Babcock International Group PLC
Interim report 2007

Contents

Welcome to Babcock

Our strategy is to identify and participate as a leading player in markets with large 'mission critical' assets requiring long-term significant investment programmes for their maintenance and upgrade.

Statutory

Revenue	Operating profit	Profit before tax	Continuing earnings per share	Interim dividend
£672.6m	£50.6m	£39.2m	14.12p	3.30p
+38%	+73%	+48%	+43%	+38%
2006: £487.6m	2006: £29.3m	2006: £26.4m	2006: 9.85p	2006: 2.40p

The results include Devonport Management Ltd (DML) and International Nuclear Solutions plc (INS) for three months (revenue £127.7 million, underlying operating profit £16.7 million).

Underlying

Operating profit	Profit before tax	Continuing earnings per share
£55.0m	£43.6m	15.55p
+64%	+42%	+38%
2006: £33.5m	2006: £30.6m	2006: 11.29p

Underlying results are shown before amortisation of acquired intangibles of £4.4 million (2006: £2.9 million) and operating exceptionals of £nil (2006: £1.3 million) and before the related tax effects of £1.2 million (2006: £1.2 million).

Business highlights

- Strong organic growth trend continues – revenue +12%, underlying operating profit +14%
- Operating margin 8.2% (2006: 6.9%)
- Acquisition of DML successfully completed and performing ahead of planning assumptions
- Acquired majority shareholding in INS
- Order book increased to £3.3 billion giving high visibility of long-term revenue
- Bid pipeline remains strong
- Earnings per share and interim dividend each increased by 38%.

Introduction

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In the first half we have continued our record of delivering strong organic growth within our existing businesses whilst expanding significantly through the acquisition of DML. Following the successful acquisition of DML, Babcock is now positioned as the leading provider of support to the Royal Navy's surface and submarine fleet.

The additional contracts coming on stream and the effect of the DML and INS acquisitions will have a beneficial effect in the second half as will the resolution of the issues in the Rail division. We remain confident that the results for the full year will meet our expectations.

Above (left to right):
Peter Rogers Group Chief Executive
Bill Tame Group Finance Director

Babcock's strategy is to identify and participate as a leading player in markets with large 'mission critical' assets requiring long-term significant investment programmes for their maintenance and upgrade.

In pursuit of this strategy, Babcock acquired Devonport Management Limited (DML) and a majority stake in International Nuclear Solutions (INS) during the first half. In the first three months of ownership DML has performed ahead of our planning assumptions and the future potential offered by the combination of DML with our existing businesses is extremely promising.

Strong organic growth was achieved across the Group and we have had a number of significant contract wins during the period. The Group has had an excellent first half, both operationally and financially and the background to this performance is set out below.

Financial review

In this review, unless otherwise stated, revenue, 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.

Group results

The results for the first six months of the financial year were significantly enhanced by the acquisition of Devonport Management Ltd (DML), which was completed in June 2007. Group revenue increased by 38% to £672.6 million (2006: £487.6 million) with significant growth recorded in all divisions, except Rail. Operating profit increased by 64% to £55.0 million (2006: £33.5 million). Excluding Rail, which lost £2.7 million during the period, the Group experienced strong growth in operating profit across all divisions driven by market buoyancy and a number of notable contract wins.

DML contributed £121.0 million to Group revenue and £16.4 million to operating profit. Excluding acquisitions, Group revenue increased by 12% to £544.9 million and underlying operating profit increased by 14% to £38.3 million.

The Group operating margin increased to 8.2% in the first half (2006: 6.9%) benefiting from an exceptionally strong margin performance in Marine and further progress in Defence Services. A number of one-off factors contributed to the Marine performance including margin pick-up in the HM Naval Base Clyde (Faslane) contract as it reached the end of its first five year term and a satisfactory conclusion to contract negotiations within the DML yacht business. In contrast the poor performance in Rail had an adverse impact on the Group margin.

Taking account of these factors, we anticipate that the Group operating margin for the full year will show some improvement over last year's level.

Profit after tax for the period reached £35.7 million (2006: £23.9 million), an increase of 49%. Profit for the period after charging exceptional items (2007: £nil 2006: £1.3 million) and amortisation of acquired intangibles was £32.5 million (2006: £20.9 million). On a fully diluted basis, earnings per share increased by 39% to 15.26 pence per share (2006: 10.99 pence per share).

Dividend

In light of the Group's strong financial performance and prospects the Board has approved the payment of an interim dividend of 3.30 pence per share, a 38% increase (2006: 2.40 pence per share).

Cash flow and net debt

Group net debt at the end of the half year stood at £344.6 million compared with £73.7 million at 31 March 2007. The principal factors affecting the closing net debt position were as follows. Cash flow from operations of £53.5 million in the first six months, representing a cash conversion rate (defined as cash from operations as a percentage of Group operating profit) of 106%. The acquisition of DML for £350 million plus costs was funded via a combination of bank borrowings and an equity placing of £89.1 million net of costs. The 68% equity stake in INS was acquired for a total cost of £28.2 million with a cash outflow this year £18.5 million including costs, which was funded from borrowings. The final dividend for 2006/7 of £12.8 million was paid in August 2007, including £1.1 million for new shares issued via the equity placing.

A new five year revolving credit bank facility was established during the period for up to £600 million of which £420 million was drawn at 30 September 2007.

The increase in net debt as well as some impact from higher interest rates following volatility in UK LIBOR resulted in a rise in the interest charge to £11.7 million (2006: £3.0 million). In line with its treasury policies, the Group has hedged approximately 50% of the drawn bank borrowing by existing interest rate swaps and by entering into interest rate collar arrangements which provide a cap and a floor to its interest rate exposure for the hedged portion of Group debt. The cost of entering into this instrument is included in the interest cost for the period. The interest charge was comfortably covered 5.4 times by earnings before interest, depreciation and amortisation.

Tax

The Group's effective tax rate on underlying profit is 19%, remaining below the UK headline rate of corporation tax. Based on the profile of earnings within the Group, we expect this rate to be sustainable for the current financial year as well as the 2008/09 financial year. Current Government consultation on tax legislation is creating some uncertainty for years beyond 2008/09.

Operational review

Following the completion of the acquisition of DML in June and the acquisition of the majority shareholding in INS we have realigned our naval and nuclear activities into one new Marine division, reflecting more clearly our management structure. The Marine division encompasses all of the activities formerly reported under Technical Services along with Babcock Naval Services, the contract for HMNB Clyde (Faslane), which was formerly reported under Defence Services and the newly acquired subsidiaries DML and INS. All segmental results for the first half of 2007/08 and the comparative numbers reflect this change.

Marine

	Sept 2007 £m	Sept 2006 £m	Change +/– %
Revenue	273.0	131.0	+108
Operating profit	32.4	11.1	+192

The Marine business had an excellent first half with the overall business showing improvement on the same period for last year and, as a consequence, growth in both revenue and profit from existing businesses was well into double digits.

Clearly the major event of the period was the acquisition and on-going integration of DML. The progress made on integration has been good with the new organisation starting to operate on a product stream basis rather than on geographic lines. The negotiations with the Ministry of Defence to establish long-term operating agreements have started and although they are expected to take up to a year to complete, we remain confident that their outcome will be successful.

Warship refit has benefited substantially from the start of the Surface Ship Support Alliance, the purpose of which is to allow industry participants and the Ministry of Defence to maximise efficiency and resource usage. Our ability to plan workload and schedule efficiently has brought benefit to us and has also allowed us to deliver better value for money to the Royal Navy.

Design and Technology had an outstanding six months, successfully completing a number of commercial projects. There was high workload on the CVF project and on more routine work for the Ministry of Defence. The Supply Chain Services business also delivered higher revenues and significantly higher profits.

DML performed ahead of our planning assumptions at the time of the acquisition, in part helped by the successful completion of a contract negotiation in the yacht business. The senior management of DML have all elected to remain within the enlarged Babcock Group and this will undoubtedly help in the process of integration of the businesses.

The Nuclear business – reported within the Marine division – had an excellent first half in terms of both revenue and profit growth. The current workload is largely based on limited decommissioning work at Rosyth and support for current generating operations. The start of the decommissioning work managed by the NDA is expected to provide a very significant opportunity for Babcock in the decades ahead.

Contract wins for Marine in the first half included the new nuclear de-fuelling facility at Devonport, manufacture of Supacat land vehicles for the Ministry of Defence and a number of warship refits.

Defence Services

	Sept 2007 £m	Sept 2006 £m	Change +/– %
Revenue	138.6	118.4	+17
Operating profit	13.5	9.8	+38

A 17% growth in revenue generated a 38% growth in operating profit in Defence Services. Both Regional Prime Contracts performed well with a full six months from Eastern Regional Prime. The Single Living Accommodation Prime Contract also continued to operate well. The securing of the contract to manage the Ministry of Defence properties in Bristol and Bath will contribute to growth over the coming months. This contract award will significantly broaden the range of services we provide to the MoD within Prime Contracting.

The award of the contract for ‘Building Schools for the Future’ for Hackney to the Babcock/Mouchel Parkman consortium was a significant milestone. This is Babcock’s first contract award in this area and we will continue to bid contracts that fit our business model. In addition we are currently in the process of bidding for the facilities management of a significant proportion of the non-custodial element of the Home Office estate.

The Multi Activity Contracts continued to deliver good returns during the period while continuing to meet all significant KPIs and achieve high levels of customer satisfaction. The focus is now on a number of new contracts which will be bid over the next 18 months.

Defence Services has successfully partnered with BAE Systems to provide integrated operational support (IOS) to the RAF’s Hawk fast jet fleet, aligned to the principles within the new Defence Industrial Strategy (DIS).

Rail

	Sept 2007 £m	Sept 2006 £m	Change +/– %
Revenue	98.6	115.6	–15
Operating profit	(2.7)	4.4	–

The Rail division had a disappointing first half. The slower business in signalling and the management distraction of the competition to reduce the number of track contractors exposed weaknesses in the management systems. These weaknesses have been addressed and we expect a return to profit in the second half of the year.

We were successful in being one of the four track renewal contractors selected by Network Rail. This will result in First Engineering becoming the largest contractor for traditional and high output track renewal. In addition it is anticipated that the volume of work under the signalling framework contracts will improve towards the end of the financial year.

Engineering and Plant Services

	Sept 2007 £m	Sept 2006 £m	Change +/– %
Revenue	108.0	80.2	+35
Operating profit	8.4	6.7	+25

We achieved another excellent performance in the Engineering and Plant division with the business showing strong growth. In southern Africa the Equipment business was, once again, the star performer despite the supply limitations experienced.

During the period we formed (with the agreement of Eskom – the power generator in South Africa) a joint venture with Alstom and Steinmuller, to provide support on the Eskom new build programme. The result of these agreements is that the joint venture will be capable of providing support for Eskom on all the fossil fired new-build generating capacity over the next ten years. The market for generation capacity is expected to remain strong as the rate of demand increase for power is well ahead of even recent predictions. This will also create further demand for power transmission networks thus benefiting our Powerlines business.

The market for construction equipment is strong and is likely to remain so while commodity prices stay high and global demand continues. This area of demand is under-pinned by an ambitious infrastructure improvement programme which will see power, road and rail all significantly upgraded over the next ten years.

Networks

	Sept 2007 £m	Sept 2006 £m	Change +/– %
Revenue	54.4	42.4	+28
Operating profit	5.4	4.8	+13

The Transmission business continued to perform well during the period, while absorbing and managing the impact of a major staff integration programme into the 'Electricity Alliance'. This Alliance with National Grid, Amec and Mott MacDonald will, over the next five years, deliver the National Grid Capital Plan for overhead lines and buried cables in Wales and the West of England.

The Alliance with EDF Energy Solutions for their High Voltage Networks is progressing well and for the first time for many years we are winning and delivering work in Scotland.

The Communications business had a much improved performance compared with the last two years with volumes picking up marginally and the work on Digital-Switch-Over increasing rapidly. There is likely to be increased work in this market as a result of our customers upgrading and combining networks. A small acquisition was made during the period to provide access to the market in Eire.

Outlook

The additional contracts coming on stream and the effect of the DML and INS acquisitions will have a beneficial effect in the second half as will the resolution of the issues in the Rail division. We remain confident that the results for the full year will meet our expectations.

Looking further ahead the bid pipeline remains strong and our £3.3 billion order book underpins our expectations that momentum can be maintained.

Peter Rogers Group Chief Executive

Bill Tame Group Finance Director

Group income statement

For the six months ended 30 September 2007

			Six months ended 30 September 2007			Six months ended 30 September 2006		
Year ended 31 March 2007 Total (audited) £m		Note	Before acquired intangible amortisation and exceptional items (unaudited) £m	Acquired intangible amortisation and exceptional items (unaudited) £m	Total (unaudited) £m	Before acquired intangible amortisation and exceptional items (unaudited) £m	Acquired intangible amortisation and exceptional items (unaudited) £m	Total (unaudited) £m
988.3	Revenue	2	672.6	–	672.6	487.6	–	487.6
62.8	Operating profit	2, 3	55.0	(4.4)	50.6	33.5	(4.2)	29.3
0.4	Share of operating profit from joint ventures	2	0.3	–	0.3	0.1	–	0.1
63.5	Operating profit including share of joint ventures		55.6	(4.4)	51.2	33.6	(4.2)	29.4
(0.2)	Joint venture share of interest		(0.2)	–	(0.2)	–	–	–
(0.1)	Joint venture share of tax		(0.1)	–	(0.1)	–	–	–
63.2			55.3	(4.4)	50.9	33.6	(4.2)	29.4
(9.8)	Finance costs		(14.2)	–	(14.2)	(4.8)	–	(4.8)
3.6	Finance income		2.5	–	2.5	1.8	–	1.8
57.0	Profit before tax		43.6	(4.4)	39.2	30.6	(4.2)	26.4
(11.0)	Income tax expense	5	(7.9)	1.2	(6.7)	(6.7)	1.2	(5.5)
46.0	Profit for the period from continuing operations		35.7	(3.2)	32.5	23.9	(3.0)	20.9
	Discontinued operations							
(0.8)	Loss for period on discontinued operations		–	–	–	–	–	–
45.2	Profit for the period		35.7	(3.2)	32.5	23.9	(3.0)	20.9
	Attributable to:							
43.4	Equity holders of the parent				31.3			20.2
1.8	Minority interest				1.2			0.7
45.2					32.5			20.9
	Earnings per share from continuing and discontinued operations	6						
21.10p	– Basic				14.12p			9.85p
20.48p	– Diluted				13.86p			9.59p
	Earnings per share from continuing operations	6						
21.49p	– Basic				14.12p			9.85p
20.85p	– Diluted				13.86p			9.59p

Group balance sheet

For the six months ended 30 September 2007

As at 31 March 2007 (audited) £m		Note	As at 30 September 2007 (unaudited) £m	As at 30 September 2006 (unaudited) £m
	Assets			
	Non-current assets			
198.2	Goodwill		468.5	200.6
23.0	Other intangible assets		70.0	25.9
28.2	Property, plant and equipment		150.7	27.9
0.9	Investments in joint ventures		0.7	0.9
9.4	Other investments		–	–
62.5	Retirement benefits		109.1	59.6
2.5	Trade and other receivables		2.2	2.6
2.5	Deferred tax asset		–	–
327.2			801.2	317.5
	Current assets			
57.7	Inventories		56.7	35.8
167.2	Trade and other receivables		297.3	170.2
1.2	Income tax recoverable		–	0.7
0.5	Other financial assets		0.4	1.0
95.6	Cash and cash equivalents	11	179.3	84.7
322.2			533.7	292.4
649.4	**Total assets**		1,334.9	609.9
	Equity and liabilities			
	Equity attributable to equity holders of the parent			
125.8	Share capital		137.5	125.8
70.1	Share premium		148.0	70.0
26.8	Other reserves		27.0	26.8
(17.1)	Retained earnings		17.2	(32.4)
205.6			329.7	190.2
1.6	Minority interest		4.2	1.0
207.2	**Total equity**	8	333.9	191.2
	Non-current liabilities			
3.6	Bank and other borrowings	11	423.1	4.9
0.9	Trade and other payables		7.1	–
2.5	Deferred tax		28.4	4.9
9.4	Retirement liabilities		0.5	8.1
7.6	Provisions for other liabilities		33.9	11.3
24.0			493.0	29.2
	Current liabilities			
165.7	Bank and other borrowings	11	100.8	159.8
232.9	Trade and other payables		382.5	211.6
5.9	Income tax payable		8.5	5.0
0.1	Other financial liabilities		1.0	–
13.6	Provisions for other liabilities		15.2	13.1
418.2			508.0	389.5
442.2	**Total liabilities**		1,001.0	418.7
649.4	**Total equity and liabilities**		1,334.9	609.9

Group cash flow statement

For the six months ended 30 September 2007

Year ended 31 March 2007 (audited) £m		Note	Six months ended 30 September 2007 (unaudited) £m	Six months ended 30 September 2006 (unaudited) £m
	Cash flows from operating activities			
60.2	Cash generated from operations	9	53.5	27.1
(7.7)	Income tax paid		(5.6)	(2.7)
(9.1)	Interest paid		(9.5)	(4.7)
3.6	Interest received		2.5	1.8
47.0	Net cash flows from operating activities		40.9	21.5
	Cash flows from investing activities			
0.9	Disposal of subsidiaries and joint ventures		(0.9)	1.5
0.7	Proceeds on disposal of property, plant and equipment		1.7	0.4
0.1	Dividends received from joint ventures		0.2	–
(9.7)	Purchase of other investments		–	–
(5.5)	Purchases of property, plant and equipment		(4.7)	(2.8)
(1.5)	Purchases of intangible assets		(0.3)	(0.8)
(52.5)	Acquisition of subsidiaries net of cash acquired	4	(372.3)	(51.5)
(67.5)	Net cash flows from investing activities		(376.3)	(53.2)
	Cash flows from financing activities			
(13.6)	Dividends paid		(12.8)	(8.7)
(1.9)	Finance lease principal payments		(0.2)	(0.5)
35.0	Bank loans raised		321.7	55.9
(0.4)	Dividends paid to minority interests		(0.5)	–
0.7	Net proceeds on issue of shares		89.6	0.5
0.3	Movement on own shares		(5.0)	0.2
20.1	Net cash flows from financing activities		392.8	47.4
(0.4)	Net increase/(decrease) in cash, cash equivalents and bank overdrafts		57.4	15.7
25.3	Cash, cash equivalents and bank overdrafts at start of period		22.1	25.3
(2.8)	Effects of exchange rate fluctuations		0.1	(3.0)
22.1	Cash, cash equivalents and bank overdrafts at end of period	11	79.6	38.0

Group statement of recognised income and expense

For the six months ended 30 September 2007

Year ended 31 March 2007 (audited) £m		Note	Six months ended 30 September 2007 (unaudited) £m	Six months ended 30 September 2006 (unaudited) £m
45.2	Profit for the period (including discontinued operations)		32.5	20.9
(5.9)	Currency translation differences		0.3	(5.6)
0.4	Fair value adjustment of interest rate swap		(0.1)	–
8.7	Net actuarial gains in respect of pensions		26.0	16.5
(2.6)	Tax on net actuarial gains in respect of pensions		(7.3)	(4.9)
45.8	Total recognised income and expense	8	51.4	26.9
	Attributable to:			
44.2	Equity holders of the parent		50.2	26.3
1.6	Minority interest		1.2	0.6
45.8		8	51.4	26.9

Notes to the consolidated interim financial statements

For the six months ended 30 September 2007

1. Basis of preparation

The consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority, the Listing Rules and with IAS 34, 'Interim financial reporting' as adopted by the European Union. They should be read in conjunction with the Annual Report for the year ended 31 March 2007 (the 'Annual Report'), which has been prepared in accordance with IFRSs as adopted by the European Union. The accounting policies used and presentation of these consolidated interim financial statements are consistent with those in the Annual Report. Where necessary, the comparatives have been reclassified or extended from the previously reported interim results to take into account any presentational changes made in the Annual Report or in these consolidated interim financial statements.

Statutory accounts for the year ended 31 March 2007 have been delivered to the Registrar of Companies. The auditors have reported on those accounts, their report was not qualified and did not contain a statement under section 273(2) or (3) of the Companies Act 1985.

The interim report for the six months ended 30 September 2007 was approved by the Directors on 12 November 2007.

2. Segmental analysis

Following the completion of the acquisition of Devonport Management Limited and the acquisition of the majority shareholding in International Nuclear Solutions plc we have realigned all of our naval and nuclear activities into one new Marine division. The Marine division encompasses all of the activities formerly reported under Technical Services along with Babcock Naval Services.

	Six months ended 30 September 2007				Six months ended 30 September 2006			
	Group revenue £m	Operating profit before acquired intangible amortisation, exceptional items £m	Acquired intangible amortisation and exceptional items £m	Group operating profit £m	Group revenue (restated) £m	Operating profit before acquired intangible amortisation, exceptional items (restated) £m	Acquired intangible amortisation and exceptional items (restated) £m	Group operating profit (restated) £m
Continuing operations								
Marine	273.0	32.4	(2.6)	29.8	131.0	11.1	(0.8)	10.3
Defence Services	138.6	13.5	(0.7)	12.8	118.4	9.8	(0.7)	9.1
Rail	98.6	(2.7)	(0.9)	(3.6)	115.6	4.4	(1.8)	2.6
Engineering and Plant Services	108.0	8.4	–	8.4	80.2	6.7	–	6.7
Networks	54.4	5.4	(0.2)	5.2	42.4	4.8	(0.3)	4.5
Unallocated	–	(2.0)	–	(2.0)	–	(3.3)	(0.6)	(3.9)
Group total	672.6	55.0	(4.4)	50.6	487.6	33.5	(4.2)	29.3

The tax credit related to discontinued operations was £nil (2006: £nil).

The share of joint venture results not separately disclosed above is:

	Six months ended 30 September 2007				Six months ended 30 September 2006			
	Revenue £m	Operating profit £m	Tax and interest £m	Net JV results £m	Revenue £m	Operating profit £m	Tax and interest £m	Net JV results £m
Continuing operations								
Defence Services	0.6	0.1	–	0.1	0.9	0.1	–	0.1
Rail	0.3	0.2	(0.2)	–	–	–	–	–
Engineering and Plant Services	3.2	0.3	(0.1)	0.2	–	–	–	–
Networks	–	–	–	–	0.1	–	–	–
Group total	4.1	0.6	(0.3)	0.3	1.0	0.1	–	0.1

3. Operating exceptional items and acquired intangible amortisation

In 2007 there were no exceptional items. Acquired intangible amortisation was £4.4 million (note 2). The acquisitions of Devonport Management Limited resulted in acquired intangible amortisation of £1.7 million and International Nuclear Solutions plc resulted in £0.2 million of acquired intangible amortisation, both of which are included in the Marine segment.

In 2006 there were £1.3 million operating exceptional items with £0.7 million being reorganisation costs in the Rail segment and £0.6 million being bid defence costs arising out of a possible joint bid from BAE Systems plc and VT Group plc. Acquired intangible amortisation was £2.9 million with £0.3 million relating to the Networks segment, £1.1 million relating to the Rail segment, £0.8 million within the Marine segment and £0.7 million within the Defence Services segments.

4. Acquisitions

On 28 June 2007 the Group acquired 100% of the share capital of Devonport Management Limited ('DML') for a consideration of £355.5 million, inclusive of costs. DML provides support for the Royal Navy submarines and warships and manages the facilities at the Devonport Naval Base.

On 9 July 2007 the Group had acquired 50.9% of the share capital of International Nuclear Solutions plc ('INS'). By 30 September 2007 the Group had acquired 67.8% of the share capital for a consideration (before cash acquired) of £28.2 million. INS provides nuclear engineering support.

On 15 August 2007 the Group acquired 100% of the share capital of Swedia Networks Ireland for a net cash consideration of €1.

Included in the total consideration paid is deferred consideration of £0.5 million, paid on an acquisition made in a prior period.

Details of the assets acquired and the goodwill are as follows:

	DML £m	INS £m	Other £m	Total £m
Cost of acquisition				
Purchase consideration	350.0	27.0	0.5	377.5
Direct costs	5.5	1.2	–	6.7
Total purchase consideration and costs	**355.5**	**28.2**	**0.5**	**384.2**
Fair value of assets acquired (see below)	109.5	3.9	0.5	113.9
Goodwill	**246.0**	**24.3**	**–**	**270.3**

Net assets and liabilities arising from the acquisitions are as follows:

	DML		INS		Other		Total	
	Book value of assets acquired £m	Fair value acquired £m	Book value of assets acquired £m	Fair value acquired £m	Book value of assets acquired £m	Fair value acquired £m	Book value of assets acquired £m	Fair value acquired £m
Goodwill	18.6	–	–	–	–	–	18.6	–
Software	4.6	5.6	0.2	0.2	–	–	4.8	5.8
Acquired intangibles*	–	41.2	–	5.3	–	–	–	46.5
Property plant and equipment	147.0	125.0	1.0	1.0	–	–	148.0	126.0
Deferred tax	(9.2)	(18.8)	–	(1.4)	0.1	0.1	(9.1)	(20.1)
Retirement benefits	(28.4)	15.3	–	–	–	–	(28.4)	15.3
Cash, cash equivalents and bank overdrafts	(1.2)	(1.2)	3.4	3.4	–	–	2.2	2.2
Inventory	8.2	8.2	–	–	–	–	8.2	8.2
Current assets	101.3	100.5	5.8	5.8	1.7	1.7	108.8	108.0
Current and non current liabilities	(125.9)	(129.1)	(8.4)	(8.4)	(1.7)	(1.7)	(136.0)	(139.2)
Provisions	–	(30.2)	–	(0.1)	0.4	0.4	0.4	(29.9)
Bank and other borrowings	(7.0)	(7.0)	–	–	–	–	(7.0)	(7.0)
Minority interest	–	–	(0.7)	(1.9)	–	–	(0.7)	(1.9)
Net assets acquired	**108.0**	**109.5**	**1.3**	**3.9**	**0.5**	**0.5**	**109.8**	**113.9**

*Acquired intangibles are; customer relationships and order book.

Notes to the consolidated interim financial statements continued

4. Acquisitions (continued)

Cash outflow to acquire businesses net of cash acquired:

	DML £m	INS £m	Other £m	Total £m
Total purchase consideration plus costs	355.5	28.2	0.5	384.2
Cash, cash equivalents and bank overdrafts	1.2	(3.4)	–	(2.2)
Cash paid in prior period	–	(9.7)	–	(9.7)
Cash outflow this period	**356.7**	**15.1**	**0.5**	**372.3**

The revenue and operating profit of acquired businesses since the date of acquisition as if they had been acquired on 1 April 2007 are:

	Since date of acquisition £m	For full period £m
Revenue		
DML	121.0	230.8
INS	5.7	12.5
Other	1.0	3.2
	127.7	246.5
Operating profit (before amortisation of acquired intangibles)		
DML	16.4	22.9
INS	0.3	0.8
Other	–	0.2
	16.7	23.9

5. Income taxes

The charge for taxation has been based on the estimated effective tax rate, of 19%, for the year ended 31 March 2008 before allowing for a £0.3 million credit in relation to the change in deferred tax arising from the change in the corporation tax rate from 30% to 28%. (For September 2006, the charge for tax was based on an estimated effective tax rate of 22% for the year ended 31 March 2007). An additional tax credit of £1.2 million relates to acquired intangible amortisation. For 2006 the tax charge included a credit of £0.9 million, which related to acquired intangible amortisation and a tax credit of £0.3 million relates to operating exceptional items.

6. Earnings per share

The calculation of the basic and diluted EPS is based on the following data:

Number of shares	Six months to 30 September 2007	Six months to 30 September 2006
Weighted average number of ordinary shares for the purpose of basic EPS	221,441,710	205,336,699
Effect of dilutive potential ordinary shares: share options	4,190,318	5,600,135
Weighted average number of ordinary shares for the purpose of diluted EPS	225,632,028	210,936,834

6. Earnings per share (continued)

	Six months to 30 September 2007			Six months to 30 September 2006		
	Earnings £m	Basic per share pence	Diluted per share pence	Earnings £m	Basic per share pence	Diluted per share pence
Earnings per share from continuing and discontinued operations	31.3	14.12	13.86	20.2	9.85	9.59
Add back:						
Amortisation of acquired intangible assets, net of tax	3.2	1.43	1.40	2.0	0.98	0.95
Exceptional items, net of tax	–	–	–	1.0	0.46	0.45
Earnings before amortisation and exceptionals	34.5	15.55	15.26	23.2	11.29	10.99
Earnings per share from continuing operations	31.3	14.12	13.86	20.2	9.85	9.59
Add back:						
Amortisation of acquired intangible assets, net of tax	3.2	1.43	1.40	2.0	0.98	0.95
Exceptional items, net of tax	–	–	–	1.0	0.46	0.45
Earnings before discontinued operations, amortisation and exceptionals	34.5	15.55	15.26	23.2	11.29	10.99

7. Dividends

An interim dividend of 3.30 pence per 60 pence ordinary share (2006: 2.40 pence per 60 pence ordinary share) was declared after the balance sheet date and will be paid on 16 January 2008 to shareholders registered on 14 December 2007.

8. Statement of changes in equity

	Share capital £m	Share premium £m	Capital redemption £m	Retained earnings £m	Translation reserve £m	Shareholder equity £m	Minority interests £m	Total equity £m
At 1 April 2006	125.5	69.7	30.6	(57.3)	1.7	170.2	0.4	170.6
Shares issued in the period	0.3	0.3	–	–	–	0.6	–	0.6
Recognised income and expense	–	–	–	31.9	(5.6)	26.3	0.6	26.9
Dividends	–	–	–	(8.7)	–	(8.7)	–	(8.7)
Share-based payments	–	–	–	0.9	–	0.9	–	0.9
Tax on share-based payments	–	–	–	0.6	–	0.6	–	0.6
Own shares and other	–	–	–	0.2	0.1	0.3	–	0.3
Net movement in equity	0.3	0.3	–	24.9	(5.5)	20.0	0.6	20.6
At 30 September 2006	125.8	70.0	30.6	(32.4)	(3.8)	190.2	1.0	191.2
At 1 April 2007	125.8	70.1	30.6	(17.1)	(3.8)	205.6	1.6	207.2
Shares issued in the period	11.7	77.9	–	–	–	89.6	–	89.6
Recognised income and expense	–	–	–	49.9	0.3	50.2	1.2	51.4
Dividends	–	–	–	(12.8)	–	(12.8)	(0.5)	(13.3)
Share-based payments	–	–	–	0.9	–	0.9	–	0.9
INS Acquisition	–	–	–	–	–	–	1.9	1.9
Tax on share-based payments	–	–	–	1.3	–	1.3	–	1.3
Own shares and other	–	–	–	(5.0)	(0.1)	(5.1)	–	(5.1)
Net movement in equity	11.7	77.9	–	34.3	0.2	124.1	2.6	126.7
At 30 September 2007	137.5	148.0	30.6	17.2	(3.6)	329.7	4.2	333.9

9. Reconciliation of operating profit to cash generated from operations

Year ended 31 March 2007 (audited) £m		Six months ended 30 September 2007 (unaudited) £m	Six months ended 30 September 2006 (unaudited) £m
	Cash flows from operating activities		
62.8	Operating profit	50.6	29.3
5.6	Depreciation of property plant and equipment	7.2	2.7
7.3	Amortisation and impairment of intangible assets	5.5	3.3
1.7	Equity share-based payments	0.9	0.9
0.3	Impairment of investments	–	–
(0.2)	Profit on disposal of property, plant and equipment	(0.5)	(0.1)
77.5	Operating cash flows before movement in working capital	63.7	36.1
(16.9)	Decrease/(increase) in inventories	9.6	7.5
(5.7)	Increase in receivables	(31.5)	(1.3)
10.0	Increase/(decrease) in payables	12.9	(12.1)
(4.7)	Decrease in provisions	(1.2)	(3.1)
60.2	Cash generated from operations	53.5	27.1

10. Movement in net debt

Year ended 31 March 2007 (audited) £m		Six months ended 30 September 2007 (unaudited) £m	Six months ended 30 September 2006 (unaudited) £m
(0.4)	Increase/(decrease) in cash in the period	57.4	15.7
(33.1)	Cash flow from the increase in debt and lease financing	(321.5)	(55.4)
(33.5)	Change in net funds resulting from cash flows	(264.1)	(39.7)
–	Loans and finance leases acquired with subsidiaries	(7.0)	–
(2.0)	Foreign currency translation differences	0.2	(2.1)
(35.5)	Movement in net debt in the period	(270.9)	(41.8)
(38.2)	Net debt at the beginning of the period	(73.7)	(38.2)
(73.7)	Net debt at the end of the period	(344.6)	(80.0)

11. Changes in net debt

	At 1 April 2007 (audited) £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange movement £m	At 30 September 2007 (unaudited) £m
Cash and bank balances	95.6	79.2	4.4	–	0.1	179.3
Bank overdrafts	(73.5)	(24.0)	(2.2)	–	–	(99.7)
Cash, cash equivalents and bank overdrafts at end of period	22.1	55.2	2.2	–	0.1	79.6
Debt	(92.7)	(321.7)	(7.0)	–	–	(421.4)
Finance leases	(3.1)	0.2	–	–	0.1	(2.8)
	(95.8)	(321.5)	(7.0)	–	0.1	(424.2)
Total	(73.7)	(266.3)	(4.8)	–	0.2	(344.6)

12. Contingent liabilities

There is a potential liability in respect of the discontinued Jackson Civil Engineering business of the Peterhouse Group arising out of a contract with Tesco Stores for tunnelling at its Gerrards Cross site. The contract was made and the business disposed of to management before the Group acquired Peterhouse in 2004. There was a partial tunnel collapse during construction in 2005. Having considered legal advice the Board does not believe that this matter will result in a liability that would be material to the Group.

13. The financial information in this interim statement does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 (as amended).

14. Communication

At our Annual General Meeting on 13 July 2007 our shareholders unanimously agreed to proposals to allow us to use electronic communications with them as allowed for under the Companies Act 2006. For shareholders who agreed, or who are treated as having agreed, to receive electronic communications, the company website is now the main way for them to access shareholder information. These shareholders will be sent a 'notice of availability' notifying them that this report is available on the company website: www.babcock.co.uk. Hard copies of the report will be distributed to those shareholders who have requested or subsequently request them. Additional copies are also available from the company's registered office: 2 Cavendish Square, London W1G 0PX.

Risks and uncertainties

The principal risks and uncertainties affecting the Group remain those detailed on pages 20 and 21 of the 2007 Annual Report, a copy of which is available at www.babcock.co.uk. This Interim Statement also includes comments on the outlook for the Group for the remaining six months of the financial year.

Statement of Directors' responsibilities

The Directors confirm that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8.

The Directors of Babcock International Group plc are listed in the Babcock International Group Annual Report of 31 March 2007 and have not changed since then. A list of the current Directors is maintained on the Babcock International Group website: www.babcock.co.uk.

By order of the Board

Peter Rogers Group Chief Executive
12 November 2007

W Tame Group Financial Director
12 November 2007

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