Babcock & Wilcox Annual Report 1976



Financial Highlights

TOTALS	1976	1975
Sales (on percentage of completion method for long-term contracts)	$1,691,800,000	$1,565,000,000
Net income for the year	53,100,000	42,300,000
Cash dividends declared	12,800,000	9,600,000
Orders received	1,589,600,000	1,678,200,000
Unfilled orders	4,125,800,000	4,228,000,000
Expenditures for property, plant and equipment	62,000,000	69,700,000
Depreciation of plant and equipment	32,600,000	27,700,000
Working capital	137,600,000	220,300,000
Stockholders' equity	415,600,000	374,400,000
Number of employees at year end	39,454	40,975
Number of common stockholders at year end	28,345	30,497
Number of common shares issued at year end	12,604,906	12,604,906
PER AVERAGE NUMBER OF SHARES OUTSTANDING		
*Net income for the year	$ 4.37	$ 3.49
Cash dividends declared	1.05	.80
*Stockholders' equity	34.23	30.91

*1976—12,140,867; 1975—12,110,646

The Babcock & Wilcox Company
96th Annual Report for the year
ended December 31, 1976

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George G. Zipf, chairman and president

To our stockholders:

I am pleased to report that for the third successive year B&W earnings and shipments were at record levels. Net income increased 25 percent on an 8 percent increase in shipments, reaching a new high of $53,100,000 or $4.37 per share, as contrasted with $42,300,000 or $3.49 per share in 1975. Shipments were $1,691,800,000 compared with $1,565,000,000 a year ago.

1976 Dividend

The quarterly dividend was increased five cents per share in February 1976 and an additional five cents in November, representing a total increase of 50 percent during the year. The current quarterly dividend is 30 cents per share.

Performance

The record shipments and earnings in 1976 are the result of better performance in our steam generating business and the continued good volume in tubular products, refractories and other units even though some of our markets were depressed during much of the year by the slow recovery from the recession. Reduced interest expense and higher income from investments also contributed to the improvement. Earnings were adversely affected by losses in certain foreign operations and by strikes of various lengths in several company plants. The impact of the strikes was a reduction of approximately 45 cents per share in net income.

The backlog at December 31, 1976 was $4,125,800,000, practically unchanged from that at the end of 1975. Of this, about 32 percent is expected to be shipped in 1977, 46 percent in 1978 through 1980, and 22 percent thereafter. Approximately, 60 percent of the backlog is for fossil fuel steam generating equipment, nuclear fuel and components for the U.S. Navy, refractories and tubular products. The balance is largely commercial nuclear systems and fuel.

Financing

In December 1976 the company's subsidiary, Babcock & Wilcox Canada Ltd., entered, through a private placement, into a U.S. $25,000,000, 9 percent note agreement due December 1, 1996.

Debt was reduced during the year from $247 million to $101 million, a reduction of $146 million. As of December 31, 1976, debt represented 20 percent of total capitalization.

In January 1977 The Babcock & Wilcox Company entered into a $60,000,000, 8½ percent note agreement due January 1, 1997, also through a private placement.

Capital expenditures in 1976 were $62,000,000 and we expect to spend approximately $70,000,000 in 1977.

Tubular products

We had one of our better years in shipments of tubular products, although not up to the record of the two previous years. While orders from the capital goods industries fell off, those for oil well and mechanical tubing continued strong.

The division has completed the new tube mill in Ambridge, Pa., its largest single expansion to date. Representing an investment of more than $60 million, it is among the most modern and efficient facilities of its type in the world.

The cost effectiveness of the Ambridge mill should improve the division's performance at the current volume of business. At the same time, the capacity for producing both mechanical and pressure tubing has been increased by 50 percent, in time to meet expected growth in volume. The new mill also provides a greater range of products which should result in broadening our market coverage.

Another important capital program was begun by the division in its Milwaukee plant. It involves replacement of major components on the larger of its two seamless tube mills and will increase capacity by about 20 percent. Scheduled for completion late in 1978, the $16.4 million project will provide greater flexibility in serving the Midwest markets for specialty steel tubing.

A $3.3 million expansion was made in the Alliance, Ohio tube plant, incorporating a drawbench, heat treating facilities and other finishing equipment. This will enable the division to expand its market coverage for various types of tubes.

While demand for tubular goods in the first half of 1977 is expected to be soft, projections of a stronger economy and resulting larger volume for the remainder of the year indicate continued good performance in 1977. As the nation's economy improves, the Tubular Products division will be in an excellent position to utilize the additional capacity.

Steam generating equipment

After five years of record placement of orders for steam generating equipment, averaging about 50,000 Mw per year and split almost evenly between fossil fuel burning and nuclear plants, utility ordering has been at a very low ebb in 1975 and 1976. Last year, orders were placed for ten units totaling approximately 6,000 Mw of fossil capacity and B&W received 25 percent. Three nuclear units were ordered during the year for a total of 3,750 Mw, all from B&W. The nuclear units are scheduled for operation in the latter part of the 1980s and will not add to shop loads in the near term.

Our current estimate is that industry orders for fossil fuel fired steam generators will total about 15,000 Mw in 1977. We have identified about 6,000 Mw of nuclear capacity now under consideration by various utilities which could be placed in 1977.

After about two years of very low growth resulting from the recession and conservation efforts, electric usage increased 6.3 percent in 1976. Considering the projected growth of the nation's economy, we expect demand for electricity to increase at the rate of 5 percent to 6 percent per year. Unless there is a pick-up in utility ordering, the nation



Office of the President—*Standing left to right:* Raymond J. Cantwell, senior executive vice president and chief financial officer; George G. Zipf, chairman and president; Howard D. Kurt, executive vice president, Industrial Products. *Seated:* George W. Kross, Jr., executive vice president, Tubular Products; Walter M. Vannoy, executive vice president, Power Generation.

is likely to be experiencing shortages of electric power within a few years, which will interfere with that growth.

The Fossil Power Generation division continued to increase its shipments and improve performance in 1976. Despite the low volume of orders and the cancellation of four 750 Mw units, the division has a substantial backlog.

All the fossil fuel fired utility boilers now being sold are for coal firing. The combustion of coal requires larger furnaces and steam generators, coal pulverizers and more complex burner systems. Coal fired units also increase the need for air pollution control equipment such as precipitators and SO_2 removal systems, both of which are supplied by B&W. All of this means a considerably greater volume of work for B&W compared with that required for oil and gas burning boilers.

As a leading supplier of large coal fired boilers, B&W benefits from the change to coal firing.

The low level of new orders placed has created an opportunity as utilities and industrial customers strive to maintain existing steam generators in good, efficient operating condition. This has resulted in a growing volume of business for repair and replacement parts.

Our new axial fan business continues to grow. In addition to utilities, we are extending our marketing efforts to other industrial applications. Also, we are now offering radial fans for steel mills, cement plants and other applications requiring removal of hot, dust laden gases.

B&W Construction Company, which erects the company's equipment and also contracts for a wide range of mechanical work, had a good volume in 1976. It has a high backlog and excellent prospects for additional business.

Diamond Power continued its excellent performance with another record year. Shipments and orders were both at high levels and Diamond enters 1977 with a large backlog. Bailey Meter and Control Components also did a substantial amount of business in 1976 for both nuclear and fossil fuel power plants.

At the end of 1976, a total of six plants were in commercial operation with B&W nuclear steam supply systems. These systems are demonstrating very good availability. Two additional systems are scheduled for commercial operation in 1977. The Crystal River-3 plant of Florida Power Corporation received its operating license on December 30, 1976. Criticality was achieved on January 14 and the unit is now in its power escalation phase. The unit for Toledo Edison Company's Davis-Besse-1 has completed hot functional testing and fuel is currently being loaded.

Metropolitan Edison Company's Three Mile Island-2 plant is scheduled to load fuel in October 1977. Twenty-three other B&W nuclear systems are in various stages of design and construction.

The market in replacement fuel for existing reactors is continuing to grow. B&W's fuel elements have an outstanding record for quality, which is of critical importance. In 1976, we received orders worth $66,000,000 for replacement fuel for our own and other reactor systems.

Our production of industrial boilers continued at a good rate and new orders were at approximately the same volume as 1975. Natural gas has virtually been eliminated as a boiler fuel in the United States. Coal is being specified for many of the larger boilers, but oil is almost universally used for package units. Uncertainty over government environmental regulations and concern for the future availability of oil has caused many companies to delay ordering new units. However, we have noticed a decided increase in proposal activity in recent months, particularly for coal fired units.

There was a good demand for pulp and paper boilers in 1976 and we expect about the same level in 1977. An encouraging and relatively new market is for municipal incinerators. Late last year we signed a contract with the city of Akron, Ohio, for three large boilers to incinerate refuse. We have two units of this type operating in Nashville, Tennessee, and two in Hamilton, Ontario.

While the domestic market for package units was at a low level during most of the year, the bookings in recent months are encouraging. There is also a good demand for this design from the Mideast oil producing countries, particularly in the larger sizes.

The Industrial and Marine division is exploring the possibility of utilizing advanced concepts, such as fluidized bed combustion, which may prove an economical solution to problems of removing sulfur oxides from the products of combustion.

Refractories

Demand for all B&W refractories products continued at a very good level throughout 1976. A major cause has been the need to conserve energy, which has resulted in the rebuilding and repairing of many industrial furnaces. Sales of insulating firebrick and the ceramic fiber Kaowool® have been particularly strong.

The division has established an Energy Conservation Team to assist industrial customers in selecting the most efficient insulating systems. The team makes an analysis of fuel burning facilities and recommends steps to secure most efficient use of fuel. It has been of considerable help to large users of energy, particularly in steel and metalworking.

During the year, two new facilities for the manufacture of ceramic fiber were opened—a subsidiary, Babcock & Wilcox Fibras Ceramicas Ltda. in Rio de Janeiro, Brazil, and a joint venture in Australia.

Automated machinery

Performance in automated machinery held up very well in 1976 despite the low level of orders in the previous year. New orders were up substantially, giving a solid backlog entering 1977.

Significant new developments include the introduction of a unique automated loader for horizontal tracer lathes which can handle pieces weighing up to 80 pounds in a five second unload-reload cycle.

In addition, B&W's new ceramic cutting tool insert, Nucermet™, is finding good acceptance in the automotive, aerospace and ordnance industries. At the end of 1976 B&W acquired the assets of Amcermet, a small company which produces cold pressed ceramic cutting tool inserts that supplement our internally developed hot pressed line.

The outlook is for a continued high level of business for automated machinery and tools in the automotive industry and a revival of activity in off-the-road equipment.

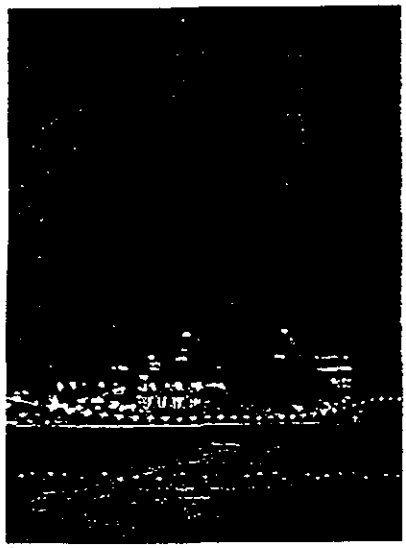
Foreign operations

Our foreign operations have grown to the point where they now represent a significant portion of our total shipments. B&W Canada Ltd., which is our largest foreign unit, has recovered from its depressed condition of the past two years and is again profitable with a backlog which should result in further improvement in 1977. With the exception of Babcock-Brown Boveri Reaktor, GmbH, West Germany (BBR), all other meaningful units are profitable.

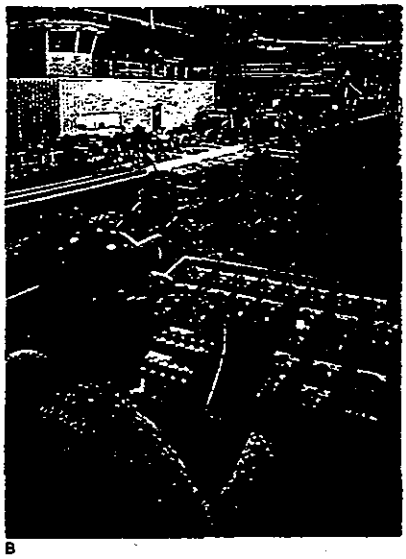
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BBR's financial performance is unfavorable and constituted a significant adverse impact on B&W's results for 1976, and this situation is expected to continue in 1977. This results primarily from unanticipated cost overruns, in part attributable to major changes in licensing requirements which have been adopted in West Germany since BBR received the Mülheim-Kärlich contract. BBR is entitled to recover some of these additional costs and is actively pursuing its claims.

Furthermore, with only one contract, the volume is insufficient to absorb BBR's costs. The very weak market is reflected in the failure to firm up the letter of intent received in 1975 for the Luxembourg project and to obtain additional orders. This problem can be attributed to unwarranted attacks on the benefits and safety of nuclear power and the slowdown in the German economy. BBR is working with, and supporting, the broad effort in West Germany to resolve the public



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As a result of the experience in Germany, the foreign operations of the company suffered a loss during 1976 of $10,700,000 in consolidated operating income after eliminating the share attributable to the joint venture partner.

Research and development

Expenditures for research and development in 1976 amounted to $27,400,000 and have been steadily increasing. These R&D programs, over the years, have helped establish the company as a technological leader. The B&W Universal Pressure steam generator and the once-through nuclear system, for example, are direct results of these efforts. Our emphasis on sophisticated water chemistry and metallurgy helped produce what we believe is the best steam system on the market.

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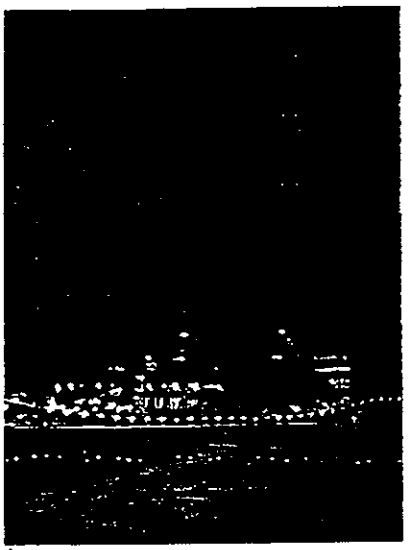
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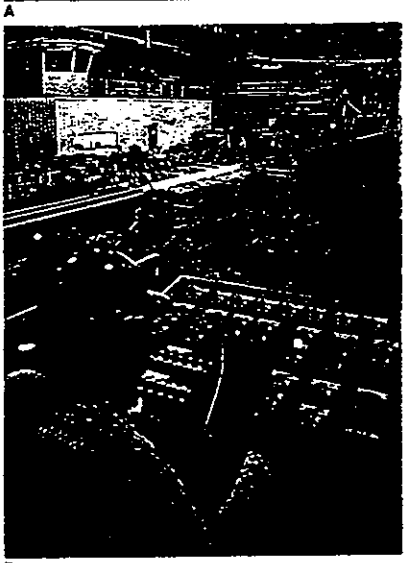
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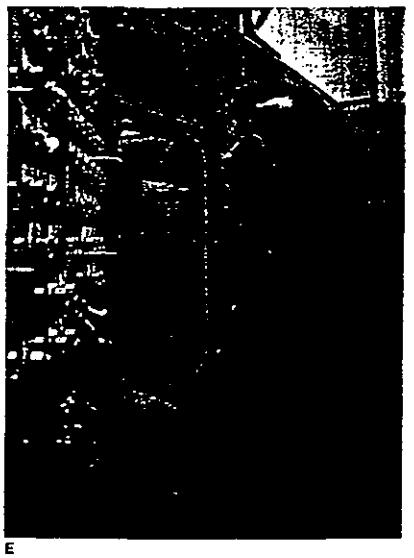
great confusion and uncertainty surrounding energy needs and supplies for the United States.

For the second time in three years, the country is undergoing an energy crisis. In the first instance, the immediate cause was an oil embargo; in the second, a shortage of natural gas supply resulting from an extremely cold winter through much of the nation. Neither crisis was inevitable. For over twenty-five years, those familiar with our energy resources have been warning in very explicit terms that government policies were encouraging the waste of exhaustible fuels, while economically discouraging the search and drilling for ever more expensive and elusive oil and gas.

The solution to our dilemma is not difficult to find—replace and conserve our dwindling stocks of oil and natural gas, and reduce our dependence on uncertain foreign sources, by using our domestic resources of coal and uranium.

Unfortunately, the use of coal and uranium is under attack, often from the same sources that are opposed to further search in the United States for oil and gas. In effect, the nation is being faced with a very determined drive to invoke a no-growth philosophy without the knowledge and consent of the people.

The opposition to nuclear power is being conducted in a highly emotional and sensationalized campaign which distorts scientific and technical data and ignores the proven long-term operating safety of nuclear power plants. Delays continue to be introduced into the licensing and construction of power plants by interveners often exploiting minor technicalities and legalisms. Unless the Administration and the Congress show a firm *determination to proceed with the development* of nuclear power, the entire nation will suffer. In the short run, the company, together with other equipment suppliers and their public utility customers, will experience unfavorable adjustments affecting organization, plants and financial results. In the long run, B&W would expect increased sales of its proven fossil fueled steam generators.



Two dramatic facts should drive home the importance of energy: In January of this year, when interruptions to fuel supplies caused by frozen rivers and frozen stockpiles cut electric output, a totally disastrous situation was avoided because so much of the load was being carried by nuclear power plants. Also, the hundreds of thousands of people who were thrown out of work by gas shortages and curtailed power supplies received a vivid demonstration of the connection between energy and jobs.

Recent polls show clearly that the American people are becoming increasingly aware of the great damage to their jobs and homes resulting from attempts to halt orderly technological progress. In addition, anti-nuclear referendums were decisively defeated in 1976 in all seven states where they were on the ballot. While our citizens have rightly insisted on protection of the environment and conservation of resources, they have not called for a decline in the living standards of the American people. Continued growth is essential to improving the lot of the millions in this country now living at marginal levels and to providing jobs for the great many younger people who are now entering the job market, and will continue doing so in increasing numbers. We also cannot escape the fact that millions of people in the developing nations are looking to us for help and guidance—a challenge we must meet because of the basic facts of our position in the world.

Because of growing public awareness of the importance of electricity, we are optimistic about the future of the utility industry and expect that, as the shortages become more apparent, there will be a resumption of the orderly construction of coal burning and nuclear power plants.

Outlook

B&W's large backlog of fossil fuel orders, our expanded scope of equipment, and the growing repair and replacement business, together with prospects in tubular products, refractories and other product lines, should provide a high level of shipments in 1977.

The company's fuel supplies held up well during the natural gas crisis. Because of advanced planning, much of our fuel burning equipment had earlier been converted to dual firing wherever practical. We were thus able to use alternate fuels when necessary. The only significant curtailments we have had in any of our plant operations were caused by blizzard conditions and by reductions in electrical supplies. Inclement weather also interrupted field operations of the Construction Company. Alternate fuels are much more expensive than natural gas and will impact earnings to the extent that the increase cannot be recovered through higher prices. Also, there have been some adverse effects on our first quarter operations caused by interruptions in the plants of our suppliers and customers who were affected by fuel and weather.

For these reasons, and because spending by the capital goods industries has not yet picked up momentum, we expect that the first quarter of 1977 will not match last year's record. However, considering the existing backlog and the prospect for additional business, we expect that 1977, as a whole, will be another good year for the company.

In the longer perspective, the steady and significant improvement in B&W's performance over the past several years—particularly during 1976, a year of slow activity in some of our markets—gives evidence of the basic earning power of the company. Internally, B&W has strong management, personnel, and facilities. Externally, the company is strategically well situated with well diversified products and markets. We serve a broad spectrum of industries whose output is essential to meet the basic needs of the country.

There will be a drop-off in production of commercial nuclear components during the 1977-79 period. Because of the uncertainties and delays affecting nuclear energy, there is a possibility of further cancellations and stretch-out in production of existing orders.

Until the level of nuclear orders increases in Germany, we anticipate further losses in BBR. However, BBR has developed a high degree of technical and management competence and, if the market opens up, is in a good position to secure additional business and ultimately make a contribution to the profitability of the company.

As a well established manufacturer of both nuclear and fossil fuel systems in the United States, we are in a strong position to capture a good share of the market if the demand increases in the next few years.

We expect that there will be a steady market in replacement fuel for commercial nuclear plants and in fuel and equipment for the U.S. Navy. Our strong position in specialty tubes is further enhanced by the $60 million expansion at Ambridge and the improvements and modernization at the Alliance and Milwaukee plants. The prospects for refractories products, automated machines and our other product lines are good. For all of these reasons, we believe that the outlook for continued long-term growth is very encouraging.

George G. Zipf
Chairman and President

February 18, 1977

Consolidated Statement of Income and Retained Earnings

	For the Calendar Year 1976	1975
Sales (on percentage of completion method for long-term contracts)	$1,691,800,000	$1,565,000,000
Costs and expenses:		
Costs and operating expenses	1,443,000,000	1,340,800,000
Research and development expenses	27,400,000	23,900,000
Selling, general and administrative expenses	77,400,000	67,[illegible],000
Depreciation of plant and equipment	32,600,000	27,700,000
	1,580,400,000	1,459,400,000
Income from operations	111,400,000	105,600,000
Income from investments	3,900,000	1,300,000
Interest expense	(14,800,000)	(23,900,000)
Income before taxes and minority interests	100,500,000	83,000,000
U.S. and foreign taxes on income:		
Current	3,900,000	1,700,000
Deferred	43,300,000	39,000,000
	47,200,000	40,700,000
	53,300,000	42,300,000
Income applicable to minority interests	(200,000)	
Net income for the year (per share: 1976—$4.37; 1975—$3.49)	53,100,000	42,300,000
Cash dividends declared (per share: 1976—$1.05; 1975—$.80)	12,800,000	9,600,000
Remainder, to retained earnings	40,300,000	32,700,000
Retained earnings at beginning of year	297,700,000	265,000,000
Retained earnings at end of year	$ 338,000,000	$ 297,700,000

Consolidated Statement of Changes in Financial Position

	For the Calendar Year: 1976	1975
WORKING CAPITAL AT BEGINNING OF YEAR	$220,300,000	$278,000,000
FINANCIAL RESOURCES WERE PROVIDED BY:		
Net income	53,100,000	42,300,000
Add or (deduct) items not affecting working capital:		
Depreciation	32,600,000	27,700,000
Amount due to subsidiary company by joint venturer for its share of losses	(7,200,000)	
Deferred income taxes, noncurrent	600,000	2,000,000
Income applicable to minority interests	200,000	
Equity in undistributed earnings of affiliated companies	(500,000)	(1,200,000)
Loss on sale of interest in Babcock & Wilcox Ltd.		2,500,000
Working capital provided by operations for the period	78,800,000	73,300,000
Additional noncurrent borrowings	27,600,000	17,900,000
Proceeds on sale of interest in Babcock & Wilcox Ltd. (Note 3)		22,700,000
	106,400,000	113,900,000
FINANCIAL RESOURCES WERE USED FOR:		
Additions to property, plant and equipment	62,000,000	69,700,000
Cash dividends declared	12,800,000	9,600,000
Reductions of noncurrent indebtedness	105,700,000	96,600,000
Reclassification of amount due to subsidiary company by joint venturer for its share of prior years' losses	6,100,000	
Other changes in minority interests		(500,000)
Other, net	2,500,000	(3,800,000)
	189,100,000	171,600,000
NET DECREASE IN WORKING CAPITAL (Note 7)	(82,700,000)	(57,700,000)
WORKING CAPITAL AT END OF YEAR	$137,600,000	$220,300,000

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	At December 31 1976	1975
ASSETS		
CURRENT ASSETS		
Cash	$ 30,500,000	$ 21,800,000
Marketable securities, at cost (approximate market)	39,700,000	40,000,000
Accounts receivable (net of allowance for doubtful accounts: 1976—$5,000,000; 1975—$4,000,000) (Note 1)	171,300,000	208,100,000
Unbilled sales (Note 1)	176,600,000	173,200,000
Inventories, including long-term contract costs (less progress payments on contracts) (Note 2)	310,600,000	343,500,000
TOTAL CURRENT ASSETS	728,700,000	786,600,000
INVESTMENTS (Note 3)	8,400,000	3,900,000
PROPERTY, PLANT AND EQUIPMENT, at cost less accumulated depreciation (Note 4)	359,200,000	332,200,000
PREPAID EXPENSES AND OTHER ASSETS	27,800,000	12,700,000
TOTAL ASSETS	$1,124,100,000	$1,135,400,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable (Note 5)	$ 8,200,000	$ 75,700,000
Accounts payable and accrued liabilities	325,900,000	291,000,000
Provision for warranty expense	69,100,000	55,900,000
Cash dividends payable	3,600,000	2,400,000
U.S. and foreign income taxes (including deferred taxes: 1976—$181,900,000; 1975—$138,600,000)	184,300,000	141,300,000
TOTAL CURRENT LIABILITIES	591,100,000	566,300,000
NONCURRENT INDEBTEDNESS (Note 5)	92,900,000	171,000,000
DEFERRED INCOME TAXES	22,500,000	21,900,000
MINORITY INTERESTS IN SUBSIDIARY COMPANIES	2,000,000	1,800,000
TOTAL LIABILITIES	708,500,000	761,000,000
STOCKHOLDERS' EQUITY		
Capital Stock:		
Preferred, cumulative, no par; authorized and unissued 2,000,000 shares		
Common, par value $4.50; authorized 18,000,000 shares, issued: (1976 and 1975—12,604,906 shares)	56,700,000	56,700,000
Capital surplus (Note 6)	31,800,000	31,900,000
Retained earnings	338,000,000	297,700,000
	426,500,000	386,300,000
Less: Treasury stock, at cost: (Note 6)	10,900,000	11,900,000
1976—447,967 shares		
1975—488,750 shares		
TOTAL STOCKHOLDERS' EQUITY	415,600,000	374,400,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,124,100,000	$1,135,400,000

Summary of Significant Accounting Policies

Principles of consolidation: The consolidated financial statements include The Babcock & Wilcox Company and all subsidiary companies including those outside the United States (principally Canada and Germany). Investments in which the company owns 20% or more, but less than a majority, of voting stock are accounted for under the equity method. In 1976, the company changed its method of translating the financial statements of its foreign subsidiaries to comply with the requirements of Financial Accounting Standard No. 8, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements." This change did not have a material effect on the net income of the company.

Long-term contracts: A significant part of the company's business is done under contracts requiring long periods to perform, in many cases several years. For financial accounting purposes, the company records sales and cost of sales by the percentage of completion method related principally to physical shipments, direct labor or cost incurred, as applicable to the product or the activity involved. Sales so recorded are carried in unbilled sales until invoiced to customers under terms of the contracts.

The costs recorded on uncompleted individual long-term contracts within each fiscal period are based upon estimates to complete. Under certain contracts, sales prices are subject to adjustment, primarily related to escalation. Contract price and cost estimates are reviewed periodically as the work progresses and adjustments proportionate to the percentage of completion are reflected in the period when such estimates are revised.

Under the foregoing accounting for long-term contracts, inventories are stated at accumulated production costs less estimated cost of sales. Production costs include raw materials, direct labor, manufacturing overhead and contract engineering. The amount at which such inventories are carried does not exceed realizable value. In conformance with industry practice, inventories include amounts realizable after one year. Progress payments applicable to inventories are deducted for balance sheet presentation.

Other inventories: Inventories are stated generally at the lower of cost or market. Cost is determined on the average basis for raw materials and supplies and accumulated production costs for work in process and finished products.

Warranty expense: The company provides, as sales are recorded, for estimated future expenditures which may be required to satisfy warranties.

Depreciation: For financial accounting purposes, depreciation is computed on the straight-line method, using estimated useful lives of 10 to 40 years for buildings and 3 to 20 years for machinery and equipment.

Income taxes: The company provides in its income tax provision for the timing differences between financial and tax reporting. These relate principally to the use for tax purposes of the completed contract method for long-term contracts, accelerated depreciation and to warranty expenses which are not deductible for income tax purposes until incurred.

Investment tax credits are recognized fully as reductions of tax provisions under the flow-through method.

Research and development: The cost of research and development which is not performed on specific contracts is charged against operations as incurred.

Pension plans: The company has several non-contributory pension plans covering substantially all employees. Effective January 1, 1976, the method for funding and determining pension costs was changed to the accrued benefit method with projected final compensation. Prior to 1976, funding and pension costs were determined for some plans under the attained age method and for other plans under the entry age method. Prior service costs are amortized over a period not to exceed 40 years.

Earnings per share: Earnings per share are computed on a weighted average of shares outstanding during the year which do not include shares held in treasury. Shares under options outstanding are not used in determining earnings per share since they have no material dilutive effect.

Notes to Consolidated Financial Statements

Note 1—Included in consolidated accounts receivable are amounts representing billed retainages on long-term contracts which are collectible upon acceptance by the customer, as follows:

	1976	1975
Retainages	$ 8,200,000	$ 10,300,000
Retainages expected to be collected after one year	$ 2,800,000	$ 3,000,000

Unbilled sales include amounts expected to be collected after one year—$33,400,000 at December 31, 1976 and $22,100,000 at December 31, 1975.

Note 2—The consolidated inventories at December 31 are summarized below:

	1976	1975
Raw materials and supplies	$146,100,000	$137,900,000
Work in process	251,500,000	289,900,000
Finished products	41,000,000	39,900,000
	438,600,000	467,700,000
Less: Progress payments	128,000,000	124,200,000
	$310,600,000	$343,500,000
Inventories relating to long-term contracts included in the above	$118,900,000	$155,100,000

Note 3—During September 1975, the company sold its 23.1% interest in its British affiliate, Babcock & Wilcox Ltd. The net proceeds of $22,700,000 from this sale were lower than the carrying value of the investment at equity, but higher than the cost to the company and the resultant tax basis. The reduction in 1975 net income attributable to this investment was $3,400,000 or $.28 per share, including a provision for the capital gains tax on the sale.

Note 4—Consolidated property, plant and equipment at December 31 are summarized below:

	1976	1975
Land	$ 8,700,000	$ 8,200,000
Buildings	162,500,000	158,400,000
Machinery and equipment	471,100,000	406,100,000
Construction in progress	26,000,000	45,000,000
	668,300,000	617,700,000
Less: Accumulated depreciation	309,100,000	285,500,000
	$359,200,000	$332,200,000

Rental expense and lease commitments are not material.

Note 5—Consolidated obligations at December 31 consisted of the following:

Current:	1976	1975
Bank borrowings, at various rates	$ 2,800,000	$ 31,400,000
Other, including current portion of long-term debt	5,400,000	44,300,000
	8,200,000	75,700,000
Noncurrent:		
Term loan payable in quarterly installments to December 31, 1979 at 120% of prime rate plus ½%		100,000,000
9% Promissory Notes, payable in annual installments of $3,300,000 beginning October 1, 1977	46,700,000	50,000,000
9% Guaranteed Notes, payable in annual installments of $1,650,000 beginning December 1, 1982	25,000,000	
Industrial Revenue Mortgage for Pollution Control Equipment—4½% with interest adjustments related to the prime rate; payable in installments through 1983	7,400,000	8,600,000
Other	13,800,000	12,400,000
	92,900,000	171,000,000
	$101,100,000	$246,700,000

The weighted average short-term borrowings outstanding during 1976 were $29,700,000 (1975—$39,900,000) at a weighted average interest rate of 9.0% (1975—9.9%). The highest short-term borrowings for any month-end during 1976 were $37,000,000 (1975—$37,100,000).

During 1976, the company repaid its outstanding term loan of $100,000,000 and cancelled a related revolving credit agreement. In December 1976, the company converted borrowings on certain bank lines of credit for its Canadian subsidiary Babcock & Wilcox Canada Ltd. to a $25,000,000 note agreement payable in annual installments of $1,650,000 beginning December 1, 1982.

In January 1977, the company entered into a $60,000,000, 8½% note agreement due January 1, 1997, with various lenders. Payments will be made in annual installments of $3,960,000 beginning January 1, 1983.

Payments due during the succeeding five years on noncurrent indebtedness and the current portion thereof are as follows: $5,300,000 in 1977; $6,200,000 in 1978; $5,500,000 in 1979; $5,600,000 in 1980 and $5,700,000 in 1981.

Certain of the agreements contain, among other things, requirements as to consolidated capitalization as defined, and dividend declarations. At December 31, 1976 and 1975, all such requirements have been met.

Note 6—The stockholders on April 26, 1972 approved a stock option plan for key employees of the company and its subsidiaries, who have not attained the age of 60 at the time of grant. A total of 500,000 shares of either authorized but unissued or previously issued and reacquired shares of common stock may be used for options granted under this plan. The plan covers both options qualified under Section 422 of the Internal Revenue Code and non-qualified options. Options are granted at an option price equal to at least 100% of the fair market value on the date of the grant (adjusted to October 31, 1974 closing price for options issued prior to that date). Qualified and non-qualified options shall expire not more than five and ten years, respectively, after the date of grant. Options are exercisable one year after the date of grant in installments determined by the Board of Directors. Shares not purchased on the installment date may be purchased any time prior to final expiration of the option.

At December 31, 1976 and 1975, 46,200 and 40,675 shares, respectively, remained available for future grants under the 1972 Stock Option Plan.

Transactions in 1976 and 1975 under the 1972 Stock Option Plan are summarized as follows:

	1976	1975
Options outstanding at January 1	448,075	240,475
Options granted		229,200
Options exercised	(40,763)	(10,375)
Options lapsed	(5,525)	(11,225)
Options outstanding at December 31	401,767	448,075
Options exercisable at December 31	153,625	81,589

(continued)

Notes to Consolidated Financial Statements (continued)

Options outstanding at December 31, 1976 and 1975 are exercisable at option prices ranging between $13 and $20. Options exercised during 1976 were at option prices ranging between $14 and $20. Options exercised during 1975 were at an option price of $13.63. Of the total option price, $1,000,000 and $300,000 was credited to treasury stock in 1976 and 1975, respectively; and charges were made to capital surplus, net of the tax benefit credited thereto, of $100,000 in both 1976 and 1975.

Note 7—The changes in the components of working capital are summarized as follows:

	1976	1975
Increase (decrease) in current assets:		
Cash	$ 8,700,000	$(26,100,000)
Marketable securities	(300,000)	39,600,000
Accounts receivable	(36,800,000)	20,400,000
Unbilled sales	3,400,000	(4,300,000)
Inventories	(32,900,000)	35,600,000
	(57,900,000)	65,200,000
Increase (decrease) in current liabilities:		
Notes payable	(67,500,000)	52,300,000
Accounts payable and accrued liabilities	34,900,000	18,400,000
Provision for warranty expense	13,200,000	15,100,000
Cash dividends payable	1,200,000	
U.S. and foreign income taxes	43,000,000	37,100,000
	24,800,000	122,900,000
Net decrease in working capital	$(82,700,000)	$(57,700,000)

Note 8—Total pension expense charged to income was $33,400,000 in 1976 and $32,200,000 in 1975. Based upon the latest actuarial valuation, unfunded prior service costs at December 31, 1976 were approximately $205,600,000 (1975—$143,000,000). The actuarially computed value of vested benefits for all plans as of December 31, 1976 exceeded the total of the pension funds and balance sheet accruals by approximately $45,700,000 (1975—$93,600,000).

Effective January 1, 1976, the company changed the actuarial cost method it uses for determining pension costs for all its major plans to the accrued benefit cost method with projected final compensation. Previously the company used the attained age method for some plans and the entry age method for other plans. In addition to conforming the actuarial method for all of the company's major plans to a single actuarial method, the change was made to better relate pension costs to the period the benefits are earned by the participants and to be on a more comparable basis with other industrial companies. This change had the effect of reducing pension expense by approximately $3,500,000 and increasing net income by approximately $1,800,000 or $.15 per share. In addition, the change to the accrued benefit cost method reduced unfunded prior service cost by approximately $19,300,000.

During 1976, the company made modifications to its pension plans in order to comply with the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). These modifications principally related to the vesting and funding schedules. In addition, the increase in the amount of unfunded prior service costs in 1976 was primarily attributable to an actuarial determination of unfunded prior service costs performed under the provisions of ERISA. The effect of these items did not have a material effect on net income.

Note 9—As a result of the tax timing differences referred to under accounting policies, the company for federal income tax reporting has tax loss carry-forwards which together with unused foreign tax credits and unused investment tax credits, are available to be applied against future taxable income or taxes payable over the next three, five and seven years, respectively.

The deferred tax provision for 1976 and 1975 relate for the most part to allowed timing differences arising from reporting of income from long-term contracts. Specified timing differences related to warranty expense decreased the 1976 deferred tax provision by $3,900,000 ($5,500,000 in 1975).

The 1976 income tax provision is net of $6,900,000 ($3,600,000 in 1975) investment tax credits.

The effective rate of the provision for income taxes, as shown in the consolidated statement of income, was 1.1% less than the statutory rate in 1976 and 1.0% more than the statutory rate in 1975. These differences are due to the following:

	1976	1975
Statutory tax rate	48.0%	48.0%
Investment tax credits	(6.8)%	(4.3)%
Effect on the composite tax rate of the operations of subsidiaries and affiliates not subject to the U.S. statutory rate	7.4%	2.7%
Sale of interest in British affiliate Babcock & Wilcox Ltd.		2.5%
All other	(1.7)%	0.1%
Effective tax rate	46.9%	49.0%

Note 10—Starting in mid-1974, principally, as a result of utility financing problems related to general economic conditions, and to regulatory restraints on compensating rate increases and licensing approvals, and certain other causes of construction delays, numerous utilities deferred and in some instances cancelled plans for constructing nuclear and fossil power generating plants. As to each deferment or cancellation, the company is entitled to a financial settlement related to the individual circumstances of the

contract. Ten of the company's units on order have been cancelled from 1974 to date, and it is the expectation of management that the utilities will proceed with most of the deferred plants.

Note 11—The company has provided when determinable for actions required to alleviate delays and the effects of delays in carrying out some long-term nuclear contracts. Costs and expenses not provided for, including claims, may result from delays but management does not expect the amounts, if any, will be material.

Note 12—The company performs significant amounts of work for the government under both prime contracts and subcontracts and thus is subject to continuing reviews by governmental agencies.

Note 13 (unaudited)—Summarized quarterly financial data for 1976 follows:

	Three months ended			
	March 31	June 30	Sept. 30	Dec. 31
Sales	$423,800,000	$443,600,000	$375,900,000	$448,500,000
Income from operations	36,500,000	34,300,000	22,100,000	18,500,000
Net income	16,900,000	15,900,000	9,800,000	10,500,000
Net income per share	$1.40	$1.31	$ .81	$ .85

In the fourth quarter of the year the company changed the actuarial cost method used in determining pension costs (see Note 8). This change was made retroactive to January 1, 1976 and had the effect of increasing the previously reported income from operations, net income and net income per share for each of the first three quarters of 1976 (all of which have been restated) by approximately $875,000, $455,000 and $.04, respectively. The effect of the change on 1976 operations for the full year was to increase income from operations, net income and net income per share by approximately $3,500,000, $1,820,000 and $.15, respectively.

Note 14 (unaudited)—Reference is made to the company's annual report on Form 10-K (a copy of which is available upon request) for quantitative information with respect to the estimated replacement cost of inventories and plant and equipment at December 31, 1976, and the related estimated effect of such costs on cost of sales and depreciation expense, as required by Rule 3-17 of Regulation S-X of the Securities and Exchange Commission.

All business enterprises are affected to some extent by the impact of changing costs. These cost changes result from influences such as inflation, changes in technology, regulatory requirements and changes in the market forces of supply and demand.

As is the case for all capital intensive enterprises, the company is affected by changes in the prices of goods and services it employs. The cost of replacing plant and equipment, for example, has usually been substantially in excess of the cost of obtaining those assets originally. However, improved technology often has accompanied these increased replacement costs. Such improved technology in many cases carries with it the benefit of increased productivity which, over the life of an asset may more than offset its increased cost.

The company has also been able to mitigate the effects of increased costs through increased prices. A substantial portion of the company's business relates to work done under contracts requiring long periods to perform. These contracts are individually negotiated as to price and generally contain escalation provisions which protect the company against the effects of increasing costs. Cost increases affecting the company's other business have also generally been alleviated by increased selling prices, however, the extent to which this price relief is obtainable is dependent upon the market conditions existing at the time of shipment.

The concept of replacement cost accounting is subject to inherent weaknesses and theoretical problems in addition to complexities and lack of uniform methodology which preclude making comparisons between companies and industries. It does not measure the effect of price changes on assets and liabilities other than productive capacity and inventories, or take into consideration the availability of capital or its cost in replacing those assets restated. Furthermore, the development of related savings from replacement of plant and equipment requires engineering judgments which are extremely difficult to quantify. For these reasons, replacement cost information should not be construed as showing the impact of inflation on the earnings of the company. In addition, the Securities and Exchange Commission recognized that it was requiring companies to make disclosures of costs which cannot be calculated with precision, accordingly it "...cautions investors and analysts against simplistic use of the data (replacement cost information) presented."

Report of Independent Accountants

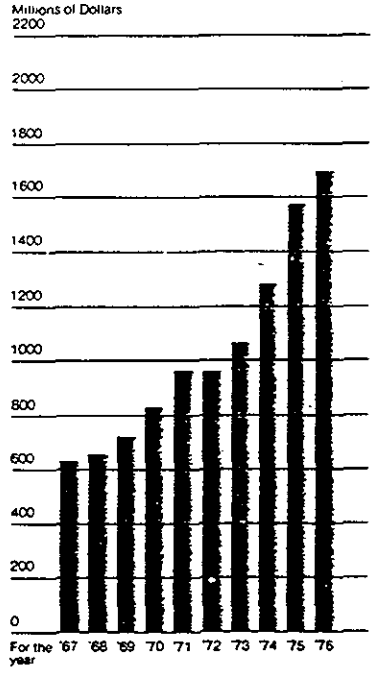
To the Stockholders and Directors of The Babcock & Wilcox Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of changes in financial position, appearing on pages 6 through 11, present fairly the financial position of The Babcock & Wilcox Company and its subsidiaries at December 31, 1976 and 1975, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

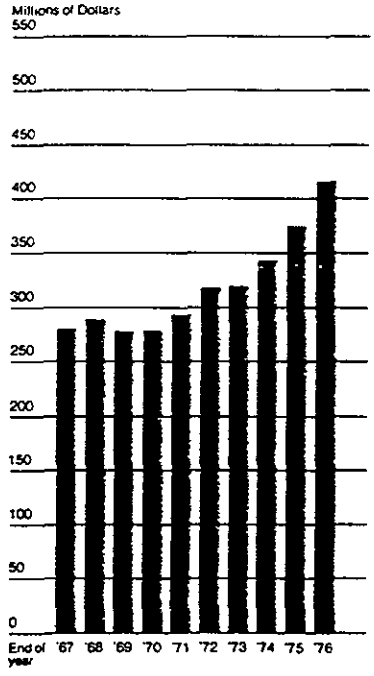
PRICE WATERHOUSE & CO.

New York, N.Y., February 16, 1977

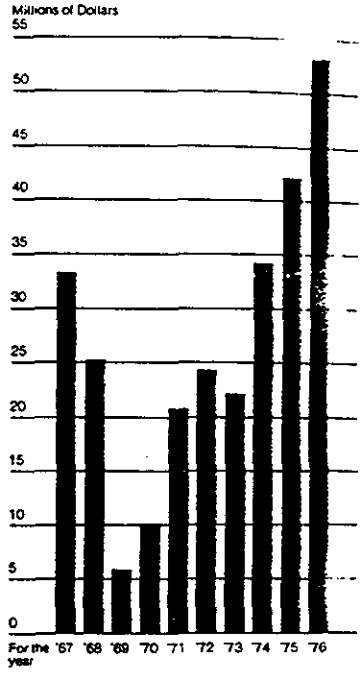
Sales (shipments)



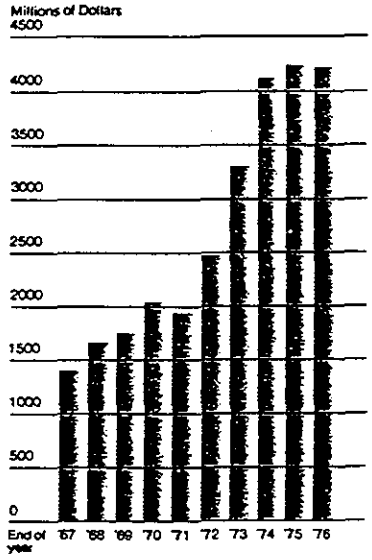
Stockholders' Equity



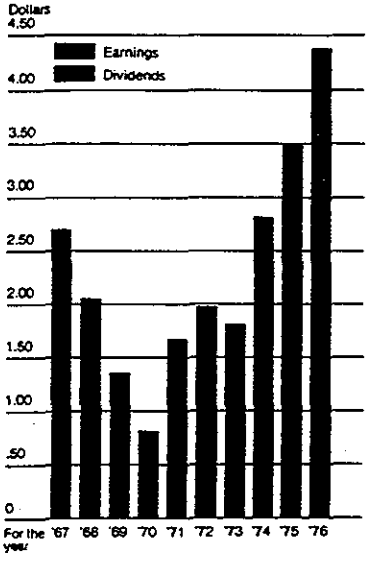
Net Income



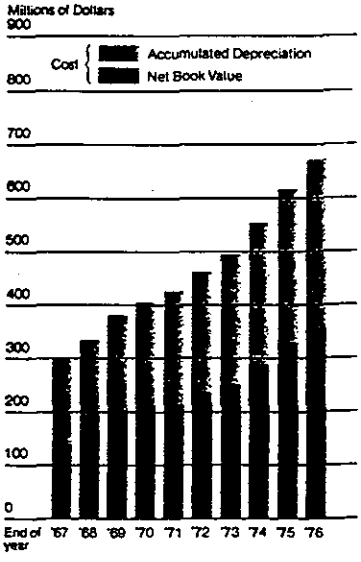
Unfilled Orders



Earnings per Share and Cash Dividends Declared per Share



Property, Plant and Equipment



abcock & Wilcox onsolidated Summary f Operations

	1976	1975	1974	1973	1972
Sales	$1,691,800,000	$1,565,000,000	$1,277,200,000	$1,063,700,000	$955,900,000
Income from operations	111,400,000	105,600,000	75,200,000	43,100,000	45,600,000
Interest expense	14,800,000	23,900,000	22,100,000	10,200,000	6,400,000
U.S. and foreign taxes on income	47,200,000	40,700,000	24,700,000	14,500,000	17,900,000
Net income	53,100,000	42,300,000	34,100,000	22,100,000	24,400,000
Per share					
Net income on average shares outstanding	$4.37	$3.49	$2.82	$1.82	$1.97
Cash dividends declared	1.05	.80	.80	.80	.55

lanagement Discussion nd Analysis of the ummary of Operations

Sales: Sales of $1,691,800,000 in 1976 set another record, increasing 8% from $1,565,000,000 in 1975. This increase was principally due to a higher level of shipments in steam generating and associated equipment. There was substantial demand for all of the principal classes of the company's products in 1976. However, tubular products sales decreased in 1976 from the record level of 1975, as a result of reduced activity in the markets these products serve. The company's sales have increased at a compound growth rate of 15% since 1972 and continued the expansionary trend of the last decade. All classes of products have contributed to this growth in sales.

Income from operations: Income from operations of $111,400,000 in 1976 was also a record and increased 5% from the previous record earnings of $105,600,000 set in 1975. The principal contributor to the increased earnings was steam generating and associated equipment despite strikes of various duration at certain plants manufacturing these products. The fossil utility and industrial boiler business experienced significantly higher earnings on increased shipments. We were also relieved of the impact of inflationary cost increases on fixed-price contracts which affected results in 1974 and 1975. In addition, there were substantial increases in fossil repair and replacement parts business.

In 1976 the company changed the actuarial cost method used in determining pension expense and funding of major pension funds from projected cost methods to the accrued benefit cost method with projected final compensation. This change added approximately $3,500,000 to income from operations in 1976.

It is estimated that the strikes at various plants reduced income from operations by approximately $10,500,000 in 1976. In addition, tubular products earnings were down substantially from the record 1975 year as a result of lower shipments and increased manufacturing costs without adequate price relief. Nevertheless, it was the third best year in the division's history. Refractories and machine tools earnings were also lower than the 1975 record year.

Increased energy costs adversely affected the profitability of all classes of products, despite substantial conservation efforts by the company to reduce energy consumption. Conversion of facilities to use fuels other than natural gas prevented curtailment of operations, but resulted in substantially higher energy costs. Repair and maintenance expenses continued at a higher level due to continued high levels of production at most plants. Other costs also increased including labor, fringe benefits and administrative expenses reflecting a more complex business environment and the impact of regulatory requirements.

Income from operations for the company's total nuclear business was profitable in 1976. Profitable government nuclear business was substantially offset by losses in the company's commercial nuclear activity, particularly from operations of its German subsidiary—BBR. Lack of new business for BBR beyond the one utility contract, which was taken at unfavorable prices, in addition to delays and cost increases due to regulatory requirements, were largely responsible.

Income from operations as a percent of sales was 6.6% in 1976, approximately the same as the 6.7% in 1975, despite the impact of the strikes and lower shipments of more profitable tubular products. This reflects the enhanced profitability of the fossil boiler business and continued management efforts to implement cost reduction programs and to improve operating efficiency throughout the company.

Shipments in 1975 were 23% above 1974 and income from operations increased 40%. Record earnings in 1975 for tubular products, refractories and machine tools on record sales volume, and the diminishing impact on earnings of fixed price steam generating contracts, were the principal reasons for the higher operating income. In addition, material shortages that affected performance in 1974 eased and purchased scrap costs were significantly lower in 1975 compared with 1974. However, energy and other costs, including labor and fringe benefits, increased significantly.

Interest expense: Interest expense in 1976 of $14,800,000 was 38% lower than 1975. This significant decrease results from a combination of substantially reduced average total debt levels in 1976 and lower interest rates. The higher earnings in 1976 and improved cash flow allowed the company to reduce outstanding debt by 59% to $101,100,000 at December 31, 1976, compared with $246,700,000 at the end of 1975. The company's term loan was completely repaid in 1976 and the related revolving credit agreement

Management Discussion and Analysis of the Summary of Operations (continued)

was cancelled. In addition, the company improved its working capital position by refinancing certain bank lines of credit of its Canadian subsidiary, Babcock & Wilcox Canada Ltd., with a $25,000,000—9% note agreement due December 1, 1996, with annual installments of $1,650,000 beginning December 1, 1982.

In January 1977, the company borrowed $60,000,000, through a private placement with various lenders, due January 1, 1997 at 8½%. Payments will be made in annual installments of $3,960,000 beginning January 1, 1983. The company secured the long-term loan to take advantage of favorable money market conditions to meet projected long-term capital needs.

Interest costs in 1975 and 1974 were substantially higher than 1973 and 1972. In 1971 and 1972, the company was able to reduce debt from the relatively high level of 1969 and 1970 due to improved earnings, somewhat lower capital expenditures and stable working capital requirements. Interest rates were also lower in those years.

In 1972, the company embarked on a substantial capital program in response to record demand for its products, particularly in tubular products, and to satisfy pollution control and OSHA requirements. At the same time, working capital needs increased with the higher sales volume. In 1973 the company made a significant investment in Babcock & Wilcox Ltd., its British affiliate. These factors increased the need for higher debt levels. In addition, in 1973 interest rates started to climb to unprecedented levels in 1974. The combination of increased debt levels and higher interest rates resulted in the significantly increased interest costs in the 1974-1975 period.

U.S. and foreign income tax: U.S. and foreign income taxes were $47,200,000 in 1976 or 16% higher than 1975. The increase in taxes resulted from the 21% increase in pre-tax earnings, partially offset by a lower effective tax rate of 46.9% in 1976, compared with 49% in 1975.

The principal reasons for the lower effective tax rate in 1976, as compared with 1975, were significantly increased investment tax credits and the sale of the company's investment in Babcock & Wilcox Ltd. in 1975, which increased the effective rate in two ways. Proceeds from the sale of this investment were lower than its carrying value at equity, but higher than the cost to the company and the resulting tax basis. This gave rise to a book loss without a corresponding reduction in tax expense. However, as the proceeds were higher than the tax basis, it was necessary to make a provision for the taxable capital gain as measured from the cost basis of the investment. Increased losses in the company's German subsidiary, Babcock-Brown Boveri, where a tax benefit was not available because of the uncertainty of the utilization of a loss carry-forward tax credit, tended to increase the effective rate. The net impact of all other operations not subject to the U.S. statutory tax rate was also less favorable in 1976 compared with 1975. (See Note 9 to Consolidated Financial Statements.)

In the period 1972 through 1974 the effective tax rate was lower than the statutory rate. The differences between the effective rates and the statutory rate in those years principally relate to investment tax credits and the net effect on the composite tax rate of operations of the company not subject to the U.S. statutory rate.

Net income: Net income in 1976 was a record $53,100,000, or $4.37 a share and increased 25% over the previous record. The record shipments and operating income, together with the reduced interest costs, were the principal reasons for the increased earnings. The lower effective tax rate and higher investment income, due primarily to interest on short-term investments as a result of the company's favorable cash position, also contributed to the record performance.

In addition, the sale of the company's investment in Babcock & Wilcox Ltd. reduced 1975 net income by approximately $3,400,000, or $.28 per share, including a provision for the capital gains tax on the sale. The impact of the strikes at various plants of the company in 1976 was estimated to reduce net income by approximately $5,500,000, or $.45 a share.

The change in accounting for pensions in 1976 resulted in an increase in net income of approximately $1,800,000, or $.15 a share.

Earnings in 1974, while rebounding from the 1971 strike at the Barberton, Ohio plant, were adversely impacted by fixed price fossil steam generating contracts, material shortages and high scrap costs. The strike in 1973 depressed earnings by approximately $.40 a share. Price controls caused a cost-price squeeze on profit margins in 1972 and 1973, as the company could not fully recover substantially higher costs of steel scrap and other material and labor cost increases.

The outlook for the company is discussed in the President's letter.

Business Description

The Babcock & Wilcox Company and its subsidiaries are engaged in the design, manufacture and sale of products which may be broadly classified as: steam generating and associated equipment; tubular products; refractory products; and automated machines and machine tools.

Steam generating equipment includes individually engineered complete fossil fuel boilers, nuclear steam systems, and nuclear fuel and nuclear fuel assemblies for electric utility and marine applications as well as fossil fuel boilers for industrial processes and power generation. Steam generating equipment also includes specially engineered accessories and components, such as air heaters, fans, precipitators, cleaning systems for heat transfer surfaces, nuclear reactor components, control and performance computers, automatic controls and instruments and nuclear control rod drives. Associated equipment includes individually engineered recovery processes and pollution control systems for the process and utility industries, tubular hoods for basic oxygen and electric furnaces, heavy pressure vessels and heat exchangers, hollow forgings for steam piping and other uses, reflective metallic thermal insulation and special control valves. In addition to designing and manufacturing the foregoing steam generating and associated equipment, the company through a separate construction unit also is engaged in the erection of certain of this and other equipment.

Tubular products include stainless, alloy and carbon steel, seamless and welded tubes and pipe, tubular and solid shapes, extrusions, special metal tubes, welding fittings and flanges, and seamless rolled rings. These are principally "specialty" products of high quality and engineered for special applications. Material amounts of tubes are manufactured by the company to satisfy its own requirements as well as those of other manufacturers of steam generating equipment; however, the major portion of the company's tubes are sold to others for use in the bearing industry, the petroleum industry, the machinery industry, the primary metal industry, the fabricated metal industry and the construction industry.

Refractory products include kaolin clays, specially engineered and vacuum formed ceramic fibers, insulating and speciality firebrick, plastics, mortars, castables, and special oxide refractories. These refractories are used in high temperature furnaces for various heating and heat treating purposes and in other applications where the temperatures and rates of combustion or chemical reactions are unusually demanding.

Automated machines and machine tools include individually engineered transfer or multi-station machines for production lines, precision boring machines, broaching machines and broaches, large grinders, cutting tools, hydraulic accessories, production tracer lathes and numerical control machines. This equipment is sold to manufacturers in various industries for use in their manufacturing processes and in the products manufactured by them.

Markets served by B&W: The approximate distribution of 1976 and 1975 shipments by markets was as follows:

	1976	1975
Electric Utilities	50%	44%
Government	13	14
Warehouse and Distributors	7	10
Machinery	7	7
Chemical and Petroleum	5	4
Transportation	4	4
Fabricated Metal Products	3	6
Primary Metals	3	3
Pulp and Paper	3	3
Miscellaneous	5	5
	100%	100%

Lines of business: The company has developed largely through the integration of specially engineered industrial products needed for its own use and the extension of these products to other users. For example, material amounts of the company's tubular products are used to satisfy the company's requirements for tubes used in its steam generating equipment. Therefore, for purposes of reporting results of operations, the company considers itself to be engaged in a single line of business.

The percentage of consolidated sales attributable to the classes of products listed below for each of the last five years ending December 31, 1976 have been as follows:

	1976	1975	1974	1973	1972
Steam generating and associated equipment	78%	73%	72%	75%	78%
Tubular products	17%	21%	21%	19%	16%

The aggregate contribution of tubular products to consolidated operating income during the five year period ended December 31, 1976, has been larger than any other class of products. During each of those years the percentage contribution tubular products to consolidated operating incon has substantially exceeded their percentage con tribution to consolidated sales of all products.

Foreign operations: The company has major su sidiaries in Canada and Germany which are engaged in the manufacture of steam generating and associated equipment. The relative contribut of the company's foreign operations to sales and income from operations for 1976 is as follows:

(in thousands of dollars)

	Foreign operations	Domestic operations	Consolid
Sales	$197,300	$1,511,000	$1,691,8
Income (loss) from operations	(10,700)	122,100	111,4

*Less eliminations and adjustm

The company's foreign operations are discuss in more detail in the President's letter.

Summary of earnings per share

	1976 (a)	1975
1st quarter	$1.40	$ .84
2nd quarter	1.31	.80
3rd quarter	.81 (b)	.60
4th quarter	.85 (b)	1.25

(a) Earnings for the first three quarters of 1976 have been restated. In the fourth quarter of the year, the company chang actuarial cost methods used in determining pension expense effective as of January 1, 1976. This change had the effect of increasing the then reported net earnings for the first, second and third quarters by approximately $.04 per share. The effec the change on 1976 earnings for the full year was to increase net income by $.15 a share.

(b) Certain manufacturing plants of the company were on str during the third and fourth quarter of 1976. It is estimated that these strikes reduced net earnings by approximately $.21 per share in the third quarter and $.24 per share in the fourth qua

(c) Reflects reduction in net earnings of approximately $.28 p share due to the sale of a foreign investment previously accounted for on an equity basis.

Summary of dividends per share

	1976	1975
1st quarter	$.25	$.20
2nd quarter	.25	.20
3rd quarter	.25	.20
4th quarter	.30	.20

Range of stock prices*

	1976		1975	
	High	Low	High	L
1st quarter	29⅜	18¾	19⅝	1
2nd quarter	36½	26½	27⅝	1
3rd quarter	36¾	31½	27	
4th quarter	35⅝	28⅝	20¼	1

*NYSE and on the composite tape since January 22, 1976

Copies of the company's Annual Report for th year ended December 31, 1976 to the Securit and Exchange Commission on Form 10-K ar available without charge on written request to the Secretary.

Income and Retained Earnings

Ten-Year Comparison (in thousands of dollars)	For the Calendar Year	19
Sales (on percentage of completion method for long-term contracts)		$1,691,8
Costs and expenses except depreciation		1,547,8
Depreciation		32,6
		1,580,4
Income from operations		1,4
Income from investments		3,9
Interest expense		14,8
Income before taxes and minority interests		100,5
U.S. and foreign taxes on income		47,2
		53,3
Income applicable to minority interests		(2
Net income for the year		53,1
Cash dividends declared		12,8
Remainder, to retained earnings		40,3
Retained earnings at beginning of year		297,7
Retained earnings at end of year		$ 338,0

Changes in Financial Position

Ten-Year Comparison (in thousands of dollars)	For the Calendar Year	19
WORKING CAPITAL AT BEGINNING OF YEAR		$ 220,3
FINANCIAL RESOURCES WERE PROVIDED BY:		
Net income		53,1
Add or (deduct) items not affecting working capital:		
Depreciation		32,6
Amount due to subsidiary company by joint venturer for its share of losses		(7,2
Deferred income taxes, noncurrent		6
Income applicable to minority interests		2
Equity in undistributed earnings of affiliated companies		(5
Loss on sale of interest in Babcock & Wilcox Ltd.		
Working capital provided by operations for the period		78,8
Fair market value of common stock issued for purchase of minority interests in subsidiary		
Additional noncurrent borrowings		27,6
Proceeds on sale of interest in Babcock & Wilcox Ltd.		
Conversion of current debt to noncurrent		
		106,4
FINANCIAL RESOURCES WERE USED FOR:		
Additions to property, plant and equipment		62,0
Cash dividends declared		12,8
Reductions of noncurrent indebtedness		105,7
Purchase of interest in Babcock & Wilcox Ltd.		
Purchases of and other changes in minority interests		
Purchase of treasury stock		
Reclassification of amount due to subsidiary company by joint venturer for its share of prior years' losses		6,1
Other, net		2,5
		189,1
NET (DECREASE) INCREASE IN WORKING CAPITAL		(82,7
WORKING CAPITAL AT END OF YEAR		$ 137,6

Statistics

	19
Income from operations—% of sales	6.8
Net income for year—% of stockholders' equity first of year	14.3
Orders received—thousands of dollars	$1,589,6
Unfilled orders—thousands of dollars	$4,125,8
Common shares issued end of year	12,604,9
Per average number of shares outstanding*; 1976—12,140,867; 1975—12,110,646; 1974—12,105,748; 1973—12,146,573; 1972—12,406,339; 1967-71—12,366,626:	
*Income for year	$ 4
Cash dividends declared	1
*Stockholders' equity	34

1975	1974	1973	1972	1971	1970	1969	1968	196
$1,565,000	$1,277,200	$1,063,700	$ 955,900	$ 959,100	$ 826,400	$ 718,600	$ 647,600	$ 624,70
1,431,700	1,177,200	999,000	890,900	895,700	782,800	690,100	584,500	545,90
27,700	24,800	21,600	19,400	18,400	16,400	13,500	10,900	16,4(
1,459,400	1,202,000	1,020,600	910,300	914,100	799,200	703,600	595,400	562,3(
105,600	75,200	43,100	45,600	45,000	27,200	15,000	52,200	62,4(
1,300	5,800	3,800	3,200	1,900	1,400	500	900	3(
(23,900)	(22,100)	(10,200)	(6,400)	(8,300)	(11,400)	(9,000)	(3,400)	(1,4(
83,000	58,900	36,700	42,400	38,600	17,200	6,500	49,700	61,3(
40,700	24,700	14,500	17,900	17,200	6,400	200	23,700	27,3(
42,300	34,200	22,200	24,500	21,400	10,800	6,300	26,000	34,0(
	(100)	(100)	(100)	(700)	(800)	(600)	(800)	(8(
42,300	34,100	22,100	24,400	20,700	10,000	5,700	25,200	33,2(
9,600	9,700	9,700	6,800	6,200	8,800	16,700	16,700	16,7(
32,700	24,400	12,400	17,600	14,500	1,200	(11,000)	8,500	16,5(
265,000	240,600	228,200	210,600	196,100	194,900	205,900	197,400	180,9(
$ 297,700	$ 265,000	$ 240,600	$ 228,200	$ 210,600	$ 196,100	$ 194,900	$ 205,900	$ 197,4(

1975	1974	1973	1972	1971	1970	1969	1968	19(
$ 278,000	$ 134,500	$ 151,300	$ 144,500	$ 128,400	$ 141,200	$ 214,700	$ 180,700	$ 156,7(
42,300	34,100	22,100	24,400	20,700	10,000	5,700	25,200	33,2(
27,700	24,800	21,600	19,400	18,400	16,400	13,500	10,900	16,4(
2,000	1,300	1,200	1,100	3,500	3,900	5,000	3,900	
	100	100	100	700	800	600	800	8(
(1,200)	(3,200)	(2,700)	(600)					
2,500								
73,300	57,100	42,300	44,400	43,300	31,100	24,800	40,800	50,4(
			6,400					
17,900	6,900	14,500	14,600	72,400	13,500	22,000	59,000	28,0
22,700								
	155,000							
113,900	219,000	56,800	65,400	115,700	44,600	46,800	99,800	78,4
69,700	61,600	36,800	41,900	24,300	25,300	50,500	37,400	33,5(
9,600	9,700	9,700	6,800	6,200	8,800	16,700	16,700	16,7(
96,600	1,600	6,500	3,700	62,200	12,200	53,200	14,200	2,2(
		10,500			9,500			
(500)	100	(300)	3,800	4,800	200	200	300	3
		12,200						
(3,800)	2,500	(1,800)	2,400	2,100	1,400	(300)	(2,800)	1,7
171,600	75,500	73,600	58,600	99,600	57,400	120,300	65,800	54,4
(57,700)	143,500	(16,800)	6,800	16,100	(12,800)	(73,500)	34,000	24,0
$ 220,300	$ 278,000	$ 134,500	$ 151,300	$ 144,500	$ 128,400	$ 141,200	$ 214,700	$ 180,7

1975	1974	1973	1972	1971	1970	1969	1968	19
6.7%	5.9%	4.1%	4.8%	4.7%	3.3%	2.1%	6.1%	10.(
12.4%	10.8%	7.0%	8.3%	7.4%	3.6%	2.0%	9.0%	12.(
$1,678,200	$2,103,300	$1,884,300	$1,475,300	$ 867,900	$1,118,300	$ 812,800	$ 911,100	$1,099,3
$4,228,000	$4,114,700	$3,288,600	$2,467,900	$1,948,500	$2,039,700	$1,747,800	$1,653,600	$1,390,1
12,604,906	12,604,906	12,604,906	12,604,906	12,366,626	12,366,626	12,366,626	12,366,626	12,366,6
$ 3.49	$ 2.82	$ 1.82	$ 1.97	$ 1.67	$ .81	$ .46	$ 2.04	$ 2
.80	.80	.80	.55	.50	.72	1.36	1.36	1
30.91	28.22	26.11	25.54	23.69	22.51	22.42	23.31	22

Balance Sheets

Ten-Year Comparison (in thousands of dollars)	At December 31	1
ASSETS		
CURRENT ASSETS		
Cash	$	30,
Marketable securities		39,
Accounts receivable		271
Unbilled sales		76
Inventories		310,
TOTAL CURRENT ASSETS		728,
INVESTMENTS		8,
PROPERTY, PLANT AND EQUIPMENT		359,
PREPAID EXPENSES AND OTHER ASSETS		27,
TOTAL ASSETS		$1,124,
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	$	8,
Accounts payable and accrued liabilities		325
Provision for warranty expense		69,
Cash dividends payable		3,
U.S. and foreign income taxes		184,
TOTAL CURRENT LIABILITIES		591,
NONCURRENT INDEBTEDNESS		92,
DEFERRED INCOME TAXES		22,
MINORITY INTERESTS IN SUBSIDIARY COMPANIES		2,
TOTAL LIABILITIES		708,
STOCKHOLDERS' EQUITY		
Preferred stock authorized and unissued		
Common stock including capital surplus		88,
Retained earnings		338,
		426,
Less: Treasury stock, at cost		10,
TOTAL STOCKHOLDERS' EQUITY		415,
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$1,124,

Property, Plant and Equipment

Ten-Year Comparison (in thousands of dollars)	For the Calendar Year	1
COST		
At beginning of year	$	617,
Expenditures during year		62,
Other additions—initial consolidation of subsidiaries		
Retired or sold during year		(11,
At end of year		668,
ACCUMULATED DEPRECIATION		
At beginning of year		285,
Charged to operations during year		32,
Other additions—initial consolidation of subsidiaries		
Retired or sold during year		(9,
At end of year		309,
NET BOOK VALUE	$	359,

1975	1974	1973	1972	1971	1970	1969	1968	196
21,800	$ 47,900	$ 30,000	$ 21,300	$ 24,800	$ 26,500	$ 13,500	$ 16,200	$ 12,8(
40,000	400	600	18,300	1,000	500	1,900	1,200	5,3(
208,100	187,700	177,000	141,000	138,200	131,500	113,900	99,000	85,5(
173,200	177,500	123,400	103,500	101,000	95,800	84,600	67,100	47,9(
343,500	307,900	221,600	170,200	157,200	162,000	170,200	160,300	138,6(
786,600	721,400	552,600	454,300	422,200	416,300	384,100	343,800	290,1(
3,900	27,700	24,200	11,700	11,200	9,900	300	300	3(
332,200	291,600	253,100	238,300	216,500	211,300	202,600	165,600	139,4(
12,700	15,300	11,600	12,300	9,100	7,500	6,000	6,300	8,9(
$1,135,400	$1,056,000	$841,500	$716,600	$659,000	$645,000	$593,000	$516,000	$438,7(
75,700	$ 23,400	$ 73,000	$ 11,700	$ 11,600	$ 81,900	$ 86,300	$ 6,800	$ 3,7(
291,000	272,600	218,000	193,000	183,000	153,400	126,800	90,200	75,8(
55,900	40,800	42,400	33,800	32,500	23,000	12,600	8,000	4,4(
2,400	2,400	2,400	1,700	1,600	1,600	4,200	4,200	4,2(
141,300	104,200	82,300	62,800	49,000	28,000	13,000	19,900	21,3(
566,300	443,400	418,100	303,000	277,700	287,900	242,900	129,100	109,4(
171,000	249,700	86,400	78,400	67,500	57,300	56,000	87,200	42,4(
21,900	20,000	18,600	17,500	16,400	12,800	8,900	3,900	
1,800	1,300	1,300	800	4,500	8,600	8,000	7,600	7,2(
761,000	714,400	524,400	399,700	366,100	366,600	315,800	227,800	159,0(
88,600	88,700	88,700	88,700	82,300	82,300	82,300	82,300	82,3(
297,700	265,000	240,600	228,200	210,600	196,100	194,900	205,900	197,4(
386,300	353,700	329,300	316,900	292,900	278,400	277,200	288,200	279,7(
11,900	12,100	12,200						
374,400	341,600	317,100	316,900	292,900	278,400	277,200	288,200	279,7(
$1,135,400	$1,056,000	$841,500	$716,600	$659,000	$645,000	$593,000	$516,000	$438,7

1975	1974	1973	1972	1971	1970	1969	1968	19
$ 553,100	$ 494,100	$460,500	$426,400	$406,700	$383,300	$334,500	$296,300	$266,4
69,700	61,600	36,800	41,900	24,300	25,300	50,500	37,400	33,5
	3,400				200			4
(5,100)	(6,000)	(3,200)	(7,800)	(4,600)	(2,100)	(1,700)	(1,200)	(2,0)
617,700	553,100	494,100	460,500	426,400	406,700	383,300	334,500	298,3
261,500	241,000	222,200	209,900	195,400	180,700	168,900	156,900	144,0
27,700	24,800	21,600	19,400	18,400	16,400	13,500	10,900	16,4
	600				100			3
(3,700)	(4,900)	(2,800)	(7,100)	(3,900)	(1,800)	(1,700)	(900)	(1,8)
285,500	261,500	241,000	222,200	209,900	195,400	180,700	168,900	158,9
$ 332,200	$ 291,600	$253,100	$238,300	$216,500	$211,300	$202,600	$165,600	$139,4

The Babcock & Wilcox Company

Incorporated in 1881 from a partnership formed in 1867.

Directors

GEORGE G. ZIPF
Chairman and President,
The Babcock & Wilcox Company

*W. O. BAKER
President, Bell Telephone Laboratories, Inc.
–research and development
for the American Telephone & Telegraph Co.

*JOHN L. BURNS
President, John L. Burns & Company
–private investments

R. J. CANTWELL
Senior Executive Vice President,
The Babcock & Wilcox Company

*DONALD N. FREY
Chairman and Chief Executive Officer,
Bell & Howell Company–optical and mechanical
products for consumers and industry

*GEORGE C. KERN, JR.
Partner of the law firm of Sullivan & Cromwell

*JAMES C. PARLEE
Retired Vice Chairman, Inco Limited
–primary metals company

*WILLIAM L. WEARLY
Chairman and Chief Executive Officer,
Ingersoll-Rand Company–manufacturer of
industrial machinery and equipment

*S. H. WOOLLEY
Director and retired Chairman,
The Bank of New York

*Member of Audit Committee

Corporate Officers

Chairman and President
GEORGE G. ZIPF

Senior Executive Vice President
R. J. CANTWELL

Executive Vice Presidents

G. W. KROSS, JR., Tubular Products

H. D. KURT, Industrial Products

W. M. VANNOY, Power Generation

Vice Presidents

R. C. BASSETT, Purchasing and Traffic

S. W. BOONE, Public Affairs

W. P. CATTERSON, Treasurer

L. M. FAVRET, Nuclear Divisions, Power Generation

W. H. JACKSON, Marketing, Power Generation

H. D. KENNEY, Controller

H. H. POOR, Research and Development

A. C. TENDLER, International

MARTIN VICTOR, Secretary

L. B. WOHLGEMUTH, Sales, Tubular Products

R. E. WOOLBERT, Employee Relations

Operating Groups

Power Generation Group

W. M. VANNOY, Executive Vice President

Babcock-Brown Boveri Reaktor, GmbH
D. K. DAVIES, Director

Babcock & Wilcox Canada Ltd
T. M. CAMPBELL, President

B&W Construction Company
E. M. GRIFFIN, Division Vice President

Fossil Power Generation Division
D. E. HEYBURN, Division Vice President

TLT-Babcock, Inc.
F. G. RAYNOR, President

Industrial and Marine Division
E. C. MONCRIEF, General Manager

Nuclear Divisions
L. M. FAVRET, Vice President

Nuclear Equipment Division
W. B. BEISEL, Division Vice President

Nuclear Materials Division
J. S. DZIEWISZ, General Manager

Nuclear Power Generation Division
J. H. MacMILLAN, Division Vice President

Industrial Products Group

H. D. KURT, Executive Vice President

Automated Machine Division
S. W. BARANYK, Division Vice President

Bailey Meter Company
R. J. CAMPBELL, President

Control Components, Inc.
L. W. SMITH, President

Diamond Power Specialty Corporation
J. L. MENSON, President

Advanced Composites Department
J. E. ARENS, General Manager

Other Operating Divisions

Naval Nuclear Fuel Division
J. F. EWING, Division Vice President

Refractories Division
R. P. STUNTZ, Division Vice President

Tubular Products Division
G. W. KROSS, JR., Executive Vice President

Service Operations

Employee Relations
R. E. WOOLBERT, Vice President

Finance & Accounting
R. J. CANTWELL, Senior Executive Vice President

International
A. C. TENDLER, Vice President

Legal
MARTIN VICTOR, Vice President

Public Affairs
S. W. BOONE, Vice President

Washington Office
J. TAYLOR, JR., General Manager

Research and Development Division
Contract Research Division
H. H. POOR, Vice President

Purchasing and Traffic
R. C. BASSETT, Vice President

Facilities

Power Generation Group

BABCOCK & WILCOX CANADA LTD.
Cambridge, Ont., Canada

B&W CONSTRUCTION COMPANY
Copley, Ohio

BABCOCK-BROWN BOVERI REAKTOR, GmbH
Mannheim, West Germany

FOSSIL POWER GENERATION DIVISION
Barberton, Ohio; Brunswick, Ga.; Canton, Ohio; Paris, Texas; West Point, Miss.

TLT-BABCOCK, INC.
Akron, Ohio

INDUSTRIAL AND MARINE DIVISION
North Canton, Ohio; Wilmington, N. C.

NUCLEAR DIVISIONS

NUCLEAR EQUIPMENT DIVISION
Barberton, Ohio

NUCLEAR MATERIALS DIVISION
Apollo, Pa.; Parks Township, Pa.; Lynchburg, Va.

NUCLEAR POWER GENERATION DIVISION
Lynchburg, Va.; Mount Vernon, Ind.

Industrial Products Group

AUTOMATED MACHINE DIVISION

W.F. & JOHN BARNES
Rockford, Ill.; Roseland, N.J.

DETROIT BROACH & MACHINE
Greer, S. C.; Rochester, Mich.

NUCERMET
East Flat Rock, N.C.; Lynchburg, Va.

BAILEY METER COMPANY
Wickliffe, Ohio; Williamsport, Pa.

BELFAB
Daytona Beach, Fla.

BAILEY JAPAN COMPANY, LIMITED
Shizuoka, Japan

BAILEY METER AUSTRALIA PTY. LTD.
Regents Park, N. S. W., Australia

BAILEY METER COMPANY LIMITED
Pointe-Claire, Que., Canada

FIBRAS CERAMICAS INC.
Ponce, Puerto Rico

BAILEY METER GmbH
Mannheim, West Germany

CONTROL COMPONENTS, INC.
Irvine, Calif.

NIPPON CONTROL COMPONENTS K.K.
Tokyo, Japan

DIAMOND POWER SPECIALTY CORPORATION
Lancaster, Ohio

DIAMOND CANAPOWER LTD.
Burlington, Ont., Canada

DIAMOND POWER SPECIALTY LTD.
Dumbarton, Scotland

DIAMOND SUPERIOR A.B.
Bromma, Sweden

DIAMOND POWER GmbH
Oberhausen, West Germany

ADVANCED COMPOSITES DEPARTMENT
Alliance, Ohio

Other Operating Divisions and Subsidiaries

NAVAL NUCLEAR FUEL DIVISION
Lynchburg, Va.

REFRACTORIES DIVISION
Augusta, Ga.; Hephzibah, Ga.

BABCOCK & WILCOX REFRACTORIES LIMITED
Burlington, Ont., Canada

HOLMES INSULATIONS LTD.
Sarnia, Ont., Canada

PRODUCTOS DE CAOLIN, INC.
Ponce, Puerto Rico

BABCOCK & WILCOX FIBRAS CERAMICAS LTDA.
Rio de Janeiro, Brazil

TUBULAR PRODUCTS DIVISION
Alliance, Ohio; Ambridge, Pa.; Beaver Falls, Pa., Elkhart, Ind.; Milwaukee, Wis.

BABCOCK & WILCOX TUBULAR PRODUCTS LIMITED
Toronto, Ont., Canada

RESEARCH AND DEVELOPMENT DIVISION
Alliance, Ohio; Lynchburg, Va.

CONTRACT RESEARCH DIVISION
Alliance, Ohio

General Offices
161 East 42nd Street, New York, N.Y. 10017

Stock Transfer Agent
Bankers Trust Company, 16 Wall Street, New York, N.Y. 10015
2 Broadway, New York, N.Y. 10004

Registrar
The Bank of New York, 48 Wall Street, New York, N.Y. 10015

General Counsel
Sullivan & Cromwell, 48 Wall Street, New York, N.Y. 10005

Independent Accountants
Price Waterhouse & Co., 60 Broad Street, New York, N.Y. 10004

Stock Listed
New York Stock Exchange and Pacific Stock Exchange

Notice to Stockholders

The Annual Meeting of Stockholders will be held at 10 A.M., Wednesday, April 27, 1977, in the Biltmore Hotel, New York City. A formal notice of the meeting with a proxy statement and form of proxy will be mailed to each stockholder March 18.