25,715
			180,203		182,577
Current assets					
Stocks	17		226,194		210,570
Debtors	18		230,067		222,527
Deposits			10,595		28,190
Cash at bank and in hand			45,625		58,679
			512,481		519,966
Creditors — amounts falling due within one year	19		370,285		349,005
Net current assets			142,196		170,961
Total assets less current liabilities			322,399		353,538
less:					
Creditors — amounts falling due after more than one year	20	129,872		139,487	
Provisions for liabilities and charges	22	10,958	140,830	16,408	155,895
Total net assets			181,569		197,643
Capital and reserves					
Called up share capital	23		32,684		32,662
Share premium account	24		12,191		12,089
Revaluation reserve	24		11,848		12,499
Acquisition reserve	24		—		5,748
Profit and loss account	24		124,539		134,284
			181,262		197,282
Minority interests			307		361
Total capital employed			181,569		197,643

Approved by the Board of Directors on 26th March 1986

King
M. R. Hoffman | *Directors*

King
M R Hoffman

The accounting policies are set out on page 23.
The notes to the accounts are set out on pages 28-40.
The auditors' report is set out on page 40.

Babcock

Balance sheet

at 29th December 1985

	Note	1985 £000	1984 £000
Fixed assets			
Tangible assets	14	713	715
Investments — group companies	15	144,572	136,379
— other	16	1,682	3,27[illegible]
		146,967	140,372
Current assets			
Debtors	18	79,512	72,396
Deposits		38	15,501
Cash at bank and in hand		1,511	2,034
		81,061	89,931
Creditors — amounts falling due within one year	19	56,136	42,812
Net current assets		24,925	47,119
Total assets less current liabilities		171,892	187,491
less:			
Creditors — amounts falling due after more than one year	20	31,411	52,622
Total net assets		140,481	134,869
Capital and reserves			
Called up share capital	23	32,684	32,662
Share premium account	24	12,191	12,089
Profit and loss account	24	95,606	90,118
Total capital employed		140,481	134,869

Approved by the Board of Directors on 26th March 1986

King
M. R. Hoffman | *Directors*

King

M R Hoffman

The accounting policies are set out on page 23.
The notes to the accounts are set out on pages 28-40.
The auditors' report is set out on page 40.

Consolidated statement of source and application of funds

for the financial year ended 29th December 1985

	1985 £000	1985 £000	1984 £000	1984 £000
Funds from operations				
Profit for the financial year		23,562		16,411
Adjustments for items not involving the movements of funds:				
Retained profits of associated companies	(458)		(1,039)	
Minority interests	88		147	
Deferred taxation	(1,704)	(2,074)	(498)	(1,390)
(Increase)/decrease in working capital		(23,124)		8,490
Movement in tangible fixed assets:				
Expenditure	(26,980)		(24,128)	
Disposals	3,956		3,209	
Depreciation	23,115	91	19,541	(1,378)
(Deficit)/surplus from operations		(1,545)		22,133
Dividends paid		(10,154)		(9,313)
Other movements:				
Issue of ordinary shares	124		46	
(Purchase)/sale of investments (net)	(231)		14	
Acquisitions and disposals of subsidiaries (net)	(32,979)	(33,086)	(3,251)	(3,191)
(Decrease)/increase in liquidity		(44,785)		9,629
Reflected by:				
(Decrease)/increase in net liquid funds		(28,405)		31,651
Increase in loans		(16,380)		(22,022)

Reconciliation of major balance sheet movements

	Balance sheet movements				
	Actual difference £000	Currency translation effect £000	At constant exchange rates £000	Net effect of acquisitions/disposals of subsidiaries £000	Movements in funds £000
Tangible fixed assets	(1,995)	18,636	16,641	(16,732)	(91)
Investments	(379)	1,102	723	(34)	689
	(2,374)	19,738	17,364	(16,766)	598
Working capital:					
Stocks	15,624	27,808	43,432	(13,265)	30,167
Debtors	7,540	23,213	30,753	(10,240)	20,513
Creditors — current	(13,181)	(31,308)	(44,489)	11,304	(33,185)
— non current	10,218	(4,589)	5,629	—	5,629
	20,201	15,124	35,325	(12,201)	23,124
Net liquid funds:					
Deposits	(17,595)	2,029	(15,566)	—	(15,566)
Cash at bank and in hand	(13,054)	9,341	(3,713)	(1,441)	(5,154)
Bank overdrafts and loans (current)	(7,974)	(971)	(8,945)	1,260	(7,685)
	(38,623)	10,399	(28,224)	(181)	(28,405)
Loans	1,187	(18,068)	(16,881)	501	(16,380)
(Decrease)/increase in liquidity	(37,436)	(7,669)	(45,105)	320	(44,785)
Goodwill				(4,332)	
Cash paid (net)				(32,979)	

Notes to the accounts

1 Analysis of turnover and profit on ordinary activities before taxation

	1985 Turnover £000	1984 Turnover £000	1985 Profit/(loss) £000	1984 Profit/(loss) £000
UK Power Group	282,482	254,173	5,017	10,698
Contracting Group	80,062	76,578	3,678	1,828
Industrial and Electrical Products Group	114,897	100,227	(2,655)	(160)
Overseas Group	145,876	203,241	1,700	1,968
North American Group	382,063	415,961	21,897	15,350
FATA European Group	93,546	79,584	(992)	2,052
Group miscellaneous income/(expenditure)*	—	—	4,971	(249)
	1,098,926	1,129,764	33,616	31,487
Income from investments			863	514
Interest payable (net)			(5,349)	(6,027)
Share of profits less losses of associated companies			5,419	5,626
			34,549	31,600

*An actuarial valuation of the Babcock Group Staff Pension Scheme at 31st December 1984 disclosed a substantial overfunding. As a consequence, employers' contributions to the Scheme were excused for one year. Employers' contributions for 1985 have been charged against the operating groups' trading results shown above and the corresponding credit amounting to £6,016,000 has been included as Group miscellaneous income.

The subsidiary companies whose results are included above are listed on pages 42 and 43.

2 Geographical analysis of turnover

A geographical analysis of the Group turnover by area of destination is as follows:

	1985 £000	1984 £000
United Kingdom	302,312	277,630
North America	399,690	423,865
Africa	130,934	170,796
Europe	109,684	117,212
Asia	101,632	80,509
Middle East	25,552	24,722
Australasia	20,062	27,557
Other areas	9,060	7,473
	1,098,926	1,129,764

Exports from the United Kingdom during the year amounted to £185,754,000 (1984: £160,747,000).

3 Trading results

	1985 £000	1984 £000
Turnover	1,098,926	1,129,764
Cost of sales	961,528	986,151
Gross profit	137,398	143,613
less:		
Distribution costs	12,772	14,267
Administrative expenses	91,010	97,859
Trading profit	33,616	31,487

4 Trading profit

	1985 £000	1984 £000
Trading profit is shown after charging:		
Depreciation of tangible fixed assets	23,115	19,541
Redundancy and reorganisation costs	4,835	5,721
Auditors' remuneration (Company £71,000) (1984: £68,000)	1,145	1,200
Hire of plant and machinery:		
Under operating leases	3,818	5,077
Other	2,399	2,684
Other operating lease rentals	2,542	2,713
Emoluments of the directors of the Company:		
Fees	98	76
Managerial services including pension scheme contributions	684	882
Pension to former director	2	2
	784	960
and after crediting:		
Net surplus on disposal of properties	581	556

The trading results for 1985 do not include any charge for employers' contributions to the Babcock Group Staff Pension Scheme (see note 1).

5 Directors' emoluments

The emoluments (excluding pension scheme contributions) of the chairman and the highest paid director resident in the United Kingdom were as follows:

	1985 £000	1984 £000
Chairman's emoluments	92,419	77,232
Highest paid director	98,709	87,570

The emoluments (excluding pension scheme contributions) of the other directors resident in the United Kingdom were within the ranges:

	1985 Number	1984 Number
Not more than £5,000	1	1
£5,001 to £10,000	3	3
£20,001 to £25,000	2	2
£45,001 to £50,000	1	—
£50,001 to £55,000	1	—
£60,001 to £65,000	—	2
£65,001 to £70,000	—	2
£70,001 to £75,000	2	1
£75,001 to £80,000	1	—

The Chairman's emoluments include fees of £13,889 (1984: waived) paid to him by Babcock International Inc.
The highest paid director's emoluments include £4,253 received in 1984 but charged to United Kingdom taxation in 1985.

6 Employee information

i) The average number of persons (including executive directors) employed in each of the principal businesses of the Group during the year was as follows:

	1985 Number	1984 Number
UK Power Group	8,448	7,969
Contracting Group	1,390	1,435
Industrial and Electrical Products Group	3,625	3,760
Overseas Group	3,751	3,788
North American Group	7,582	6,638
FATA European Group	1,699	1,237
Central	90	91
	26,585	24,918

ii) The aggregate employment costs of these persons amounted to:

	1985 £000	1984 £000
Wages and salaries	310,229	311,619
Social security costs	26,452	26,859
Other pension costs	12,088	16,203
	348,769	354,681

6 Employee information continued

(iii) The number of employees in the United Kingdom (excluding directors) having emoluments within the following ranges was:

	1985 Number	1984 Number
£30,001 to £35,000	25	16
£35,001 to £40,000	8	8
£40,001 to £45,000	5	5
£45,001 to £50,000	1	1
£50,001 to £55,000	3	—
£55,001 to £60,000	—	1

7 Income from investments

	1985 £000	1984 £000
Dividends:		
Listed investments	35	97
Unlisted investments	467	102
Profit on sale of investments	361	315
	863	514

8 Interest payable (net)

	1985 £000	1984 £000
Interest payable on bank loans, overdrafts and other loans:		
Repayable within five years — by instalment	798	5,225
— not by instalment	11,716	4,979
Other	1,652	3,493
	14,166	13,697
less:		
Interest receivable on deposits	7,550	7,670
Interest relief grants	1,267	—
	5,349	6,027

9 Associated companies

The principal associated companies (all unlisted) in which the Group has an interest of 20 per cent or more of the equity are included in the list of principal Group companies on pages 42 and 43.

	1985 £000	1984 £000
The Group's share of profits less losses of such companies was	5,419	5,626
Taxation	3,747	3,301
	1,672	2,325
Receivable in dividends	1,214	1,286
Retained by associated companies	458	1,039

The Group's share of the results of associated companies is based upon accounts made up to dates varying from 30th September 1985 to 31st December 1985. Where audited accounts were not available, unaudited management accounts were used. The directors are of the opinion that such unaudited accounts are reliable.

The Group's share of the losses incurred by ACC-Babcock Limited in 1985 exceeded the book value of the investment in that company. The amount of such losses included above has been limited to the sum of £1,719,000 required to write off the investment in full.

10 Tax on profit on ordinary activities

	1985 £000	1984 £000
United Kingdom taxation		
Corporation tax	4,942	2,805
Double taxation relief	(2,955)	(802)
Deferred taxation	(795)	—
	1,192	2,003
Overseas taxation (including deferred taxation)	5,477	6,370
	6,669	8,373
Associated companies		
United Kingdom corporation tax	376	535
Overseas taxation	3,371	2,766
	10,416	11,674

United Kingdom corporation tax has been provided at the composite rate of 41·25 per cent (1984: 46·25 per cent).

The charge for United Kingdom taxation has been reduced in respect of overprovisions in previous years of £176,000 (1984: £1,679,000) for corporation tax and £735,000 for deferred taxation.

The Group's share of the undistributed profits of overseas subsidiary and associated companies would be liable to United Kingdom and overseas taxation if distributed as dividends.

There are accumulated taxation losses, estimated at £11,582,000 (1984: £8,773,000), for United Kingdom companies and £8,000,000 (1984: £35,000,000) in respect of overseas companies in the United States and West Germany, which are available for relief of taxation on future profits of those companies.

11 Extraordinary items

	1985 £000	1984 £000
Provision in respect of subsidiaries, including amounts written off on disposal (1984: provisions no longer required)	392	(1,372)
Deferred taxation	—	4,722
	392	3,350

12 Ordinary dividends

	1985 p per share	1984 p per share	1985 £000	1984 £000
Final dividend for 1984 paid on ordinary shares issued between 27th March and 26th April 1985	—	—	1	2
Interim dividend 1985	4·0	3·7	4,862	4,496
Proposed final dividend for 1985	4·4	4·3	5,350	5,225
Total	8·4	8·0	10,213	9,723

13 Earnings per ordinary share

Earnings per ordinary share are calculated on the 'net' basis on attributable profits of £23,888,000 (1984: £19,695,000) after deducting preference dividends but before taking account of extraordinary items, and on 121,546,308 (1984: 121,505,216) ordinary shares, being the average number of shares in issue during the year. The average numbers of shares in 1984 has been adjusted for the capitalisation issue in 1984. On the 'nil distribution' basis earnings per ordinary share would be 22·0 pence.

14 Tangible fixed assets

	Freehold properties	Leasehold long	Leasehold short	Plant machinery and equipment	Total
	£000	£000	£000	£000	£000
Company					
Cost:					
Balances at 31st December 1984	518	76	3	604	1,201
Additions	3	–	–	201	204
Disposals	(102)	–	–	(78)	(180)
Balances at 29th December 1985	419	76	3	727	1,225
Depreciation:					
Balances at 31st December 1984	133	27	1	325	486
Charge for year	8	1	–	123	132
Disposals	(55)	–		(51)	(106)
Balances at 29th December 1985	86	28	1	397	512
Net book value at 29th December 1985	333	48	2	330	713
Group					
Cost or valuation:					
Balances at 31st December 1984	92,163	3,597	2,575	213,139	311,474
Currency adjustments	(10,234)	–	(252)	(28,052)	(38,538)
Acquisition of subsidiaries net of disposals	6,382	–	612	20,188	27,182
Additions	4,046	72	88	22,774	26,980
Disposals and reclassifications	(2,120)	–	(1,033)	(8,320)	(11,473)
Balances at 29th December 1985	90,237	3,669	1,990	219,729	315,625
Depreciation:					
Balances at 31st December 1984	19,509	504	970	135,151	156,134
Currency adjustments	(2,285)	–	(159)	(17,458)	(19,902)
Acquisition of subsidiaries net of disposals	36	–	276	10,138	10,450
Charge for year	2,665	52	72	20,326	23,115
Disposals and reclassifications	(1,159)	–	(293)	(6,513)	(7,965)
Balances at 29th December 1985	18,766	556	866	141,644	161,832
Net book value at 29th December 1985	71,471	3,113	1,124	78,085	153,793
Patents, trading rights and loose tools and equipment at cost, less amounts written off (1984: 1,522)					1,074
					154,867

Fixed assets which originally cost £62·9 million (1984: £63 million) were still in use at 29th December 1985 although fully depreciated in the books.

The gross book values of Group properties comprise the following:	Freehold properties	Leasehold long	Leasehold short	1985	1984
	£000	£000	£000	£000	£000
At professional valuation — in 1980	–	–	750	750	750
— in 1982	14,992	–	–	14,992	15,894
At cost	75,245	3,669	1,240	80,154	81,691
	90,237	3,669	1,990	95,896	98,335
If properties had not been revalued, the book values would have been:					
Cost relative to the above gross book values	79,218	3,669	1,240	84,127	86,139
Depreciation	18,240	556	786	19,582	20,676
	60,978	3,113	454	64,545	65,463

15 Investment in Group companies

	Shares in Group companies £000	Loans to Group companies £000	Total £000
Cost:			
Balances at 31st December 1984	60,739	80,302	141,041
Currency adjustments	—	(159)	(159)
Additions	—	11,000	11,000
Disposals/repayments	(4)	(868)	(872)
Balances at 29th December 1985	60,735	90,275	151,010
less provisions:			
Balances at 31st December 1984	597	4,065	4,662
Amounts provided in year	1,776	—	1,776
Balances at 29th December 1985	2,373	4,065	6,438
Net book value at 29th December 1985	58,362	86,210	144,572

Particulars of principal subsidiaries are shown on pages 42 and 43.

16 Other investments

	Company 1985 £000	Company 1984 £000	Group 1985 £000	Group 1984 £000
The net book value of other investments includes:				
Shares in associated companies	—	1,976	22,661	23,266
Loans to associated companies	1,200	1,200	1,412	1,572
Other investments and loans	482	102	1,263	877
	1,682	3,278	25,336	25,715

Information relevant to these investments is as follows:

Shares in associated companies (all unlisted)	Company £000	Group £000
Cost or valuation:		
Balances at 31st December 1984	1,976	23,278
Currency adjustments	—	(911)
Disposals	—	(164)
Share of retained profits less losses	—	458
Balances at 29th December 1985	1,976	22,661
Amounts written off:		
Balances at 31st December 1984	—	12
Amount provided in the year	1,976	—
Disposals	—	(12)
Balances at 29th December 1985	1,976	—
Net book value at 29th December 1985	—	22,661

Group investments in associated companies are shown at cost, £5,965,000 (1984: £6,275,000), plus the Group's share of post acquisition retained profits, less amounts written off. The Group's share of attributable net assets of associated companies amounted to £25,135,000.

Loans to associated companies	Company £000	Group £000
Cost and net book value:		
Balances at 31st December 1984	1,200	1,572
Currency adjustments	—	(138)
Repayment	—	(22)
Balances at 29th December 1985	1,200	1,412

16 Other investments continued

Other investments and loans

	Company		Group	
	Other investments £000	Loans £000	Other investments £000	Loans £000
Cost:				
Balances at 31st December 1984	19,641	2,449	20,416	2,449
Currency adjustments	—	—	(52)	—
Additions	467	—	540	—
Disposals	(87)	—	(102)	—
Balances at 29th December 1985	20,021	2,449	20,802	2,449
Amounts written off:				
Balances at 31st December 1984 and 29th December 1985	19,539	2,449	19,539	2,449
Net book value at 29th December 1985	482	—	1,263	—

	Company		Group	
	1985 £000	1984 £000	1985 £000	1984 £000
The total cost and market value of investments listed on The Stock Exchange and included above are:				
Cost	467	—	467	—
Market value	555	—	555	—
The total cost and market value of investments listed on other stock exchanges and included above are:				
Cost	—	87	16	104
Market value	—	241	53	301

The market values of investments listed overseas are based on the prices in foreign currencies of the respective shares as quoted on the relevant stock exchanges at the end of each year, translated into sterling at the official rates of exchange in accordance with the Group's accounting policies.

The principal associated companies and trade investments are included in the list on pages 42 and 43.

17 Stocks

		1985 £000		1984 £000
Group:				
Long term contract work in progress	352,308		330,453	
less: progress payments	272,407		272,336	
		79,901		58,117
Other stocks and work in progress:				
Raw materials and consumables	47,866		51,761	
Work in progress	91,431		82,372	
Finished goods and goods for resale	22,943		30,093	
	162,240		164,226	
less: progress payments	15,947		11,773	
		146,293		152,453
Total stocks		226,194		210,570

Long term contract work in progress includes:

i) amounts for contracts where title in the goods does not pass until final acceptance;

ii) an element of profit in compliance with SSAP 9. After taking into account the effect of progress payments the net amount of profit added to the cost of work in progress is not material.

18 Debtors

	Company 1985 £000	Company 1984 £000	Group 1985 £000	Group 1984 £000
Amounts falling due within one year:				
Trade debtors	–	–	178,385	172,208
Amounts owed by Group companies	62,188	66,260	–	–
Amounts owed by associated companies	–	–	4	36
Other debtors	636	1,084	18,337	21,315
Prepayments and accrued income	5,970	1,132	13,345	8,093
	68,794	68,476	210,071	201,652
Amounts falling due after more than one year:				
Trade debtors	–	–	11,272	15,013
Other debtors	9,214	3,920	6,792	5,323
Prepayments and accrued income	1,504	–	1,932	539
	10,718	3,920	19,996	20,875
Total debtors	79,512	72,396	230,067	222,527

19 Creditors – amounts falling due within one year

	Company 1985 £000	Company 1984 £000	Group 1985 £000	Group 1984 £000
Bank loans and overdrafts	44,915	31,340	43,921	35,844
Other loans	–	–	768	871
	44,915	31,340	44,689	36,715
Other creditors:				
Payments received on account	–	–	45,782	48,088
Trade creditors	–	–	132,454	123,084
Bills payable	–	–	2,709	3,292
Amounts owed to Group companies	29	1,516	–	–
Amounts owed to associated companies	–	–	24	5
Taxation	3,945	3,446	12,380	13,286
Social Security	18	13	4,991	4,274
Other creditors	1,879	1,272	121,906	115,036
Proposed final ordinary dividend	5,350	5,225	5,350	5,225
	56,136	42,812	370,285	349,005

20 Creditors – amounts falling due after more than one year

	Company 1985 £000	Company 1984 £000	Group 1985 £000	Group 1984 £000
Bank loans:				
repayable between 1 and 2 years	2,840	1,749	80,657	2,827
repayable between 2 and 5 years	536	1,348	1,967	80,398
repayable after 5 years – by instalment	–	–	1,115	1,372
Other loans:				
repayable between 1 and 2 years	–	–	1,885	860
repayable between 2 and 5 years	–	–	2,487	4,183
repayable after 5 years – by instalment	–	–	9,857	9,344
– otherwise than by instalment	–	–	590	761
	3,376	3,097	98,558	99,745
Other creditors:				
Trade creditors	–	–	2,118	2,941
Bills payable	–	–	–	102
Amounts owed to Group companies	28,031	49,525	–	–
Taxation	4	–	1,263	1,704
Other creditors	–	–	27,933	34,995
	31,411	52,622	129,872	139,487
Total borrowings repayable by instalment, a part of which falls due after 5 years:				
Bank loans	–	–	1,783	2,865
Other loans	–	–	11,025	12,718

21. Loans

	Company 1985 £000	Company 1984 £000	Group 1985 £000	Group 1984 £000
Debentures:				
Babcock Industrial & Electrical Products Limited — 7¼% debenture stock 1985-90 (i)	—	—	198	201
Other loans:				
Babcock International Finance Corporation — Commercial paper notes (ii)	—	—	77,083	77,648
Babcock Nederland BV — 7% convertible guaranteed bonds 1992 (iii)	—	—	194	258
Acco Babcock Inc — Mortgages and loans (iv)	—	—	11,113	13,268
Other Group companies — Mortgages and loans (v)	—	—	4,082	2,292
Bank loans (vi)	4,829	4,444	9,226	10,209
Bank overdrafts (vii), (viii)	43,462	29,993	41,351	32,584
	48,291	34,437	143,247	136,460
less: current portion	44,915	31,340	44,689	36,715
	3,376	3,097	98,558	99,745

i) The 7¼% debenture stock 1985-90 of Babcock Industrial & Electrical Products Limited is secured by a floating charge over the assets of that company.

ii) The commercial paper notes are issued in New York and are supported by a letter of credit issued by the leader of a consortium of banks. The same credit agreement provides Babcock International Finance Corporation with a revolving credit facility. The credit agreement has an initial term of three years commencing in 1984. Various rates of interest are payable according to the market rate for commercial paper at the time of issue.

iii) The 7% convertible guaranteed bonds due 1992 of Babcock Nederland BV are guaranteed as to payment of principal, premium (if any) and interest by the Company. The bonds are in bearer form in the denomination of US$ 1,000 each. Unless previously redeemed or purchased, the bonds are convertible up to and including 15th September 1992 into fully paid ordinary shares of Babcock International plc at a conversion price, subject to amendment in certain events, of 113p per share with a fixed rate of exchange applicable upon conversion of US$ 1·7432 = £1. The bonds may be redeemed in certain defined circumstances. Unless previously converted, redeemed or purchased the bonds will be redeemed at par on 15th October 1992. During 1985, in accordance with the above terms, bonds to a face value of US$20,000 (1984: $10,000) were converted into ordinary shares of the Company.

iv) Mortgages and loans of Acco Babcock Inc, bearing interest at rates varying from 2 to 10 per cent, are redeemable at par at varying dates up to 2004. £11,067,000 (1984: £13,202,000) is secured by charges on assets.

v) Mortgages and loans of other Group companies, bearing interest at rates varying from 5 to 16 per cent, are redeemable at par at various dates up to 1996. £3,245,000 (1984: £1,015,000) is secured by fixed and floating charges on the assets of those companies.

vi) Bank loans are denominated chiefly in foreign currencies and bear interest at rates varying from 4 per cent to 21 per cent and £682,000 (1984: £962,000) of the Group loans are secured.

vii) The Group total includes £7·2 million (1984: £3·6 million) of currency borrowings which are matched by short term deposits. These borrowings, mostly in US dollars, were effected in Italy to cover forward exchange risks on future contract receipts denominated in the currencies concerned.

viii) The directors believe that the facilities relating to bank overdrafts maturing in less than one year will be renewed.

22 Provisions for liabilities and charges

	Group 1985 £000	Group 1984 £000
Pensions and similar obligations (i)	6,906	8,696
Deferred taxation (ii)	4,052	7,712
	10,958	16,408

i) Pensions and similar obligations:

Occupational pension schemes are provided for employees in most countries in which the Group has operations. With the exception of Germany and certain provisions in the USA in respect of unfunded prior service benefits in old schemes and relating to discontinued operations, the funds of all schemes are maintained separately from those of the Group. Contributions are met, or provided for, as they arise.

The movement in the provision was as follows:

	1985 £000
Opening balance	8,696
Currency adjustments	(1,339)
Movement in the year	(451)
Closing balance	6,906

In the United Kingdom, contributory schemes are operated for all full-time employees. Both the Staff and Works schemes are managed by separate corporate trustees, the directors of which are drawn from both management and employees. Investments are managed by committees, which receive appropriate independent professional advice. The costs of administration are borne by the Company. Investment performance is independently assessed each year. Triennial actuarial valuations are undertaken in respect of each of the schemes.

Other substantial pension schemes are operated in the USA, Australia, Canada and South Africa. These are managed either by in-house or independent trustees and investments are, in all cases, made by professional investment managers, subject to regular performance assessments. The USA schemes, and certain of the Canadian schemes, are non-contributory. In the other schemes, employees contribute a percentage of wages/salary towards the cost of benefits.

In the case of the principal USA schemes, past service benefits are being funded over periods up to 30 years in accordance with general practice. A small ongoing funding deficiency in one of the Canadian schemes is being amortised by annual instalments over fifteen years.

All the above schemes are solvent on a discontinuance basis.

Insured schemes are operated by the two Group companies in Holland which have full-time employees. The benefits provided are designed to augment underlying state pension benefits. In Italy pensions are covered by the state scheme.

In the Federal Republic of Germany a small number of the most senior executives have pension contracts whereby the German subsidiary company has undertaken to provide pensions and widows' pensions. In accordance with practice in Germany, provisions are made in the accounts each year on the basis of actuarial advice. Supplementary insurance cover is maintained to meet the cost of widows' benefits, in the event of death in service, to the extent that the relative provision is inadequate for the purpose. Subscriptions of premium are made to a central fund to cover unfunded liabilities in the event of the insolvency of the employing company.

ii) Deferred taxation:

Provision for deferred taxation comprises £1,172,000 (1984: £1,286,000) in respect of United Kingdom companies and £2,880,000 (1984: £6,426,000) in respect of overseas companies. The movement in the provision was as follows:

	1985 £000
Opening balance	7,712
Currency adjustments	(1,956)
Reclassifications	675
Credit for the year	(2,379)
Closing balance	4,052

Reclassifications comprise advance corporation tax no longer offset against the provision for United Kingdom deferred taxation.

22 (ii) Deferred taxation continued

If revalued assets in the United Kingdom were to be sold, it is estimated that any chargeable gains would be fully relieved by capital losses currently available.

The full potential liability for deferred taxation in respect of United Kingdom companies has been calculated at the rate of 35 per cent using the liability method. Provision has been made for the full potential liability, comprising:

	1985 £000	1984 £000
Capital allowances	10,351	10,465
Future benefit of tax losses	(613)	(470)
Other timing differences	(1,531)	(993)
	8,207	9,002
Advance corporation tax	(7,035)	(7,716)
	1,172	1,286

Total advance corporation tax recoverable against future corporation tax liabilities of the Group, including an amount of £2,290,000 (1984: £484,000) in debtors, is £12,188,000 (1984: £8,200,000).

23 Called up share capital

	1985 Authorised £000	1985 Issued £000	1984 Authorised £000	1984 Issued £000
6% cumulative preference stock	100	100	100	100
5% cumulative second preference stock and shares	200	183	200	183
4% cumulative redeemable preference stock and shares	3,000	2,000	3,000	2,000
	3,300	2,283	3,300	2,283
Ordinary shares of 25p (121,602,377 issued and fully paid) (1984: 121,514,927)	36,700	30,401	36,700	30,379
	40,000	32,684	40,000	32,662

During the year 87,450 ordinary shares of 25p (nominal value: £21,862) were allotted, as follows, for a total consideration of £123,863.

Reason for allotment	Number of shares
Conversion of 7% convertible guaranteed bonds of Babcock Nederland BV	10,153
Exercise of options under the:	
Babcock & Wilcox Share Option Scheme	77,000
Babcock Savings Related Share Option Scheme (1984)	297

At 29th December 1985 there were US$279,000 (1984: US$299,000) 7% convertible guaranteed bonds of Babcock Nederland BV outstanding which, upon conversion, would require the allotment of 141,637 shares (1984: 151,790 shares). See also Note 21(iii).

During the year, there was a first grant of options under the Babcock Executive Share Option Scheme (1984) and the Babcock Savings Related Share Option Scheme (1984). At 29th December 1985, the following options were outstanding:

Scheme	Number of shares subject to option	Price per share	Exercisable between
Babcock & Wilcox Share Option Scheme	771,650	132p-154·5p	May 1986-May 1990
Babcock Executive Share Option Scheme (1984)	2,429,000*	155p	January 1988-January 1995
Babcock Savings Related Share Option Scheme (1984)	1,765,896	143p	June 1990-December 1992
	4,966,546	(1984: 939,400 shares)	

*This figure has been reduced by 732,050 shares, which are the subject of parallel options linked to existing options under the Babcock & Wilcox Share Option Scheme. Holders of options under both schemes may exercise one or the other in whole or in part. Upon the exercise of either option, in whole or in part, the other will lapse *pro tanto*.

The Company has the option of redeeming by drawings all or part of the issued 4% cumulative redeemable preference stock at par at any time by giving three months' notice. No final redemption date has been fixed.

24 Reserves

	Company 1985 £000	Group 1985 £000
Share premium account		
Opening balance	12,089	12,089
Movement in the year	102	102
Closing balance	12,191	12,191
Revaluation reserve		
Opening balance	—	12,499
Currency adjustments	—	(651)
Closing balance	—	11,848
Acquisition reserve		
Opening balance	—	5,748
Currency adjustments	—	(2,533)
	—	3,215
Movement in the year	—	(4,332)
Balance transferred to profit and loss account (i)	—	1,117
Closing balance	—	—
Profit and loss account		
Opening balance	90,118	134,284
Currency adjustments (ii)	—	(21,911)
Transfer from acquisition reserve	—	(1,117)
Movement in the year	5,488	13,283
Closing balance	95,606	124,539

i) In accordance with SSAP22, the acquisition reserve from prior years of £3,215,000, together with goodwill arising on acquisitions during the year of £4,332,000 (the majority of which relates to Faultless Caster Corporation) have been written off to retained earnings.

ii) Reduction on retranslation of the net assets of overseas subsidiaries and investment in overseas associates.

iii) Group reserves include £16,696,000 (1984: £17,003,000) of retained profits and reserves of associated companies.

25 Capital commitments

	Company 1985 £000	Company 1984 £000	Group 1985 £000	Group 1984 £000
Capital expenditure sanctioned by the Board and outstanding at 29th December 1985	100	117	49,747	60,621
Contracts placed against these sanctions and not provided for in the accounts	—	—	4,969	10,469

The above figures for Group capital expenditure sanctions include £1,866,000 for which leasing agreements are contemplated in 1986.

26 Contingent liabilities

i) There are contingent liabilities amounting to £86,758,000 for the Company (1984: £90,586,000) and £8,718,000 for the Group (1984: £10,791,000), representing in the main guarantees given and bills discounted, on which no losses are anticipated.

ii) In addition, there are contingent liabilities in the ordinary course of business in connection with the completion of contracts within specification, including responsibility for maintenance.

iii) Certain subsidiaries are engaged in litigation in connection with claims on contracts. Based on legal advice, provisions for these claims have been made in these accounts to the extent considered necessary by the directors.

Notes to the accounts
continued

27 Lease commitments

	Company 1985 £000	Company 1984 £000	Group 1985 £000	Group 1984 £000
Finance leases				
At 29th December 1985 the Group had the following net obligations under finance leases, none of which has been capitalised:				
Obligations payable				
within 1 year	–	–	3,103	2,378
in 2 to 5 years	–	–	7,907	6,281
after 5 years	–	–	3,670	4,229
	–	–	14,680	12,888
Less: finance charges relating to future periods	–	–	2,890	2,995
Net obligations	–	–	11,790	9,893
At 29th December 1985 the Group had entered into commitments, whose inception occurs after that date amounting to	–	–	543	1,302
Operating leases				
At 29th December 1985 the Group had the following annual commitments under non-cancellable operating leases				
Leases of land and buildings				
Commitments which expire				
within 1 year	–	–	281	474
in 2 to 5 years	293	293	2,432	2,402
after 5 years	96	96	1,109	894
	389	389	3,822	3,770
Leases of other assets				
Commitments which expire				
within 1 year	25	–	664	628
in 2 to 5 years	–	25	1,436	763
after 5 years	–	–	56	72
	25	25	2,156	1,463
Total	414	414	5,978	5,233

The majority of leases of land and buildings are subject to rent reviews.

Report of the auditors
to the members of Babcock International plc

We have audited the accounts on pages 23 to 40 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 29th December 1985 and of the profit and source and application of funds of the Group for the year then ended and comply with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
Chartered accountants

London
26th March 1986

Five year financial summary

£000	1981	1982	1983	1984	1985
Turnover	955,803	1,002,203	1,016,283	1,129,764	1,098,926
Profits					
Profit before interest charges and taxation	31,582	34,036	39,708	37,627	39,898
Interest payable (net)	(17,508)	(13,550)	(5,626)	(6,027)	(5,349)
Profit before taxation	14,074	20,486	34,082	31,600	34,549
Taxation	(6,795)	(8,044)	(12,483)	(11,674)	(10,416)
Profit after taxation	7,279	12,442	21,599	19,926	24,133
Minority interests	(497)	(251)	(130)	(165)	(179)
	6,782	12,191	21,469	19,761	23,954
Extraordinary items	(1,772)	(16,557)	(28,428)	(3,350)	(392)
	5,010	(4,366)	(6,959)	16,411	23,562
Preference dividends	66	66	66	66	66
Profit/(loss) attributable to ordinary shareholders	4,944	(4,432)	(7,025)	16,345	23,496
Earnings per ordinary share (see notes) (excluding extraordinary items)	5·5p	10·1p	17·6p	16·2p	19·7p
Ordinary dividends — cost	7,673	7,710	8,504	9,722	10,212
— pence per share (see notes)	6·36p	6·36p	7·00p	8·00p	8·40p
Capital and debt					
Share capital (see notes)	29,672	29,764	29,891	32,662	32,684
Reserves and retained earnings	155,581	157,876	147,818	164,620	148,578
Loans and overdrafts less short term deposits	100,247	76,804	72,614	108,270	132,652
	285,500	264,444	250,323	305,552	313,914
Represented by					
Fixed assets	134,606	138,147	139,137	156,862	154,867
Investments	18,481	39,272	21,539	25,715	25,336
Goodwill	4,276	–	–	–	–
Debtors not currently due	13,373	21,405	23,122	20,875	19,996
Other current assets (net)	147,177	105,458	124,967	158,611	156,294
Non-current creditors	(23,674)	(29,610)	(49,531)	(48,438)	(38,220)
Total funds employed	294,239	274,672	259,234	313,625	318,273
less: Minority interests	261	395	306	361	307
Deferred taxation	8,478	9,833	8,605	7,712	4,052
	285,500	264,444	250,323	305,552	313,914
Profit before interest charges as a return on total funds employed	10·7%	12·4%	15·3%	12·0%	12·5%
Number of shareholders at year end					
Preference	577	523	471	437	399
Ordinary	13,151	12,569	11,728	11,276	10,540
Average number of employees	33,998	30,116	25,982	24,918	26,585
Number of employees at year end	32,968	26,384	24,779	24,767	26,514
Turnover per employee	£28,114	£33,278	£39,115	£45,339	£41,336

Notes

Share capital and earnings per share reflect conversions of 7% convertible guaranteed bonds 1992 of Babcock Nederland BV and the exercise of share options.

Earnings and ordinary dividends per share have been adjusted to reflect the one for ten capitalisation issue made in 1984.

Principal Group companies

Unless otherwise stated Babcock International plc holds 100% of the equity share capital of the companies either in its own name, or where marked*, in the name of nominees or subsidiary companies. All companies are incorporated and located in Great Britain and registered in England, unless otherwise stated. Companies located overseas are incorporated in the country of location.

UK Power Group

Babcock Power Limited
Babcock PED Limited*
Babcock Jenkins Limited*
Babcock Worsley Limited*
Babcock Calorizing Limited*
Babcock Welding Products Limited*
(Registered in Scotland)
Babcock Plant Leasing Limited*
Fluidised Combustion Contractors Limited*
Babcock-APG Limited*
(Registered in Scotland)
Babcock Power Investments Limited*
Babcock Power Licensing Limited*
Babcock Power (Hong Kong) Limited*, Hong Kong
Babcock Power (Overseas Projects) Limited*
Babcock PED (Overseas Projects) Limited*
Babcock Robey Limited*
Deutsche Rauchgasanlagen GmbH*, West Germany

Associated companies
Genrec-Pipework Engineering (Pty) Limited (40%*), South Africa
Diamond Power Specialty Limited (33%*)
Wanson Company Limited (25%*)
Pipework Support Technologies Limited (50%*)
Volund Babcock Energy A/S (50%*), Denmark

Trade investments
Rolls-Royce & Associates Limited (19%*)
Babcock de Venezuela SA (30%*), Venezuela

Contracting Group

Babcock Contractors Limited
Ames Crosta Babcock Limited*
BV Spaans Babcock*, Holland
Babcock Woodall-Duckham Limited*
Babcock-Moxey Limited*
Babcock Electrical Projects Limited*
Babcock Minerals Engineering Limited*
Babcock Hydro-Pneumatics Limited*
Babcock Duiker BV*, Holland
Claudius Peters Limited*

Industrial and Electrical Products Group

Industrial and Electrical Products Division
Babcock Industrial & Electrical Products Limited

Electrical distribution
Whipp & Bourne Limited*
Babcock Transformers Limited*

General manufacturing
Babcock Gears Limited*
Babcock Wire Equipment Limited*
Gloucester Railway Carriage & Wagon Company Limited*
Rockwell Hardness Testers Limited*

Process control and instrumentation
Babcock-Bristol Limited*
Babcock-Bristol AB*, Sweden
Dataschalt GmbH*, West Germany

Mining Division
Babcock Mining Limited

Babcock Mining UK Limited*
Huwood Limited*
Huwood Electric Limited*
Huwood Mining Supports Limited*
Parsons Chain Company Limited*
Parsons Chaine Europe SA*, France
Huwood-Irwin Co*, USA
Triangle Mining Equipment Co Inc*, USA

Overseas Group

South Africa (all 100%*)
Babcock Africa (Pty) Limited
Babcock Engineering Contractors (Pty) Limited
Babcock Industrial Contractors (Pty) Limited
Babcock Triplejay (Pty) Limited
Babcock Properties Holdings (Pty) Limited
Australia (all 100%*)
Babcock Australia Holdings Limited
Babcock Australia Limited
Babcock Moxey Australia Pty Limited
Associated Water Equipment
Northern Iron and Brass Foundry
New Zealand (all 100%*)
Babcock International (NZ) Limited
Babcock Engineering Limited
West Germany (all 100%*)
Claudius Peters AG
Claudius Peters-Este GmbH
USA
Claudius Peters Inc*
France
Claudius Peters SA*
Spain
Claudius Peters (Exportadora) SA*

Associated companies
India
ACC-Babcock Limited (26·08%)
Japan
Babcock-Hitachi KK (20%*)

Trade investments
Belgium
Babcock Services (25%*)
Mexico
Babcock Mexico SA de CV (20%)

North American Group

USA
Babcock International Inc*
Acco Babcock Inc*
Babcock Keeler Corporation*
Keeler Brass Company*
Weber-Knapp Company*
Belwith International Limited*
Bristol Babcock Inc*
Faultless Caster Corporation*

Companies in other countries
Dominion Chain Inc*, Canada
Industrias Metalurgicas Liebau, SA (75%*), Brazil
La Télédynamique SA (77·4%*), France
Brake Cables Limited*
Faultless-Doerner Manufacturing Inc*, Canada

Associated companies
Cables Automotrices SA (49%*), Mexico
F Platen GmbH (50%*), West Germany
Instrumentos Bristol SA (50%*), Mexico

Trade investment
Pujol y Tarrago SA (25%*), Spain

FATA European Group

Quintech BV*, Holland
FATA European Group SpA*, Italy
Fataluminium SpA (99·72%*), Italy
FATA-New Hunter Engineering SpA*, Italy
FATA Sud SpA*, Italy
OEM FATA Sud SpA*, Italy
FATA SA*, Spain
FATA Industrie SA*, France
FATA New Hunter Oy*, Finland
Deutsche FATA GmbH*, West Germany
Babcock FATA Limited*
Froude Consine Limited*
Froude Engineering Inc*, USA

Other subsidiary companies

Babcock International Holdings Limited
Babcock Mondiale BV*, Holland
Babcock Nederland BV*, Holland
Babcock International Finance Corporation*, USA
Babcock Overseas Management Services Limited
Babcock Agency Services (International) Limited
Cleveland Insurance Limited*, Isle of Man

Other associated company

British Nuclear Associates Limited (34·3%)

Analysis of ordinary shareholdings

	1985		1984		1985		1984	
	Number	%	Number	%	Holdings	%	Holdings	%
Individuals	9,576	90·9	10,248	90·9	25,573,115	21·0	35,665,112	29·4
Banks and nominee holdings	519	4·9	543	4·9	61,603,138	50·7	45,717,216	37·6
Insurance companies	150	1·4	164	1·4	17,952,941	14·8	17,183,908	14·1
Companies	107	1·0	107	0·9	3,259,417	2·7	715,795	0·6
Investment trusts	91	0·9	100	0·9	3,669,356	3·0	7,942,829	6·5
Pension funds	34	0·3	44	0·4	5,386,394	4·4	7,498,134	6·2
Others	63	0·6	70	0·6	4,158,016	3·4	6,791,933	5·6
	10,540	100·0	11,276	100·0	121,602,377	100·0	121,514,927	100·0

Substantial shareholdings

In accordance with the provisions of the Companies Act 1985, the following have notified the Company that their holdings are 5% or more of the undermentioned classes of preference capital carrying unrestricted voting rights:

	£
5% cumulative second preference stock (issued £183,056)	
Mr G. G. De Vine	10,000
G.R.E. Nominees Limited	38,000
The Investment Company plc	39,500
Royal Bank of Scotland Edinburgh Nominees Limited	18,000
Wesleyan and General Assurance Society	21,900
6% cumulative preference stock (issued £100,000)	
The Investment Company plc	45,000
The Metropolitan Trust plc	20,000
Mrs B. K. Whitehouse	5,000

Ordinary share capital
No notification has been received in respect of any holding of 5% or more of the issued ordinary share capital.

Financial calendar 1986

Announcement of Group results
1985 Final results — 26th March 1986
1986 Interim results — 4th September 1986

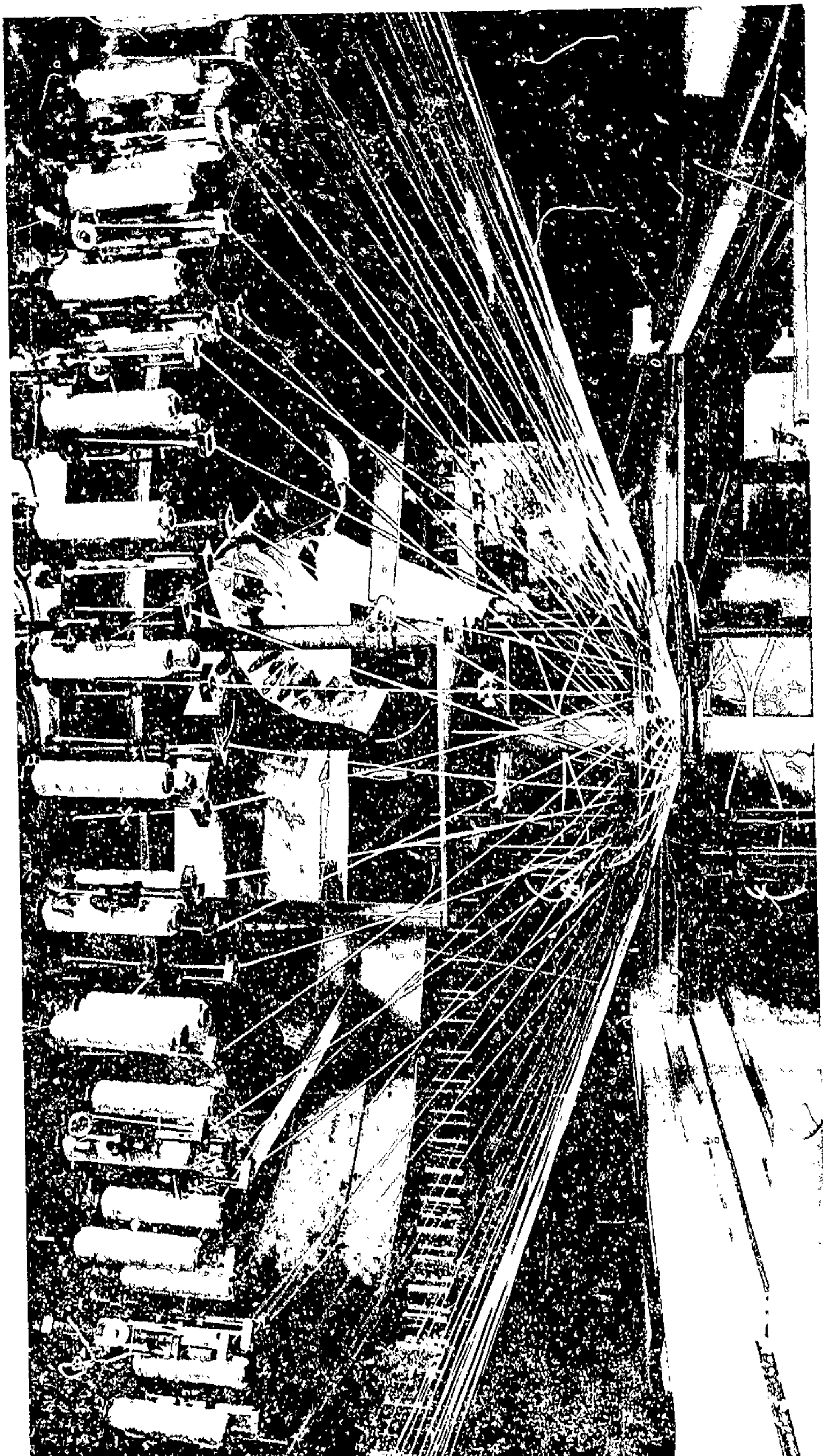
Dividend and interest payments

Ordinary shares
1985 Recommended final — announced 26th March 1986, payable 27th May 1986
1986 Interim — announced 4th September 1986, payable 13th October 1986

Preference stocks
Payable half-yearly on 1st July 1986 and 2nd January 1987

7% convertible guaranteed bonds 1992 of Babcock Nederland BV
Payable on 15th October 1986

An innovative use of technology is demonstrated by the braiding machine pictured opposite which was specifically designed by Babcock Wire Equipment Limited for Dowty Rotol Limited. This was designed to meet their requirement for braiding multi-layers of materials such as carbon fibre, glass fibre and Kevlar to produce composite propeller blades.



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