3 May 2006

BABCOCK INTERNATIONAL GROUP PLC

2005/6 PRELIMINARY RESULTS

Babcock International Group PLC, the Support Services company, announces its preliminary results for the year ended 31 March 2006. These results are prepared under International Financial Reporting Standards and include the Peterhouse acquisition for a full twelve months (2005: nine and a half months).

Statutory	**March 2006**	March 2005	% Change
Revenue	**£836.7m**	£729.0m	+15
Operating profit	**£46.6m**	£35.3m	+32
Profit before tax	**£41.3m**	£29.5m	+40
Continuing earnings per share	**16.06p**	11.20p	+43
Dividend proposal – full year	**6.00p**	4.00p	+50
Net debt	**£38.2m**	£62.9m	

The following additional numbers show the "underlying" results before amortisation of acquired intangibles £3.1m (2005: £4.4m) and operating exceptional losses £0.2m (2005: £1.8m), and before the related tax effects of credit £1.0m (2005: £nil). We believe that these adjusted results provide a better indication of our performance.

Underlying	**March 2006**	March 2005	% Change
Operating profit	**£49.9m**	£41.5m	+20
Profit before tax	**£44.6m**	£35.7m	+25
Continuing earnings per share	**17.18p**	14.48p	+19

Business highlights:

- Record results: sales up 15%, underlying PBT up 25%
- Significant contracts secured, supporting further growth:
  - Eastern Regional Prime, Network Rail High Output and contract extension for management of HM Naval Base Clyde
- Order book of £2.3bn provides excellent visibility
- Strong balance sheet – year end net debt £38.2m, overall pension surplus
- Full year dividend up 50%, final by 60% to 4.25p – in line with declared policy
- Excellent growth opportunities in all our markets, including defence, rail, telecoms and transmission
- Further major opportunities include:
  - Royal School of Military Engineering contract - financial close expected in mid 2007
  - Defence Training Review - decision expected in October 2006
- Potential for further acquisitions

Commenting, Peter Rogers Chief Executive, said:

“2005/2006 was another excellent year for Babcock. It is the fourth successive year of double-digit sales and profit growth. Underlying earnings per share increased by 19% to 17.18p.

“We continue to be successful in winning major contracts, with Eastern Regional Prime being the latest example; the contract started in March and the profit flows from this reinforce our confidence for the future. The visibility of revenue resulting from an order book totalling £2.3 billion gives us further confidence in both the short and medium term prospects for Babcock.

“We are currently awaiting adjudication on bids totalling over £5 billion. Of particular note are the bids for the Royal School of Military Engineering and the Defence Training Review which could add around £100 million a year to revenues for 25 years.

“The robust financial health of the Group gives us scope to undertake further acquisitions during this year in the technically demanding areas in which we operate.

“Overall, the foundation laid in the last four years in transforming Babcock into a leading support services company, our success in bidding, and our strong financial position lead us to look forward with confidence to our future as an independent Group”.

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Chairman's Statement

2005/6 was another record year for Babcock with profit before tax, before amortisation of acquired intangibles and exceptional items, increasing by 25% following a very strong performance in the previous year. The Directors are recommending a final dividend of 4.25p per share giving a total dividend for the year of 6.0p per share, an increase of 50% on the previous year. This reflects the increased earnings, our confidence in Babcock's future prospects and our previous guidance that we intend to reduce the cover progressively to between 3 and 2.5 times.

The share price continued to improve during the year and reached 270p before the announcement on 23 March 2006 that VT Group and BAE Systems were contemplating making an offer for Babcock, amongst other options. This level of share price represents an out-performance over five years of 167% compared to the FTSE All-Share index (excluding investment trusts) - £100 invested in Babcock on 31 March 2001 would have been worth £391 on 31 March 2006, compared to £131 had it been invested in that index.

The Board welcomes the Takeover Panel's ruling that VT Group and BAE Systems should clarify their positions by 18 May 2006 and at this time the Board cannot make any further comment as we have had no indication as to whether an offer will be forthcoming or the level of any offer.

As previously stated, Babcock has been in discussion with industry participants and with the Ministry of Defence about various options for both submarine and surface ship support in relation to the restructuring of the UK maritime sector and fully supports this initiative insofar as it is value adding for Babcock's shareholders. These discussions have not however extended to the possibility raised by VT Group and BAE Systems of their jointly bidding for the Group. The Board believes that such a bid risks undervaluing our successful support services operations and the excellent long-term prospects of Rosyth. In addition, it is important to recognise that the marine business now comprises less than 20% of the Babcock business.

Babcock's financial position is strong with net debt as at 31st March 2006 of only £38.2m and an overall pension surplus. Further, we have an order book of £2.3 billion and a further £5 billion of bids currently under adjudication.

We are confident that Babcock's performance will continue to improve, with contracts such as Eastern Regional Prime, Network Rail High Output and the extension of the contract for the management of HM Naval Base Clyde, each starting to contribute in this financial year. In addition, the growth prospects in our other non-defence area should also contribute to further enhanced earnings.

The Board believes that the underlying value of Babcock should continue to increase, and recommends that shareholders take no action until the position with regard to the possible bid is clarified. The Board is confident of Babcock's prospects and is convinced the Group is well placed to continue to develop and grow as an independent entity.

Gordon Campbell
Chairman

Babcock International Group plc

2005/6 Preliminary Results

Operational Review

Introduction

The 2005/06 Financial Year continued the successful trend set in previous years with sales growing by a further 15% and operating profits (before amortisation of acquired intangibles and exceptional items) by 20%. Earnings per share increased to 17.18p, an increase of 19% compared to last year.

The improvement in operating profit is particularly pleasing given the previously forecast fall off in contribution from Technical Services (£9.0 million compared to £14.3 million in 2005). Operating profit growth across our other divisions (including a full year contribution from the Peterhouse businesses) was £13.7 million or 50%.

Contract wins in Eastern Regional Prime, Network Rail High Output and the extension to the contract for the management of HM Naval Base Clyde give us confidence that growth will be sustained.

The contract for the Royal School of Military Engineering is now in the final stages of its approval process within the Ministry of Defence and we expect to move to financial close in mid 2007. We continue to have confidence in the high quality bid submitted for the Defence Training Review where a decision on the preferred bidder is expected in October 2006. These two contracts would add an estimated £100 million to turnover in a full year.

During 2005/06, and shortly after the year-end, we disposed of the remaining non-core businesses acquired with the Peterhouse Group.

Each of the businesses which we now operate is highly rated in its respective market and is therefore well placed to take a substantial share of the growth opportunities available to it.

Defence Services: turnover £271.7 million (2004/05: £245.1 million) – operating profit £21.8 million (2004/05: £16.8 million)

2005/06 was an excellent year for Defence Services, with sales increasing by 11% and operating profit by 30%.

Looking forward, the securing of the Regional Prime East Contract (where delivery of service began only in March 2006) and the extension to the contract for HM Naval Base Clyde, give us confidence that growth will continue in 2006/07. Revenues from these two contracts are in excess of £120 million a year. We are also confident that an extension will be granted for the Single Living Accommodation Modernisation (SLAM) programme which will further strengthen Babcock's position as the leading supplier of built infrastructure support to the Ministry of Defence.

We continue to obtain additional revenue from Prime Contracts and are in active negotiation with Defence Estates on a number of additional projects which we expect will increase revenue and profits on each of the South-West and Eastern Prime Contracts.

Technical Services: turnover £130.5 million (2004/05: £159.0 million) – operating profit £9.0 million (2004/05: £14.3 million)

We have continued to manage the expected temporary decline in warship refit activity at Rosyth and have succeeded in retaining a profitable business. The Design and Technology businesses, Supply Chain Services and the Nuclear Decommissioning businesses each made excellent profit contributions during the year and are well placed to deliver future growth. In the current year only 40% of revenue is expected to be provided by the warship refit business.

Recent allocations of ship refit work will provide a greater volume of work than had been previously anticipated for the current financial year and as an expression of its confidence in the Rosyth business, the Ministry of Defence has agreed to extend its responsibility for redundancy costs at Rosyth until March 2007.

The Secretary of State for Defence has confirmed Rosyth as the site for the final assembly and integration of the CVF (future aircraft carrier) and we are participating fully in the Aircraft Carrier Alliance. We have already been awarded an initial contract for the early production design and planning stages of the project. Whilst the Ministry of Defence has not yet indicated a start date for construction, we would expect this to be in 2008/09.

The moves by the Ministry of Defence away from direct competition in the warship refit market in favour of establishing an industry alliance are also expected to bring substantial benefits to Rosyth in terms of workload and margin predictability.

Engineering and Plant Services: turnover £144.2 million (2004/05: £112.7 million) – operating profit £9.7 million (2004/05: £4.8 million)

The African business continued its outstanding growth record and won the Volvo International Dealer of the Year Award for the third successive year. Margins further improved and exceeded 6%.

The economy in South Africa continues to be in robust health and spending on infrastructure is forecast to underpin future economic growth. In particular, the expenditure on electrical generation and transmission will provide very significant opportunities over the next five years for our engineering business. Similarly basic infrastructure investment on roads and urban development will continue to generate a strong demand for the Volvo product. Sales of replacement parts for Volvo are growing in line with our expectations and at very satisfactory margins.

We are continuing negotiations with ABB over the acquisition of its Powerlines business. While we expect a successful outcome, the possible bid for Babcock has complicated the negotiations.

Eagleton, the small US based pipeline business returned to profitability during the year and prospects for the business are now better than at any time in the last three years, as activity in the US petrochemical industry continues to rise, reflecting increased oil prices.

Networks: turnover £73.0 million (2004/05: £45.2 million) – operating profit £6.4 million (2004/05: £2.9 million)

Networks had an excellent year as 3G roll-out and high voltage network projects continued at good levels. Activity in the transmission market rose above the prior year and the level of bidding activity for work in the 2006-2008 period now clearly supports our view that the total size of the market will double from current levels during that period. The current value of tenders under preparation or submitted for work during the period is approximately £500 million.

The skills in our networks businesses – both white and blue collar – remain scarce and we are investing significant amounts in training people for the future increase in workflow. The CARE predictive deterioration model continues to be well received by National Grid and the system is now being modified to widen its application to mobile telephone infrastructure.

Rail: turnover £217.3 million (2004/05: £167.0 million) – operating profit £8.8 million (2004/05: £8.4 million)

Our rail business continued to make good progress during the period with growth in the track business and the long awaited return of high volumes in the signalling market resulting in increases in both turnover and profits. Secured business for 2007 at £157 million is 148% ahead of the position at this stage last year.

Margins in the rail business continue to be lower than in our other businesses but we are addressing this through the replacement of the outdated IT systems inherited with the Peterhouse acquisition. The replacement of these systems is now largely complete and we expect to make significant savings in overheads in the Rail business over the next twelve months.

Network Rail continues to improve the performance of the infrastructure and has secured funding over the next three years and the probability is that the regulator will be prepared to continue funding at current levels for a significant period. We continue to work with Network Rail to improve efficiencies and productivity.

Outlook

The trading environment for the Babcock businesses remains excellent. In the UK, the Ministry of Defence continues with major outsourcing programmes, Network Rail funding remains secure and the expenditure on renewing the high voltage network is rising rapidly. The South African economy continues to expand and the need to renew infrastructure and programmes for increased power generation will bring significant business opportunities to Babcock for the next five years.

We are confident that the RSME project will move to financial close sufficiently early to provide revenues in the 2007/08 financial year and remain positive on the chances of our bid for the Defence Training Review.

We are progressing our plans for further acquisitions and remain confident that we can extend our track record of successful identification, acquisition and integration of other businesses in the technically sophisticated area of support services in which we operate. We anticipate that further businesses will be acquired during the current year. The strength of the balance sheet and continuing excellent cash management will ensure that the required resources are available. We will continue to apply rigorous financial discipline in the assessment of potential acquisitions to ensure that shareholder value continues to be enhanced.

We remain confident that, with an order book totalling approximately £2.3 billion, our momentum can be sustained. Overall, the clear visibility provided by the order book gives us confidence that both the short and medium term prospects for the Group are excellent.

Preliminary Statement – Financial Review

In this review, unless otherwise stated, revenue ('turnover'), operating profit, operating margin, profit before tax and earnings per share refer to results from continuing operations, before amortisation of acquired intangibles and exceptional items. We believe that these adjusted results provide a better comparison of underlying performance. An analysis of amortisation of acquired intangibles, exceptional items and discontinued businesses is presented in separate sections of the review. The financial statements and accompanying notes have been prepared under International Financial Reporting Standards and comparative numbers for financial year 2005 have been restated accordingly. Details of how the 2005 prior year results were adjusted were released in July 2005 and are available on the Babcock International Group plc website.

Turnover and operating profit

At £837 million, turnover increased 15% on 2005 (£729 million) including significant growth in Defence Services, up 11% and Networks, up 62%. Similarly turnover in Rail was higher by 30% and Engineering and Plant Services 28%. Group operating profit increased 20% to £49.9 million from £41.5 million last year, with Defence Services, Networks and Engineering and Plant Services businesses all continuing to increase their respective operating margins. Despite the anticipated decline in activity levels and margins in Technical Services, the Group's operating margin increased further to 6.0%, up from 5.7% in 2005.

Interest and profit before tax

Net finance costs (interest payable) were £5.2 million (2005; £6.0 million) following strong cash generation in the second half of the year. At this level, net finance costs were covered over 9 times by operating profit (2005; 7 times).

After charging net finance costs, profit before tax was £44.6 million (2005; £35.7 million) an increase of 25% year-on-year.

Cash flow

Cash conversion, defined as cash generated from operations as a percentage of operating profit, was 119%, and continued to exceed our target of over 80% conversion over the medium term. Expenditure on capital assets, excluding intangibles, totalled £6.8 million or one times depreciation and 0.8% of turnover.

Our focus on cash management reduced net debt to £38.2 million at the year-end, representing gearing of 22%, down from £62.9 million at 31 March 2005, £52.3 million at 30 September 2005 and proforma debt at the completion of the acquisition of Peterhouse of £104.5m. Additionally during the year, we successfully renegotiated our £140 million revolving credit facility on to a five-year term at significantly lower interest rates. When combined with its strong balance sheet position, this gives the Group significant headroom to continue to pursue its successful organic and acquisitive growth strategy.

Pensions

We continue to manage the assets and liabilities of the Group's defined benefit pension schemes closely and at the end of the year the schemes were in net IAS19 surplus of £29.3 million (2005; deficit £20.3 million) before the related deferred tax liability, a position that compares very favourably to that of many other companies.

Amortisation and exceptional items

Amortisation of acquired intangibles charged to profit was £3.1 million (2005; £4.4 million) and operating exceptional charges totalled £0.2 million (2005; £1.8 million). Operating exceptional charges comprised restructuring costs of £1.5 million, largely offset by a £1.3 million pensions curtailment gain, in the Technical Services business. After amortisation of acquired intangibles and operating exceptional items, profit before tax was £41.3 million (2005; £29.5 million), up 40% year-on-year.

Taxation

The Group tax charge on continuing operations at £9.2 million represented an effective rate of 20.6%, down from 23.1% in 2005 as a result of lower tax rates applied to overseas earnings.

Discontinued operations

The Group sold three of its four non-core businesses during the year to 31 March 2006 and in April 2006 completed the full disposal programme with the sale of the remaining business. The results of all of these businesses have been included in discontinued operations, which net of tax lost £0.6 million in the year. The loss on disposals in the year totalled £0.2 million and the net asset impairment on the business sold subsequent to the year-end was £1.8 million.

Earnings per share and dividends

Basic earnings per share from continuing operations rose to 17.18 pence (2005; 14.48 pence), an increase of 19%. After charging amortisation of acquired intangibles and exceptional items, basic earnings per share was 16.06 pence (2005; 11.20 pence) representing an increase of 43%. After including discontinued operations, post amortisation of intangibles and exceptional items, current year earnings per share was 14.49 pence against 10.08 pence last year.

The Group's policy, as stated in last year's preliminary results announcement, is to target dividend cover over the medium term in the range of 2.5 to 3.0 times, measured using profits after tax from continuing operations, before amortisation of acquired intangibles and exceptional items. On the basis of the significant growth in earnings per share and further strong cash flows this year, the directors are pleased to recommend a final dividend of 4.25 pence per share (2005; 2.65 pence). The proposed full year dividend is therefore 6.0 pence per share, an increase of 50% as compared to 4.0 pence per share last year.

BABCOCK INTERNATIONAL GROUP PLC
GROUP INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2006

	Note	**2006 Before acquired intangible amortisation and exceptional items (unaudited) £m**	**2006 Acquired intangible amortisation and exceptional items (unaudited) £m**	**2006 Total (unaudited) £m**	2005 Before acquired intangible amortisation and exceptional items (unaudited) £m	2005 Acquired intangible amortisation and exceptional items (unaudited) £m	2005 Total (unaudited) £m
Revenue		**836.7**	**-**	**836.7**	729.0	-.	729.0
Operating profit		**49.9**	**(3.3)**	**46.6**	41.5	(6.2)	35.3
Finance costs		**(8.9)**	**-**	**(8.9)**	(8.5)	-	(8.5)
Finance income		**3.7**	**-**	**3.7**	2.5	-	2.5
Share of operating profit/(loss) from joint ventures (net of tax)		**(0.1)**	**-**	**(0.1)**	0.2	-	0.2
Profit before tax		**44.6**	**(3.3)**	**41.3**	35.7	(6.2)	29.5
Income tax expense	5	**(9.2)**	**1.0**	**(8.2)**	(8.2)	-	(8.2)
Profit for the year from continuing operations		**35.4**	**(2.3)**	**33.1**	27.5	(6.2)	21.3
Discontinued operations	4						
Loss for the year from discontinued operations		**(0.6)**	**(2.6)**	**(3.2)**	(0.5)	(1.6)	(2.1)
Profit for the year		**34.8**	**(4.9)**	**29.9**	27.0	(7.8)	19.2
Attributable to:							
Equity holders of the parent				**29.7**			19.1
Minority interest				**0.2**			0.1
				29.9			19.2
Earnings per share from continuing and discontinued operations	6						
- Basic				**14.49p**			10.08p
- Diluted				**14.15p**			10.07p
Earnings per share from continuing Operations	6						
- Basic				**16.06p**			11.20p
- Diluted				**15.68p**			11.18p

Dividends
Amounts recognised as distributions to equity holders in the year:

	2006 £m	2005 £m
Final dividend for the year ended 31 March 2005 of 2.65p (2004: 2.10p) per 60p share	**5.4**	4.2
Interim dividend for the year ended 31 March 2006 of 1.75p (2005: 1.35p) per 60p share	**3.6**	2.8
Dividends paid during the year	**9.0**	7.0
Proposed final dividend for the year ended 31 March 2006 of 4.25p (2005: 2.65p) per 60p share	8.7	5.4

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in the financial statements. The dividend, subject to shareholders approval, will be paid on 7 August 2006 to shareholders registered on 7 July 2006.

BABCOCK INTERNATIONAL GROUP PLC
GROUP BALANCE SHEET
AT 31 MARCH 2006

	Note	**2006 (unaudited) £m**	2005 (unaudited) £m
Assets			
Non-current assets			
Goodwill		**164.0**	161.3
Other intangible assets		**13.8**	14.8
Property, plant and equipment		**25.3**	36.0
Investment in joint ventures		**0.6**	0.6
Other investments		**-**	0.1
Retirement benefits		**64.9**	41.5
Trade and other receivables		**0.3**	0.4
Deferred tax		**4.5**	11.8
		273.4	**266.5**
Current assets			
Inventories		**41.5**	40.6
Trade and other receivables		**168.5**	232.2
Income tax recoverable		**0.2**	0.3
Other financial assets		**0.1**	-
Cash and cash equivalents	10	**109.0**	33.1
		319.3	**306.2**
Assets held for sale	4	**9.6**	-
Total assets		**602.3**	**572.7**
Equity and liabilities			
Equity attributable to equity holders of the parent	7		
Share capital		**125.5**	125.0
Share premium		**69.7**	69.3
Other reserves		**32.3**	30.7
Retained earnings		**(57.3)**	(112.7)
		170.2	**112.3**
Minority interest		**0.4**	0.1
Total equity		**170.6**	**112.4**
Non-current liabilities			
Bank and other borrowings	10	**6.5**	8.3
Income tax payable		**0.1**	-
Retirement liabilities		**35.6**	61.8
Provisions for other liabilities		**12.6**	23.4
		54.8	**93.5**
Current liabilities			
Trade and other payables		**212.9**	263.0
Income tax payable		**7.0**	6.2
Other financial liabilities		**0.2**	-
Bank and other borrowings	10	**140.7**	87.7
Provisions for other liabilities		**12.3**	9.9
		373.1	**366.8**
Liabilities held for sale	4	**3.8**	-
Total liabilities		**431.7**	**460.3**
Total equity and liabilities		**602.3**	**572.7**

BABCOCK INTERNATIONAL GROUP PLC
GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2006

	Note	**2006 (unaudited) £m**	2005 (unaudited) £m
Cash flows from operating activities			
Cash generated from operations	8	**54.1**	43.5
Income tax paid		**(5.8)**	(4.8)
Interest paid		**(8.9)**	(8.4)
Interest received		**3.8**	2.5
Net cash flows from operating activities		**43.2**	32.8
Cash flows from investing activities			
Proceeds on disposal of other investments		**-**	5.0
Disposal of subsidiaries		**2.5**	(3.2)
Proceeds on disposal of property, plant and equipment		**0.9**	4.9
Purchases of property, plant and equipment		**(6.8)**	(4.5)
Purchases of intangible assets		**(2.7)**	(1.4)
Acquisition of subsidiary net of cash acquired		**(4.3)**	(26.5)
Net cash flows from investing activities		**(10.4)**	(25.7)
Cash flows from financing activities			
Dividends paid		**(9.0)**	(7.0)
Finance lease principal payments		**(3.6)**	(3.3)
Bank loans (repaid)/raised		**(22.5)**	23.1
Net proceeds on issue of shares		**0.9**	-
Movement on own shares		**-**	0.3
Net cash flows from financing activities		**(34.2)**	**13.1**
Net increase in cash, cash equivalents and bank overdrafts		**(1.4)**	20.2
Cash, cash equivalents and bank overdrafts at beginning of year		**26.4**	6.3
Effects of exchange rate fluctuations		**0.3**	(0.1)
Cash, cash equivalents and bank overdrafts at end of year	10	**25.3**	26.4

BABCOCK INTERNATIONAL GROUP PLC
GROUP STATEMENT OF TOTAL RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 31 MARCH 2006

	2006 (unaudited) £m	2005 (unaudited) £m
Profit for the year (including discontinued operations)	**29.9**	19.2
Currency translation differences	**1.6**	0.1
Net actuarial gains/(losses) in respect of pensions	**42.2**	(34.8)
Tax on net actuarial gains/(losses) in respect of pensions	**(12.6)**	10.4
Total recognised income and expense	**61.1**	(5.1)
Attributable to:		
Equity holders of the parent	**60.8**	(5.2)
Minority interest	**0.3**	0.1
	61.1	(5.1)

BABCOCK INTERNATIONAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006

1. Accounting policies and basis of preparation

The financial information in this statement contains extracts from the Babcock International Group Plc ("the Group") 2006 Annual Report, which will be issued in June 2006 and are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union and IFRIC interpretations. A description of how the Group's reported results and forward position are affected by the change from UK GAAP, including reconciliation's from UK GAAP to IFRS for prior year results and the revised summary of significant accounting policies under IFRS is shown on the Group's website at www.babcock.co.uk. These Accounting Policies (that comply with IFRS and IAS) adopted by the Group will be presented in our 2006 Annual Report.

The group has adopted the exemption not to restate comparatives for IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' but to apply these standards from 1 April 2005. As a result the comparative information to the 2006 financial statements are presented on the existing UK GAAP basis in relation to these standards. A reconciliation between the closing 31 March 2005 balance sheet and the opening 1 April 2005 balance sheet is set out in the 2005 Interim Report issued in November 2005.

In accordance with IFRS 5, the restated Group Income Statement previously disclosed has been updated to reflect the impact of current period discontinued operations on comparative figures.

2. Segmental analysis

	2006 Group revenue (unaudited) £m	**2006 Operating profit before acquired intangible amortisation, exceptional items (unaudited) £m**	**2006 Acquired intangible amortisation and exceptional items (unaudited) £m**	**2006 Group operating profit (unaudited) £m**	2005 Group revenue (unaudited) £m	2005 Operating profit before acquired intangible amortisation, exceptional items (unaudited) £m	2005 Acquired intangible amortisation and exceptional items (unaudited) £m	2005 Group operating profit (unaudited) £m
Continuing operations								
Defence Services	271.7	21.8	-	21.8	245.1	16.8	-	16.8
Technical Services	130.5	9.0	(0.2)	8.8	159.0	14.3	-	14.3
Engineering and Plant Services	144.2	9.7	-	9.7	112.7	4.8	-	4.8
Networks	73.0	6.4	(0.7)	5.7	45.2	2.9	(0.6)	2.3
Rail	217.3	8.8	(2.4)	6.4	167.0	8.4	(3.8)	4.6
Unallocated	-	(5.8)	-	(5.8)	-	(5.7)	(1.8)	(7.5)
Total continuing operations	836.7	49.9	(3.3)	46.6	**729.0**	**41.5**	**(6.2)**	**35.3**
Discontinued operations (net of tax)	28.0	(0.6)	(2.6)	(3.2)	29.6	(0.5)	(1.6)	(2.1)
Group total	**864.7**	**49.3**	**(5.9)**	**43.4**	**758.6**	**41.0**	**(7.8)**	**33.2**

The tax credit related to discontinued operations was £0.4m within operating profit (2005: £0.2m) and £0.7m within exceptionals (2005: £nil).

The share of joint venture results not separately disclosed above are;

	Year ended 31 March 2006				Year ended 31 March 2005			
	Revenue (unaudited) £m	**Operating profit (unaudited) £m**	**Tax and interest (unaudited) £m**	**Net JV results (unaudited) £m**	Revenue (unaudited) £m	Operating profit (unaudited) £m	Tax and interest (unaudited) £m	Net JV results (unaudited) £m
Continuing operations								
Defence Services	**1.3**	**0.1**	**-**	**0.1**	1.3	0.3	(0.1)	0.2
Technical Services	**-**	**-**	**-**	**-**	1.7	0.2	-	0.2
Networks	**0.3**	**(0.1)**	**-**	**(0.1)**	0.1	(0.2)	-	(0.2)
Rail	**-**	**-**	**(0.1)**	**(0.1)**	-	-	-	-
Total continuing operations	**1.6**	**-**	**(0.1)**	**(0.1)**	**3.1**	**0.3**	**(0.1)**	**0.2**

3. Operating exceptional items and acquired intangible amortisation

In 2006 within continuing operations there is an exceptional redundancy cost arising within the Technical Services segment of £1.5m which is largely offset by a pension curtailment gain of £1.3m also arising in relation to the redundancies.

In 2005 exceptional items for continuing operations were £1.8m. This related to £0.8m of restructuring costs and £4.8m of goodwill write-off offset by a pension curtailment gain of £5.6m within the Technical Services segment, £8.8m credit relating to the transfer of rail maintenance back to Network Rail, offset by £8.8m of exceptional acquired intangible amortisation relating to rail maintenance and a £1.8m charge relating to the closure costs of the Peterhouse head office in the unallocated segment.

In 2006 acquired intangible amortisation was £3.1m (2005: £4.4m), with £0.7m (2005: £0.6m) relating to networks and £2.4m (2005: £3.8m) relating to rail segment.

4. Discontinued operations

Four businesses are treated as discontinued operations within these statements. The trade and net assets of Pivotal Services Group (previously in the HS&E segment) was disposed of on 22 July 2005, the trade and net assets of IETG (also previously in the HS&E segment) was disposed of on 16 February 2006.

The trade and net assets of EPS GmbH (previously in the Networks segment) were disposed of on 27 March 2006. Eve Trakway Limited (also previously in the Networks segment) was disposed of post year end on 4 April 2006 and has been impaired within these statements and included as assets and liabilities held for sale.

Discontinued operations analysis is as follows:

	2006 £m (Unaudited)	2005 £m (Unaudited)
Revenue	**28.0**	29.6
Operating loss:	**(1.0)**	(0.7)
Taxation	**0.4**	0.2
Net loss after tax	**(0.6)**	(0.5)
Exceptional items:		
Loss on disposal	**(0.2)**	(0.4)
Impairment to reflect disposal post year end	**(1.8)**	-
Costs on previously disposed of businesses	**(1.3)**	(1.2)
	(3.3)	(1.6)
Taxation	**0.7**	-
	(2.6)	(1.6)

5. Income tax expense

The charge for taxation of £8.2m (2005: £8.2m) includes a charge of £3.0m (2005: £2.1m) in respect of overseas current and deferred taxes, and a charge of £5.2m (2005: £6.1m) in respect of UK current and deferred taxes. The effective rate of tax in respect of profits before acquired intangible amortisation, exceptional items, share of operating profit from joint ventures and discontinued operations is 20.6% (2005: 23.1%). This is lower than the statutory rate of 30% (2005: 30%) due to the net effect of overseas rate differences and permanent differences (both overseas and UK).

6. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year excluding those held in the Babcock Employee Share Trust and the Peterhouse Employee Share Trust. The calculation of the basic and diluted EPS is based on the following data:

Number of shares

	2006 Number	2005 Number
Weighted average number of ordinary shares for the purpose of basic EPS	204,638,536	189,193,887
Effect of dilutive potential ordinary shares: share options	4,996,555	258,810
Weighted average number of ordinary shares for the purpose of diluted EPS	209,635,091	189,452,697

Earnings

	2006 Earnings £m	**2006 Basic per share pence**	**2006 Diluted per share pence**	2005 Earnings £m	2005 Basic per share pence	2005 Diluted per share pence
Continuing and discontinued operations						
Earnings from continuing and discontinued operations	**29.7**	**14.49**	**14.15**	19.1	10.08	10.07
Add back:						
Amortisation of acquired intangible assets, net of tax	**2.2**	**1.06**	**1.04**	3.0	1.64	1.63
Exceptional items, net of tax	**2.7**	**1.32**	**1.29**	4.8	2.50	2.51
Earnings before amortisation and exceptionals	**34.6**	**16.87**	**16.48**	26.9	14.22	14.21
Continuing operations						
Earnings from continuing operations	**32.9**	**16.06**	**15.68**	21.2	11.20	11.18
Add back:						
Amortisation of acquired intangible assets, net of tax	**2.2**	**1.06**	**1.04**	3.1	1.64	1.64
Exceptional items, net of tax	**0.1**	**0.06**	**0.06**	3.1	1.64	1.64
Earnings before discontinued operations, amortisation and exceptionals	**35.2**	**17.18**	**16.78**	27.4	14.48	14.46

7. Statement of changes in equity

	Share capital	Share premium	Capital redemption	Retained earnings	Translation reserve	Total	Minority interests	Year ended 31 March
At 1 April 2004	90.1	38.6	30.6	(100.7)	-	58.6	-	58.6
Shares issued in the period	34.9	30.7	-	-	-	65.6	-	65.6
Total recognised income and expense	-	-	-	(5.3)	0.1	(5.2)	0.1	(5.1)
Dividends	-	-	-	(7.0)	-	(7.0)		(7.0)
Share based payments	-	-	-	0.9	-	0.9	-	0.9
Tax on share based payments	-	-	-	(0.2)	-	(0.2)	-	(0.2)
Movement in ESOP	-	-	-	(0.4)	-	(0.4)	-	(0.4)
Net movement in equity	34.9	30.7	-	(12.0)	0.1	53.7	0.1	53.8
At 31 March 2005	125.0	69.3	30.6	(112.7)	0.1	112.3	0.1	112.4
Adoption of IAS 39 at 1 April 2005	-	-	-	-	-	-	-	-
At 1 April 2005	125.0	69.3	30.6	(112.7)	0.1	112.3	0.1	112.4
Shares issued in the period	0.5	0.4	-	-	-	0.9	-	0.9
Total recognised income and expense	-	-	-	59.2	1.6	60.8	0.3	61.1
Dividends	-	-	-	(9.0)	-	(9.0)	-	(9.0)
Share based payments	-	-	-	1.1	-	1.1	-	1.1
Tax on share based payments	-	-	-	4.1	-	4.1	-	4.1
Net movement in equity	0.5	0.4	-	55.4	1.6	57.9	0.3	58.2
At 31 March 2006	**125.5**	**69.7**	**30.6**	**(57.3)**	**1.7**	**170.2**	**0.4**	**170.6**

8. Reconciliation of operating profit to cash generated from operations

	2006 (unaudited) £m	2005 (unaudited) £m
Cash flows from operating activities		
Operating profit	46.6	35.3
Loss from discontinued operations	(0.6)	(0.5)
Add back tax on discontinued operations	(0.4)	(0.2)
	45.6	34.6
Depreciation of property, plant and equipment	7.1	7.4
Amortisation and impairment of intangible assets	3.6	19.0
Equity share based payments	1.1	0.9
Loss on disposal of property, plant and equipment	0.3	0.9
Operating cash flows before movement in working capital	**57.7**	62.8
(Increase)/decrease in inventories	1.5	(6.0)
Decrease/(increase) in receivables	58.9	(30.9)
Increase/(decrease) in payables	(49.2)	18.2
Increase/(decrease) in provisions	(14.8)	(0.6)
Cash generated from operations	**54.1**	43.5

9. Movement in net debt

	2006 (unaudited) £m	2005 (unaudited) £m
Increase/(decrease) in cash in the year	**(1.4)**	20.2
Cash flow from the decrease in debt and lease financing	**26.1**	(19.8)
Change in net funds resulting from cash flows	**24.7**	0.4
Loans and finance leases (acquired)/disposed of with subsidiaries	**0.1**	(47.2)
New finance leases	**(0.4)**	(0.9)
Foreign currency translation differences	**0.3**	0.2
Movement in net debt in the year	**24.7**	(47.5)
Net debt at the beginning of the year	**(62.9)**	(15.4)
Net debt at the end of the year	**(38.2)**	(62.9)

10. Changes in net debt

	At 1 April 2005 (unaudited) £m	Cash flow (unaudited) £m	Acquisitions and disposals (unaudited) £m	New finance leases (unaudited) £m	Exchange movement (unaudited) £m	At 31 March 2006 (unaudited) £m
Cash and bank balances	33.1	(75.6)	-	-	0.3	**109.0**
Bank overdrafts	(6.7)	(77.0)	-	-	-	**(83.7)**
Cash, cash equivalents and bank overdrafts at end of year	26.4	(1.4)	-	-	0.3	**25.3**
Debt	(80.8)	22.5	-	-	0.2	**(58.1)**
Finance leases	(8.5)	3.6	0.1	(0.4)	(0.2)	**(5.4)**
	(89.3)	26.1	0.1	(0.4)	-	**(63.5)**
Total	(62.9)	24.7	0.1	(0.4)	0.3	**(38.2)**

In 2004/05, the Group's cash balances were reported net of bank overdrafts where a cash pool was in operation and the legal right of offset existed. On adoption of IAS 32 netting can only occur to the extent that there is both the legal ability and intention to settle net by entity. Although Group's cash is, where practical, managed on a pooled basis and interest is changed or earned on a net basis, there is a grossing up of cash and borrowings in 2005/06 of £78.1m.

11. Financial information

The financial information in this statement is not audited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 (as amended). Full accounts for Babcock International Group PLC for the year ended 31 March 2005, prepared under UK GAAP, have been delivered to the Register of Companies. The auditors' report on these accounts was unqualified and did not contain a statement under Section 237(2) or Section 237(3) of the UK Companies Act 1985. This preliminary statement was approved by the Board on 2nd May 2006.

12. Change in basis of accounting

The Group took advantage of IFRS 1 (First Time Adoption of International Financial Reporting Standards) transitional provisions and adopted IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement) from 1 April 2005. The opening balance sheet at 1 April 2005 has been restated for IAS 39, resulting in an increase in retained losses of £5,000.

13. Distribution

Copies of this report. will be available at the company's registered office: 2 Cavendish Square, London W1G 0PX. In addition, this report is available on the company's website: www.babcock.co.uk**.**