

RESULTS

GROUP FINANCIALS 2001
STRENGTH THROUGH ACTION



£m (other than percentages and per share amounts in pence)	2001	2000	change %
Turnover			
Total	1,367.3	1,563.8	(13)
Continuing operations	1,335.8	1,291.2	3
Operating profit*			
Total	151.5	200.7	(25)
Continuing operations	154.2	182.4	(15)
Discontinued operations	(2.7)	18.3	
Operating margin*			
Total	11.1%	12.8%	
Continuing operations	11.5%	14.1%	
Net interest	(30.0)	(30.2)	
Profit before tax, goodwill amortisation and exceptional items	121.5	170.5	(29)
Exceptional items (net)**	(67.9)	129.5	
Goodwill amortisation	(19.0)	(13.1)	
Profit before tax	34.6	286.9	(88)
Earnings per ordinary share			
Basic			
Total:			
Before goodwill amortisation and exceptional items	19.1p	28.1p	(32)
Unadjusted	3.5p	50.7p	(93)
Continuing operations***:			
Before goodwill amortisation and exceptional items	19.6p	28.0p	(30)
Dividends per ordinary share	10.1p	10.1p	-
Net cash inflow from continuing operating activities*	188.1	178.7	5
Free cash inflow/(outflow)*****	51.7	(41.1)	
Net borrowings****	548.0	366.7	
Gearing (net debt to shareholders' funds)	69%	47%	
Interest cover (continuing operations)*	5x	6x	

* BEFORE GOODWILL AMORTISATION AND EXCEPTIONAL ITEMS

** AFTER GOODWILL WRITE-BACK OF £14.5M (2000: £2.4M)

*** 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 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.

**** PRIOR YEAR AFTER DEDUCTING £116.4M OF LOAN NOTES RECEIVABLE ON THE DISPOSAL OF THE AUTOMOTIVE FRICTION BUSINESS.

***** OPERATING CASH FLOW FROM CONTINUING OPERATING ACTIVITIES BEFORE EXCEPTIONAL ITEMS LESS TAX, INTEREST, PREFERENCE DIVIDENDS AND CAPITAL EXPENDITURE ON TANGIBLE FIXED ASSETS.

In 2001 we continued to move forward, and delivered sound results. We achieved growth in the business, improved productivity, and made some strategically important changes that leave the Group stronger, better positioned and even more focused at the year end than at the beginning. This was achieved despite worldwide economic uncertainty throughout the year, high fuel and raw material prices in our business sectors, and the wholly unpredictable impact of 11 September.

Financial Results

Group turnover on continuing operations increased by 3 per cent from £1.29 billion to £1.34 billion. Excluding the impact of acquisitions, disposals and currency, underlying sales reduced by approximately 1 per cent.

On continuing operations, operating profit, before goodwill amortisation and exceptional items was £154 million, a fall of 15 per cent on 2000. However, operating margins on continuing operations remained strong, at 11.5 per cent (2000: 14.1 per cent), as a result of actions we have taken.

In Aviation Services, turnover on continuing operations increased by 7 per cent to £820 million whilst operating profit reduced by 10 per cent to £87 million.

Trading was badly impacted by the events of 11 September, following which all US airspace was closed for several days. We estimate that the overall effect of this tragic event was to reduce sales by some £30 million, and operating profit by £10 million. The immediate loss caused by the airspace closure was a further £4 million, and this has been shown as an exceptional item.

In Materials Technology, turnover from continuing operations reduced by 2 per cent. Operating margins were lower than last year at 13.1 per cent (2000: 16.5 per cent) due in particular to difficult market conditions in the United States.

Cash flows in the Group were excellent and our balance sheet is strong. There was a free cash inflow of £52 million compared to an outflow of £41 million last year. Capital expenditure fell by 45 per cent to £98 million, and, as a number of large projects have now come to an end, we expect to maintain capital expenditure at this lower level. As a result, we should see a continuing improvement to the free cash flow of the Group.

Net debt was £548 million (2000: £367 million). Interest costs were £30.0 million (2000: £30.2 million) and interest cover on continuing operations before goodwill amortisation and exceptional items was 5 times (2000: 6 times).

Dividends

The Board recommends a final dividend of 7 pence (2000: 7 pence) payable on 24 May 2002 to shareholders on the register at 22 March 2002. Adding the 2001 interim dividend of 3.1 pence, which was paid on 16 November 2001, the total dividends for the year will be 10.1 pence, leaving the dividend for the year the same as 2000.

Acquisitions and Disposals

During the year we spent £177 million on acquisitions and generated £29 million from disposals. The largest acquisition was ASIG for £97 million in July 2001 which has transformed the commercial aviation business doubling our annual sales and taking the Group into the top four in the world in this sector.

Much of the investment activity in the Materials Technology division has involved the opening of new production lines – in China and in previously capacity-constrained areas – while simultaneously closing older, and less efficient lines.

Board and Management

As we had announced in September 2000, I became Deputy Chairman in March 2001 and at the same time stepped down as Group Chief Executive – to be replaced by Roy McGlone. Then, following the AGM in April, I assumed the Group chairmanship from Vanni Treves. Vanni became a member of the board in 1986 and Chairman in 1989. I would like to thank him for his contribution and support over this lengthy period.

On 1 January 2001, Andrew Wood took up his previously announced position as Group Finance Director, joining from Racal Electronics where he had held the same position for five years.

Ross McMillan was appointed, on 1 June 2001, to succeed George Cartwright as Chief Executive of the Materials Technology division. Ross was previously President of INEOS Acrylics Inc, and was a 2001 board member of INEOS Acrylics. Prior to that he was President and CEO of ICI Acrylics Inc.

On 12 March 2002 we announced the proposed appointment to the board of Bruce Van Allen, President and CEO of Aviation North America with effect from the Company's annual general meeting on 3 May 2002. His background includes more than 29 years of management experience in the business and commercial aviation service industry, including most recently as President and CEO of Signature.

In Aviation Services, Jim Donlan joined BBA in August as President and Chief Executive of Dallas Airmotive, after a 22-year career with Honeywell and Allied Signal. He had most recently served as Vice President Sales & Support, Business and General Aviation for Honeywell's Commercial Aerospace unit.

In Materials Technology, Bob Britton was appointed President, North America Hygiene at the beginning of March 2002. He joined from Kimberly Clark, where he was most recently President, World Support.

Finally, George Cartwright has announced that he intends to retire in July 2002 after 17 years service with the Group. George has made a significant contribution to BBA over many years and we all wish him well in his retirement.

People

This has been another year in which we have asked a great deal of those who work for the Group. Costs have been cut, productivity increased, and changes made. These all have a human impact that we must not forget.

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

Outlook

The initiatives that we put in place and the acquisitions and alliances that we made during 2001, mean that we are well placed to benefit from a meaningful recovery in our markets when it arrives – as it will.

In 2002, we are not anticipating any major recoveries in our underlying markets. However, we should benefit from cost reduction programmes already in place, a more benign raw materials outlook and some improvement in demand as the year progresses. We also see opportunities to carry on winning new business and growing through further acquisitions and alliances.

We believe that with the markets we serve and our position in those markets, the outlook for 2002 and beyond remains encouraging.

Roberto Quarta

Chairman

Few expected 2001 to be a vintage year, though no-one could have predicted quite how challenging it would be.

Yet well before 11 September – the day we made our interim statement – the US economy was continuing to weaken, Europe was at best uneven and market conditions in much of the rest of the world were poor.

Against this background, we achieved overall growth of about 3 per cent in the Group's revenues.

While profitability has been affected both by events and by the global economic climate, margins remain strong, particularly in comparison with our competitors.

We took prompt pre-emptive action, aggressively addressing our cost base, strengthening the management in a number of areas and making strategic acquisitions in aviation.

This puts us in an excellent position to emerge from this current period of uncertainty with a much stronger business and market position.

Strategy and Corporate Developments

Aviation Services

Our Aviation Services business performed well in difficult market conditions which were further impacted by 11 September. Over the full year, underlying revenues were flat in a generally softer market. We have made a number of strategic acquisitions, have won important new contracts, have exited non-core markets and we took decisive action to reduce costs following 11 September.

The US engine overhaul business continued to perform satisfactorily. In corporate FBO services, growth from the fractional ownership operators offset reductions in other areas.

Europe grew well at around 4 per cent, with good performance in FBO services, engine overhaul and landing gear.

We are looking to continue growing the aviation business inside and outside North America to make it a more global business.

In the growth market of South America, for example, we completed the acquisition of a 15 per cent stake in the Brazilian company Lider, with an option to increase it to 50 per cent. This has given us a stake in nine Brazilian flight support operations. Dallas Airmotive has received a commitment for 18 engines for overhaul as a consequence.

In commercial aviation we completed the acquisition of Aircraft Service International Group (ASIG) in July for \$138 million (£97.1 million). This Florida-based company provides airport services at around 60 locations in America and Europe. It is one of the top brands in the sector with sales last year of around \$160 million. While volumes have fallen as result of 11 September, our profit improvement plan is on track through an increase in margins and a reduction in costs.

This acquisition doubles our annual sales in commercial aviation to around £200 million and takes us into the top four independent suppliers in the world. We have consolidated all our commercial aviation business under the ASIG brand, with 93 airport locations worldwide. The integration of ASIG into BBA is proceeding well and our original profit improvement targets are being met.

ASIG gives us a platform for further selective expansion in this fragmented market, which has good long-term growth prospects.

In February we strengthened our engine overhaul business by acquiring Gulfstream's operations. We also signed a strategic marketing alliance with Gulfstream to jointly market our services. And in July we bought the Barrett Turbine Engine Company for \$28 million (£19.8 million). Barrett, based in Augusta, Georgia, is a leading aftermarket supplier of serviceable engine parts.

In the corporate Fixed Base Operation (FBO) market, where our Signature brand is already the world's number one, we bought Priester Aviation in Chicago for \$16 million (£11 million). Revenues are around \$14 million and we expect to generate high double-digit margins from this business.

We signed a deal with the world's largest fractional ownership company Executive Jet (Net Jets) in July, to supply fuel exclusively at all locations where Signature is present. Net Jets are already our largest customer, and will provide us with additional engine work through Dallas Airmotive.

This important business win will generate incremental sales in 2002 of between \$15 million and \$20 million. It shows how we can leverage on our market-leading position and deliver genuine synergies across our network of services, creating value by working closer with our customers.

Also during the year we exited non-core areas of our aviation business. In February 2001, for example, we sold our loss-making regional maintenance centres to Gulfstream, and in June our speciality canopies business, Texstars, to American Capital Strategies for \$24 million (£16.9 million).

Materials Technology

During the last quarter of 2000, we launched a major productivity initiative – Project Excel – the impact of which is already coming through in significant profit and margin improvements.

The two-year Excel programme is proceeding according to plan. It will reduce our cost base by £20 million per annum by the end of 2002. It involves closing nine old lines in Europe and North America, and reducing headcount by around 20 per cent.

The reductions are on track, and the project has been extended to include the closure of more non-strategic capacity in the USA.

This has resulted in an exceptional cost of £36 million in 2001 with a further £6 million forecast for 2002.

We have a very strong market position, being the world number one in hygiene products and number two in nonwovens overall. We have an unequalled breadth of technologies and R&D capabilities, and have been leveraging our market strength to win new business and create value.

We have won \$12 million per year in new business with various customers in the rapidly growing speciality wipes market, and during 2002 will make a significant investment in a project – backed by customer contracts – to produce babywipes in the USA.

In Europe, we are growing our medical business with contracts worth some €12.8 million (£7.9 million) per year with a leading manufacturer and mid-year we renewed our highly successful Finotech joint venture contract for a further three years. We have identified some specific products that we are looking to develop within our joint venture with Dow; and won significant new business with a premium brand hygiene customer which we hope to be able to grow further.

In 2001 we signed a collaboration agreement with a major customer, setting out the mechanics of how we will help them develop new products, quickly into their markets, working with them right from the start of the development process.

During the past 18 months we have brought on new lines, primarily in Europe where we had been capacity constrained at the end of the market. All our new European lines are now up and running. Sweden and Italy are currently fully loaded, and France is approaching full capacity.

In September we opened, on schedule, our \$50 million (£35 million) femcare plant at Tianjin in China. Production will be ramping up during 2002, and the plant, which will be selling into the Chinese domestic market and exporting throughout Asia/Pacific, offers good long-term prospects.

Trading

Aviation Services

Turnover on continuing operations grew by 7 per cent to £820 million whilst operating profit reduced by 10 per cent to £87 million.

Signature again delivered strong financial results while continuing to provide an outstanding level of service to its customers. It continues to be the FBO chain of choice for pilots. The Signature base at London Luton, for example, was again voted the best in Europe.

However, the terrorist attack on 11 September resulted in the closure of US airspace for several days, which affected both our corporate and commercial businesses. Since the airspace re-opened, we have experienced varying levels of operational restriction at Newark, La Guardia, Chicago and Washington National airports. The one-off impact of the closure on operating profits for 2001 is £4 million, and this has been shown as an operating exceptional item in these accounts.

We estimate that the impact of 11 September on our US Aviation Services was a reduction of £30 million in sales and £10 million in operating profits.

Revenue in the US commercial aviation business has fallen by around 15 per cent since 11 September. In response, we have cut costs, reducing the workforce by 15 per cent. However, volumes in business aviation are recovering to former levels and we expect them to grow as the year progresses.

Although 11 September had no material impact on trading in Europe, security arrangements have been tightened at all our bases. On a worldwide basis, this has increased operating costs by around £6 million in a full year.

We are confident, however, that barring any further exceptional circumstances, we should see good growth in our aviation business in 2002.

Materials Technology

Turnover in the division declined by 2 per cent to £515.6 million (2000: £525.3 million). The fall in the US – where demand levels have now stabilised – was partially offset by growth in the European hygiene market. The US hygiene business however was impacted at the lower end by new entrants to the market.

During 2000, we experienced unprecedented increases in raw material prices, particularly of polypropylene which rose by more than 50 per cent. Material prices are now reducing in the US and Europe.

Our joint venture companies, particularly Finotech, continued to perform strongly.

In spite of market conditions, we produced operating margins of 13.1 per cent – substantially better than our competitors – as a result of proactive management action, with the second half showing improvements over the first.

Becorit, our rail braking products business in Germany, continued to perform well.

Prospects for 2002

2001 was a difficult year for virtually everyone – including BBA. Yet despite the challenges we encountered, we have entered 2002 in good shape.

Materials Technology should see the benefits of Project Excel coming through and we expect a more benign raw materials environment than we encountered in 2000 and 2001. We anticipate that there will be some improvement in demand during 2002, although this will be weighted to the second half.

In Aviation Services we anticipate recovery in both corporate and commercial services from the levels of the fourth quarter of 2001 as we go through the year – though more in the second half than the first – and we will see a full year's benefit of the acquisitions made last year. We will also continue to expand our market position through acquisitions and alliances both in North America and the rest of the world. We are confident, barring any further exceptional circumstances, that we should see good growth in our aviation business in 2002.

BBA has two high quality businesses which have long-term growth potential, and which are world leaders in their markets. We anticipate growth in both our businesses in a gradually improving market environment. We are focussed on improving margins and continuing to deliver strong cash flows.

Roy McGlone

Group Chief Executive

Group turnover on continuing operations increased by 3 per cent to £1,336 million (2000: £1,291 million). Overall underlying organic growth, adjusting for acquisitions, disposals and currency, declined by 1 per cent.

Operating profit from continuing operations before goodwill amortisation and exceptional items decreased 15 per cent to £154.2 million (2000: £182.4 million). Operating margins on continuing operations were 11.5 per cent (2000: 14.1 per cent), with the reduction from the prior year reflecting lower margins in Materials Technology, the effect of acquisitions and September 11.

Earnings before interest, taxation, depreciation, amortisation and exceptional items (EBITDA) for continuing operations were £222.6 million, 7 per cent lower than the prior period (2000: £239.3 million).

In the Aviation Services Division, turnover increased by 7 per cent to £820.2 million whilst operating profit reduced by 10 per cent to £86.6 million. Operating margins reduced to 10.6 per cent from 12.5 per cent with approximately 1 per cent of the reduction being due to September 11 and the balance by 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 was relatively unchanged at £515.6 million (2000: £525.3 million). Operating margins reduced to 13.1 per cent from 16.5 per cent last year due to volume reductions in the Industrial sector and pricing pressure at the low end of the Hygiene business. Margins in the second half of the year at 13.6 per cent showed an improvement after the first half at 12.5 per cent as the benefits of Excel started to come through.

The results of discontinued operations include Textstars and the Regional Maintenance Centres, which were sold earlier in the year and also Lewisburg, an industrial nonwovens business, which was closed in March 2002.

Operating exceptional items this year amount to £46.4 million compared to £7.8 million in 2000. This year's charge includes £35.7 million in respect of Project Excel, £3.7 million of losses related to the airspace closure and £7.0 million associated with the restructuring of the Aviation business. Included in the Excel charge is £19.5 million in respect of the write-down of non-strategic assets which have been, or are planned to be, taken out of production.

The other exceptional charge of £21.5 million relates to losses incurred on the disposal or closure of businesses. This includes a £12.2 million charge in respect of the disposal of Textstars and the RMC's (including goodwill write off of £14.5 million), a £16.0 million charge due to the closure of the nonwovens Lewisburg site and a credit of £6.7 million relating to the release of provisions made on the disposal of the Friction business, which are no longer required.

Interest charges in 2001 amounted to £30.0 million (2000: £30.2 million) and interest cover on continuing operations before goodwill amortisation and all exceptional items was 5 times (2000: 6 times).

The effective tax rate on normalised profits was 26 per cent (2000: 28 per cent). In 2002, the Group will implement FRS19: 'Deferred Tax'. If this new standard had been adopted in 2001 the effective tax rate would have been approximately 3 per cent higher.

Group profit before tax was £34.6 million (2000: £286.9 million) with the reduction mostly reflecting the lower contribution from discontinued businesses and the significant change to exceptional items, which in 2000 were a net credit (primarily due to the Friction sale) of £129.5 million compared to a charge of £67.9 million in 2001.

Normalised* pre tax profits were £124.2 million (2000: £152.2 million).

On an adjusted basis, before goodwill amortisation and all exceptional items, earnings per share were 19.1p (2000: 28.1p).

Earnings per share on a continuing basis were 19.6p (2000: 28.0p).

*Continuing operations before goodwill amortisation and all exceptional items

Financial Reporting Standards

The Group's accounts have been prepared in accordance with all applicable accounting standards. The Group has included additional disclosure in relation to its pension schemes in accordance with the requirements of FRS17: 'Retirement Benefits', which will be found in note 23 to the accounts.

Cash Flows, Cash and Debt

We produced strong normalised operating cash flow in the year of £188.1 million compared to £178.7 million in the prior year. Our free cash flow also improved significantly to £51.7 million compared to an outflow of £41.1 million in 2000. Capital expenditure for 2001 decreased significantly to £98 million (2000: £178 million). This represents approximately 1.4 times depreciation (2000: 2.7 times) as the Group emerged from a period of high investment in both businesses. The level of capital expenditure in 2002 is expected to continue at a similar level to 2001.

Net debt at the end of the year increased to £548 million. During December the Group received the proceeds from the £116 million loan note it received as part of the sales proceeds of the Friction business. During the year, the Group exercised an option to purchase manufacturing facilities at Reemay Inc. The final payment in respect of this finance lease was \$44.5 million compared to our previous estimate of \$55 million. The Group spent £177 million on acquisitions during the year and generated £29 million from disposals. A profile of the Group's net debt by currency is shown in Table 1.

Table 1 – (Debt)/Cash Profile (as at 31 December 2001)

	£m
Sterling	203
US Dollars	(601)
Euros	(116)
Others	(34)
Total	(548)

The Group currently has three syndicated facilities for £550 million, £125 million and £300 million. The expiry dates on these facilities are respectively 2005, 2002 and 2003. We currently anticipate that the facility that matures in 2002 will be repaid from the headroom available in the other two facilities.

The Group 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 (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 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 2001 the Group had committed bank facilities of £1,015 million of which £536 million was undrawn. In addition, the Group maintains uncommitted facilities for daily working capital fluctuation purposes. At the end of 2001 the undrawn amount of these uncommitted facilities totalled £26 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 2001, approximately 39 per cent of the Group's borrowings were fixed at weighted average interest rates of 6.4 per cent for varying terms up to 4 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 2001 compared to 2000. At the pre tax profit level the impact was less 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

	2001 Average	2001 Year end	2000 Average	2000 Year end
USD	1.44	1.45	1.52	1.49
EURO	1.62	1.64	1.64	1.59

Dividends

The Board have recommended a final dividend of 7 pence per ordinary share, in line with the previous year. The total dividends for the year are therefore 10.1 pence per ordinary share, the same as the prior year. Dividend cover from continuing operations for the year was 2 times.

Andrew Wood

Group Finance Director