

# RESULTS

GROUP FINANCIALS

The whole is greater than the sum of the parts

BBA GROUP 2000



<b>£m (other than percentages, interest cover and per share amounts in pence)</b>	<b>2000</b>	<b>1999</b>	<b>change %</b>
<b>Turnover</b>			
Total	<b>1,563.8</b>	1,422.7	+10
Continuing operations	<b>1,337.2</b>	1,094.0	+22
<b>Total operating profit*</b>			
Total	<b>200.7</b>	203.9	-2
Continuing operations	<b>186.9</b>	164.9	+13
Discontinued operations	<b>13.8</b>	39.0	-65
<b>Operating margin*</b>			
Total	<b>12.8%</b>	14.3%	
Continuing operations	<b>14.0%</b>	15.1%	
<b>Net interest</b>	<b>(30.2)</b>	(20.4)	
<b>Profit before tax, goodwill amortisation and exceptional items</b>	<b>170.5</b>	183.5	-7
<b>Exceptional items (net)**</b>	<b>129.5</b>	(16.7)	
<b>Goodwill amortisation</b>	<b>(13.1)</b>	(8.6)	
<b>Profit before tax</b>	<b>286.9</b>	158.2	+81
<b>Earnings per ordinary share</b>			
<b>Basic</b>			
Total operations:			
Before goodwill amortisation and exceptional items	<b>28.1p</b>	28.9p	-3
Unadjusted	<b>50.7p</b>	24.9p	+104
Continuing operations:***			
Before goodwill amortisation and exceptional items	<b>28.0p</b>	26.3p	+6
<b>Diluted</b>			
Total operations:			
Before goodwill amortisation and exceptional items	<b>26.7p</b>	27.3p	-2
Unadjusted	<b>47.5p</b>	23.6p	+101
Continuing operations:			
Before goodwill amortisation and exceptional items	<b>26.7p</b>	24.9p	+7
<b>Dividends per ordinary share</b>	<b>10.1p</b>	9.65p	+5
<b>Net cash inflow from continuing operating activities</b>	<b>185.7</b>	179.3	+4
<b>Net borrowings</b>	<b>483.1</b>	431.5	
<b>Net borrowings****</b>	<b>366.7</b>	431.5	
<b>Gearing (net borrowings to shareholders' funds)****</b>	<b>47%</b>	73%	
<b>Interest cover</b>	<b>7x</b>	10x	

\*BEFORE GOODWILL AMORTISATION AND EXCEPTIONAL ITEMS

\*\*AFTER GOODWILL WRITE-BACK OF £2.4M (1999: ENIL)

\*\*\*BASIC EARNINGS PER SHARE ON CONTINUING OPERATIONS IS CALCULATED ON A PRO-FORMA BASIS USING BASIC EARNINGS PER SHARE ON TOTAL OPERATIONS ADJUSTED, FIRST, TO EXCLUDE THE AFTER-TAX IMPACT OF OPERATING PROFIT FROM DISCONTINUED OPERATIONS FOR EACH YEAR, AND, SECOND, TO ADD BACK THE AFTER-TAX IMPACT OF NOTIONAL INTEREST ARISING ON THE PROCEEDS FROM THE DISPOSAL OF THESE DISCONTINUED OPERATIONS AS IF THESE OPERATIONS HAD BEEN SOLD WITH EFFECT FROM THE BEGINNING OF EACH YEAR

\*\*\*\*AFTER DEDUCTING £116.4M OF LOAN NOTES RECEIVED ON THE DISPOSAL OF THE AUTOMOTIVE FRICTION BUSINESS

In 2000 we delivered some sound results, achieved growth in our businesses and carried through some important strategic changes that have enhanced our position going forward. We achieved this despite high raw material and fuel prices, and in an economic environment that became increasingly challenging as the year progressed.

### Financial Results

Group turnover on continuing operations increased by 22 per cent from £1,094 million to £1,337 million. Excluding the impact of acquisitions, disposals and currency, underlying organic growth for continuing operations was 6 per cent.

Profit before tax was £286.9 million compared to £158.2 million in 1999, with the current year benefiting from the exceptional gain on the disposal of the Automotive Friction business in August 2000, following the Group's strategic decision to exit the automotive market.

On continuing operations, operating profit, before goodwill amortisation and exceptional items was £186.9 million, an increase of 13 per cent on 1999. Operating margins on continuing operations were 14.0 per cent (1999: 15.1 per cent) reflecting higher raw material costs and the impact of acquisitions coming into the Group at lower than average margins.

Operating profit on discontinued operations of £13.8 million reflected losses incurred in the Automotive Friction business between the half year and the date of disposal of some £2 million and £4 million of start-up losses in the Regional Maintenance Centres which were sold in early 2001.

Exceptional restructuring costs of £7.8 million (1999: £5.3 million) include £1.6 million (1999: £5.3 million) relating to the rationalisation and integration of businesses acquired during the year and £6.2 million (1999: £nil) relating to restructuring costs incurred in BBA Nonwovens. The exceptional profit on sale of businesses of £137.3 million (1999: loss of £11.4 million) relates primarily to the gain on sale of the Automotive Friction business.

Basic earnings per share, before goodwill amortisation and exceptional items, were 28.1 pence, compared with 28.9 pence in 1999, a decrease of 3%. On continuing operations, basic earnings per share (before goodwill amortisation and exceptional items) were 28.0 pence, an increase of 6 per cent on 1999.

Net cash inflow from continuing operating activities at £186 million (1999: £179 million) was 4 per cent higher than last year. Capital expenditure increased by 19 per cent to £178 million of which £156 million related to continuing operations. As a number of large projects came to an end we anticipate the level of capital expenditure will reduce in the current and future years resulting in a significant improvement to the free cashflow of the Group.

Net debt was £483 million (1999: £432 million). Net debt, after deducting the Loan Notes of £116.4 million received as part of the sale proceeds for the Automotive Friction business, was £367 million (1999: £432 million). Interest cover was 7 times.

### Dividends

The Board recommends a final dividend of 7 pence (1999: 6.75 pence) payable on 25 May 2001 to shareholders on the register at 23 March 2001, an increase of 4 per cent. Adding the 2000 interim dividend of 3.1 pence, which was paid on 10 November 2000, the total dividends for the year would be 10.1 pence, an increase of 5 per cent on 1999.

### Acquisitions and Disposal

A series of acquisitions made throughout the year has served to strengthen significantly the Aviation Services Division. No other company in this market can offer such an extensive range of services.

In February, the Group purchased Oxford Aviation for £55.4 million, followed by Osprey Aviation in March for £2.5 million and the Lynton Group in July for US\$55 million (£36.5 million). These acquisitions expanded the geographical presence of BBA's Aviation Services Division in Europe and also added pilot training to BBA's growing range of services. We have also agreed to buy a 15 per cent stake in the Brazilian company Lider, and in November we agreed to buy the Florida-based aviation services company ASIG for US\$152 million (£106.2 million). This latter transaction has not yet been completed pending regulatory approvals and the resolution of certain pre-closing contractual conditions.

In February 2001, the Group completed a series of acquisition and alliance agreements with Gulfstream Aerospace Corporation. The agreements included the sale of our regional maintenance centre airframe and avionics service business to Gulfstream, the acquisition of their engine overhaul and repair business and a strategic marketing and product support arrangement. The net consideration payable to Gulfstream was US\$43 million (£29.5 million) for incremental turnover of £20 million.

Taken together, these transactions extend the range of services we offer and the geographical coverage of our network, as well as enabling us to expand our customer base.

Snow Filtration of Ohio was added to the Materials Technology Division in June, for US\$30.7 million (£20.3 million), which together with our acquisition of the outstanding stake in AQF, reinforces our position in the growing filtration market.

The disposal of the Automotive Friction business in August for £389 million was a major turning point for the Group. While the business continued to perform well during the first half of the year, the Board decided that shareholder value would be maximised by realising the value created and re-deploying the proceeds in the two remaining businesses.

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### Change of Sector

The Automotive Friction sale completed BBA's transition from a diversified industrial and engineering group to the focused company it is today. It also prompted a change in our Stock Exchange classification – from the engineering to the transport sector.

## **Board and Management**

In September, we announced that Roberto Quarta had decided to step down as Group Chief Executive with effect from 1 March 2001 to pursue a career in private equity. Since that time he has been acting as Deputy Chairman. He will take over from me as Chairman following the AGM in April 2001. I have been a member of the Board of BBA since 1986, and Chairman since 1989.

At the same time, we announced that Roy McGlone would succeed Roberto as Group Chief Executive. In the meantime, Roy has been acting as Deputy Group Chief Executive.

We have appointed Andrew Wood as our new Group Finance Director with effect from 1 January 2001. Andrew was previously Finance Director at Racal Electronics.

In May, another hugely experienced senior executive, Bob Phillips, joined our team of non-executives. Bob is an American who was a main Board director of Unilever plc and Chairman of the Board of Unilever's North American Committee. His wide-ranging expertise will add considerable value to the work of the BBA Board.

Other significant management changes have seen the appointment of Bruce Van Allen as head of BBA Aviation Services in North America, and Peter Whitehead to a similar role in Europe. In Materials Technology, Fred Crowe and Dean Gaskins are, respectively, now running our North American hygiene and worldwide industrial businesses. In Europe, Gianluigi Fornoni is now responsible for our hygiene businesses. Peter Kociemba remains responsible for the Asia Pacific region and all our joint venture initiatives.

## **People**

Given the amount of change that we have experienced during the past 12 months, I must pay tribute to the contribution made by all of our employees in what I recognise as being another taxing year.

Continuous change has become part of modern business life and, in the search for excellence, we must recognise how much we ask of those who work for us.

We are fortunate to have a committed and talented team and we thank them for all their efforts.

## **Outlook**

The disposal of the Automotive Friction business and the changes to the Board signal a new phase in the evolution of BBA. Our two divisions, Aviation Services and Materials Technology, are well positioned in markets which offer real scope for further global expansion.

As we enter 2001, Aviation Services continues its forward momentum. However, it will be a challenging year for Materials Technology, particularly the first half. We have taken decisive action to significantly improve productivity in this division and as the year progresses the benefits of these actions will start to come through.

Our market leading positions and the actions already in hand will place BBA in a strong position in the challenging economic environment we face in the year ahead.

## **Vanni Treves**

Chairman

## Financial Results

Group turnover on continuing operations increased by 22 per cent from £1,094 million to £1,337 million. Excluding the impact of acquisitions, disposals and currency, underlying organic growth for continuing operations was 6 per cent.

On continuing operations, operating profit, before goodwill amortisation and exceptional items, was £186.9 million, an increase of 13 per cent on 1999. Operating margins on continuing operations were 14.0 per cent (1999: 15.1 per cent) reflecting higher raw material costs and the impact of acquisitions coming into the Group at lower than average margins.

In Aviation Services, turnover on continuing operations increased by 35 per cent to £782.8 million and operating profit by 25 per cent to £98.6 million. This significant improvement to operating performance was primarily achieved by continued organic growth of 8 per cent and the acquisitions made during 2000.

In Materials Technology, turnover from continuing operations grew by 8 per cent of which organic growth accounted for some 4.5 per cent. Operating margins were slightly lower than last year at 15.9 per cent (1999: 16.7 per cent) due to difficult market conditions, particularly in the United States during the second half of the year, and higher raw material costs.

Net cash inflow from continuing operating activities at £186 million (1999: £179 million) was 4 per cent higher than last year.

Capital expenditure increased by 19 per cent to £178 million of which £156 million related to continuing operations. As a number of large projects came to an end we anticipate the level of capital expenditure will reduce in the current and future years resulting in a significant improvement to the free cashflow of the Group.

Net debt was £483 million (1999: £432 million). Net debt, after deducting the Loan Notes of £116.4 million received as part of the sale proceeds for the Automotive Friction business, was £367 million (1999: £432 million). Interest cover was 7 times.

## Strategy and Corporate Developments

The sale, in August, of our Automotive Friction business for £389 million marked our exit from the automotive market, and completed BBA's transition, started in 1994, from a diversified industrial and engineering group to an Aviation Services and Materials Technology group with both the management focus and financial resources to pursue strategic opportunities.

In Aviation Services we have a market leading business – no one provides the same unique network of services that we do.

This is a business that has grown 35 per cent in the past year alone and we see opportunities to grow further: geographically; in both the corporate and commercial sectors; and through the addition of new services.

The Aviation Services Division is predominantly North American and we said last year that we wished to expand geographically in order to build a global business, looking initially at Europe and Latin America.

To this end, we have committed £247 million on extending the presence of our network. This has included the acquisition, in February, of Oxford Aviation, followed by Osprey Aviation (at Southampton International Airport) in March and the Lynton Group in July. These brought with them additional Fixed Base Operations (FBOs) in the UK and the United States – including Europe's number one FBO at London Luton Airport – together with further maintenance facilities and, at Oxford, a pilot training capability.

These acquisitions have been grouped together with our existing European aviation businesses – APPH (which specialises in hydraulics and landing gear), the H+S engine overhaul business and our FBO in Paris (Le Bourget) – under one management as BBA Aviation Europe. We are now looking to continental Europe to grow further, to build a pan-European aviation network similar to that which we have already built in North America.

The Oxford acquisition also brought with it a new service to add to our portfolio: pilot training. Pilot and aviation training is a fast growing market in which we wish to expand.

A further milestone along the road to globalisation of the Aviation Services Division, was our announcement, in August, of an agreement to purchase a 15 per cent stake in the Brazilian company Lider, with an option to increase our holding to up to 50 per cent over the next 18 months. Lider is a major FBO and maintenance provider in Latin America and operates 8 bases in Brazil.

The other major step in the strategic development of Aviation Services over the past 12 months was the agreement, signed in November, to acquire the Florida-based company ASIG for US\$152 million (£106.2 million). This transaction has not yet been completed pending regulatory approvals and the resolution of certain pre-closing contractual conditions.

In February 2001, we entered into a strategic alliance with Gulfstream Aerospace Corporation. This includes the purchase by BBA of Gulfstream's engine repair and overhaul business, which will become part of our Dallas Airmotive operation, and the sale to Gulfstream of Regional Maintenance Centres (RMC's) in four US cities – though the alliance means that these RMC services will continue to be available to our customers. The net cost of these transactions to BBA was US\$43 million (£29.5 million).

Furthermore, our development of a new e-business trade channel, will enable BBA Aviation Services in the United States to offer the benefits of our 'One-Stop Shop' concept more widely. The first phase of this new service will be launched in April and enables our customers to plan their trips online.

During the year, the management structure was refocused. Bruce Van Allen, who previously ran Signature, now runs all of BBA Aviation North America. Peter Whitehead, who ran the Aviation Products business, now runs BBA Aviation Europe, and David McRobert runs the pilot training business.

In Materials Technology, we continued to invest selectively in growing new technologies and in geographical expansion, looking for opportunities in areas such as filtration, medical and niche industrial markets.

During the year, new lines came successfully on stream in Italy, Sweden and France. We also increased our stake in our joint ventures at Linotec in Germany, South Africa and Thailand. Our new facility in China is on schedule for mid-2001 pre-production trials.

Snow Filtration, which is based in Ohio, was acquired in June. It develops and supplies a wide range of filtration materials including products for the air and liquid filtration markets. We also acquired the majority outstanding shares in AQF, where we already had a 15 per cent stake. AQF produces high technology filtration media.

These businesses were integrated with our core filtration business in Reemay to form the BBA Filtration business unit, with filtration

sales now amounting to around US\$80 million a year. We are looking to grow this business segment further by organic investment and bolt-on acquisitions. While the majority of the filtration business is currently in the United States, we are also looking to expand in Europe.

In February 2001, we announced a ground breaking development in the nonwovens industry. BBA and Dow Chemical entered into a joint venture which will combine Dow polymer and BBA process expertise to develop new, cost effective nonwoven products for the market place. This will enable us to further differentiate our nonwovens business through technology.

During 2000, the structure of the Nonwovens business was further refined to focus on the different needs of the Industrial and Hygiene sectors.

Global Industrial and Global Hygiene businesses were created with their own dedicated sales and marketing teams and R & D support. The Global Industrial business is headed by Dean Gaskins, who joined us in October 2000 and is based at our Reemay facility in Nashville, Tennessee. This business includes Reemay, the industrial activities of the Veratec companies in the United States, Bidim in Brazil, Terram in the UK and the European Industrial businesses in Germany. The products of these businesses are also sold through our Asia Pacific operations.

The Global Hygiene business combines Hygiene North America, headed by Fred Crowe, Hygiene Europe, headed by Gianluigi Fornoni and Hygiene Asia Pacific and the joint ventures under Peter Kociemba.

## **Trading**

The aviation services market has remained buoyant, helped by the continued rapid growth in fractional ownership of corporate aircraft in the United States and increasingly in Europe.

Sales and operating profits in the division rose substantially over the year – up 35 and 25 per cent respectively on continuing operations. Organic growth accounted for approximately 8 per cent of the sales growth with the remainder coming from acquisitions made over the past two years. This growth – in both the corporate and commercial networks – has been achieved in spite of very significant fuel price increases during the year. Nonetheless, operating margins on continuing operations held up well at 12.6 per cent. Acquisitions made during 2000 have been integrated and we look forward to their returns rising to the average for the Division.

Following the sale of the Automotive Friction business, the year 2000 was one of challenges for the Materials Technology Division, which saw unprecedented rises in the cost of some of the raw materials we use – particularly polypropylene, which increased in price by approximately 50 per cent over the year. Some of these increases we passed on to our customers, others we absorbed. In spite of this, we showed sales growth of 8 per cent and operating margins holding up at 15.9 per cent.

During the year, we continued to be capacity constrained in Europe, though this will ease going forward as the new lines in Italy, Sweden and France started production towards the end of the year.

In North America, we completed the amalgamation of the industrial businesses, and have integrated Veratec with Reemay under one management. In the current year our US\$50 million (£32 million) investment in a new feminine hygiene plant in Tianjin in China will come on stream and we will use it as a base to continue our expansion into the fast growing markets of China and the Asia Pacific region.

In the second half of 2000, we saw a progressive weakening of demand in some of our US nonwovens markets due to customer de-stocking and some pricing pressure in the lower end of the hygiene market and this has continued into the early part of 2001. In Europe, demand remained strong and our new technology lines will increase sales in this market in 2001.

Over the last three years, we have consolidated our nonwovens markets and invested in new technologies. On the back of these developments, we have undertaken a thorough review of all our operations and, as a result, we have launched a major productivity programme, to be known as Project Excel.

Over the next 18 months, we are taking action to reduce operating costs by £20 million per annum. To achieve these savings there will be an exceptional charge in 2001 of some £25 million.

Looking forward, these productivity initiatives should underpin our competitive position and our financial performance.

## **Board**

Vanni Treves has been a member of the Board of BBA since 1986, and Chairman since 1989. He will be retiring from the Board following the AGM in April 2001. I would like to thank him for his contribution and support over this period.

## **Prospects for 2001**

Against the background of an uncertain world economic environment we will continue to look to grow both businesses this year.

Following the activity of the past few months, we now need to successfully integrate the engine overhaul business acquired from Gulfstream into our Aviation Services Division. We will also grow our European and South American portfolios and will look to build on and extend our alliances with strategic partners in the industry.

Our joint venture with Dow Chemical, the opening of our new Chinese plant and the development of our filtration and industrial businesses are the key tasks for the Materials Technology Division whilst driving through our productivity and efficiency programme.

Both of our businesses are market leaders. We have critical mass, are financially strong and our markets have good underlying growth. We will continue to expand: organically, by selective acquisition and through strategic alliances.

## **Roy McGlone**

Group Chief Executive

In 2000, BBA's continuing operations grew strongly with turnover up by 22 per cent to £1,337 million and operating profit up 13 per cent to £186.9 million.

The increase in turnover and operating profit was largely concentrated in the Aviation Services Division. Turnover increased by 35 per cent to £783 million and operating profit by 25 per cent to £98.6 million. This significant improvement to operating performance was achieved by continued organic growth, a series of acquisitions including Oxford Aviation, the Lynton Group and Osprey Aviation, and the beneficial effect of movement in exchange rates. These acquisitions, which are located mostly in the United Kingdom, expanded the geographic presence of BBA's Aviation Services Division in Europe and also added pilot training to BBA's growing range of services. Operating margins reduced to 12.6 per cent from 13.6 per cent last year due to the effect of higher fuel prices, largely passed on to customers, and the lower margins of acquisitions made during the year. It is anticipated that the margins of these newly acquired businesses will improve as they are integrated into the Group.

In Materials Technology turnover grew by 8 per cent. Operating margins were lower than last year at 15.9 per cent (1999: 16.7 per cent) due to difficult market conditions, particularly in the United States during the second half of the year, and higher raw material costs.

The disposal of the Automotive Friction business in August was a major turning point for the Group and prompted the reclassification in our Stock Exchange listing from the engineering to the transport sector. The results of the Automotive Friction business have been classified as discontinued together with the start up losses of the Regional Maintenance Centres which were sold to Gulfstream in February 2001.

There are two exceptional items in the profit and loss account for 2000. First, an exceptional gain of £137.3 million mostly reflecting the profit on disposal of the Automotive Friction business, after a goodwill writeback of £2.4 million. The second exceptional charge of £7.8 million relates to the restructuring of the Group's Industrial Nonwovens business in the United States and integration costs associated with the businesses acquired in the Aviation Services Division.

### Financial Reporting Standards

The Group's accounts have been prepared in accordance with all applicable accounting standards which for 2000 has included the adoption of one new standard, Financial Reporting Standard No. 16: Current tax. There has been no material impact on the financial statements as a result of adopting this new standard for this year end.

### Cashflows, Cash and Debt

Operating cash flow from continuing operating activities increased 4 per cent over 1999 to £185.7 million. On discontinued operations there was a cash outflow on operating activities of £30.9 million compared to an inflow in 1999 of £37.6 million with the current year being affected by a build up in working capital in the Automotive Friction business prior to disposal. This increase in working capital in our discontinued businesses accounted for £58.0 million of the overall cash outflow on working capital of £101.8 million. For continuing operations, the average trade working capital to sales ratio remained unchanged at 20 per cent. Capital expenditure for 2000 increased to £178 million which represents approximately 2.6 times depreciation. Almost 50 per cent of the capital expenditure in the year was financed from free cash flow with the balance coming from proceeds received in respect of the disposal of operations. The level of capital expenditure in 2001 is expected to decrease significantly as compared to 2000 reflecting the Automotive Friction business disposal and the completion of a number of large projects in the two remaining divisions.

Net debt at the end of the year decreased to £367 million (after deducting the Loan Notes of £116 million received as part of the sale proceeds of £389 million for the Automotive Friction business). There was a net receipt from business disposal and acquisition activity of £189.1 million (1999: net payment of £144.1 million). Interest cover remained healthy at 7 times. A profile of the Group's net debt by currency is shown on Table 1.

TABLE 1 – (DEBT)/CASH PROFILE (as at 31 December 2000)\*

	£m
United Kingdom	127
United States	(432)
Euros	(134)
Others	(44)
	(483)

\*INCLUDING IMPACT OF CURRENCY SWAPS

Subsequent to the year end, the Group exercised an option to purchase manufacturing facilities at Reemay which had previously been financed by means of an operating lease. The exercise of the option will require us to reclassify the lease as a finance lease in 2001. This will bring the asset onto the balance sheet and increase debt levels due to the introduction of a finance lease obligation of £44 million. Interest payments will be increased by £3 million although at the pre-tax level the effect will be broadly neutral. The final payment of up to £38 million will not be made until January 2002.

During the year, the Group completed a £550 million syndicated bank facility with a five-year term. The facility is for general corporate purposes, including acquisitions, and was also used to replace £185 million of three-year bilateral bank facilities taken out in 1998 and which have now been cancelled. This new facility adds to the Group's existing syndicated facilities of £125 million and £300 million which are committed to 2002 and 2003, respectively.

The Group's policy with respect to cash deposits is to only have deposits with pre-approved banks with credit ratings of A1/P1 and with limits on the amount deposited with each institution. Deposits are generally for short-term maturity (i.e. less than three months).

#### Financial Risk Management and Treasury Policies

The main financial risks of the Group relate to funding and liquidity, interest rate fluctuations and currency exposures. The management of these risks is performed by a central Treasury department that reports directly to me and operates according to objectives, policies and authorities approved by the Board. The overall policy objective is to use financial instruments to raise finance and manage financial risks arising from the underlying business activities and therefore the Group does not undertake speculative transactions for which there is no underlying financial exposure.

**Funding and liquidity:** the Group's operations are financed by a combination of retained profits, equity and borrowings. Borrowings are generally raised at Group level from banks and then lent on to operating subsidiaries on commercial terms. The Group maintains sufficient available committed borrowing facilities to meet any forecasted funding requirements. At the end of 2000, the Group had committed bank facilities of £1,010 million of which £554 million was undrawn. In addition, the Group maintains uncommitted facilities for daily working capital fluctuation purposes. At the end of 2000 the undrawn amount of these uncommitted facilities totalled £28 million.

**Interest rate risk management:** the interest rate exposure arising from the Group's borrowing and deposit activity is managed by using a combination of fixed and variable rate debt instruments and interest rate swaps. The Group's policy with respect to interest rates is to fix portions of debt for varying periods based upon our debt maturity profile and an assessment of interest rate trends. At the end of 2000, approximately 46 per cent of the Group's borrowings were fixed at weighted average interest rates of 6.4 per cent for varying terms up to 5 years.

**Currency risk management:** the Group's policy is to hedge all significant transactional currency exposures through the use of forward currency contracts. It is also the Group's policy to hedge overseas capital employed, including recognised goodwill, between 50 and 85 per cent by means of currency loans and currency swaps.

#### Currency Exchange Rates

During the year the Pound strengthened against the Euro but weakened against the US Dollar. The impact of translating the currency earnings into Sterling for continuing operations was to increase turnover and operating profits by some 4 per cent in 2000 compared to 1999.

At the pre tax profit level the impact was not material due to the unfavourable effect of exchange rate movements on both discontinued operations and interest payments. Currency exchange rates are shown on Table 2.

**TABLE 2 – CURRENCY EXCHANGE RATES**

	2000 Average	2000 Year end	1999 Average	1999 Year end
USD	1.52	1.49	1.62	1.62
DEM	3.21	3.11	2.97	3.13
FRF	10.78	10.44	9.96	10.49
Euro	1.64	1.59	1.52	1.60
SEK	13.94	14.09	13.42	13.70

#### Dividends

The Board has recommended a final dividend of 7.0 pence per ordinary share, an increase of 4 per cent over the previous year. The total dividends for the year are therefore 10.1 pence per ordinary share, an increase of 5 per cent on the prior year. Dividend cover was good at 5 times.

#### Taxation

The underlying effective tax rate on continuing operations (before goodwill amortisation and exceptional items) for 2000 was 27 per cent compared to 29 per cent in 1999.

#### Andrew Wood

Group Finance Director