

trusted
to deliver



“We have continued to demonstrate the strength of our business model by delivering another set of record results. The market sectors in which we operate remain attractive with good growth prospects. Overall trading conditions across the Group remain strong and the major contracts signed in the first half provide good long term visibility.

We are increasing the interim dividend to 4.0p from 3.3p, reflecting our confidence in the Group’s prospects and our commitment to delivering shareholder value. We remain confident that this will be another year of excellent progress for the Group.”

Peter Rogers, Chief Executive

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Financial highlights

Statutory	September 2008	September 2007	Change
Revenue	£940.6 m	£672.6 m	+ 40%
Operating profit	£65.6 m	£50.6 m	+ 30%
Profit before tax	£50.9 m	£39.2 m	+ 30%
Continuing earnings per share	17.91p	14.12p	+ 27%
Interim dividend	4.00p	3.30p	+ 21%
Underlying			
Operating profit	£72.5 m	£55.0 m	+ 32%
Profit before tax	£57.8 m	£43.6 m	+ 33%
Continuing earnings per share	20.08p	15.55p	+ 29%

Underlying results are shown before amortisation of acquired intangibles of £6.9 million (2007: £4.4 million) and before the related tax effects of £2.0 million (2007: £1.2 million).

Operational highlights

Another set of record results
revenue + 40%, underlying operating profit + 32%, underlying EPS + 29%

Strong organic growth trend continues
revenue + 15%, underlying operating profit + 10%

Marine division builds on reputation for excellence
revenue + 83%, underlying operating profits + 45%

Consolidation of Nuclear division delivers financial benefits and creates a leading nuclear engineering capability

Excellent financial position with cash conversion rate of 132%

Order book increased by 55% to over £5 billion – bid pipeline remains strong

Interim dividend increased by 21%

Introduction

Babcock is a leading player in the engineering support services sector. In the first half of 2008/09 we have once again delivered a record set of financial results through a clear strategy of growth in our chosen markets, both organically and through acquisition.

All our businesses are focused on market sectors with strategic infrastructures that require significant long term investment programmes for their maintenance and upgrade. In each market we have established a leading position through the strength of our technical skills and expertise and our ability to deliver our customers' requirements on time and on budget. In the current economic climate our ability to provide cost effective solutions for our customers supports our outlook for further growth.

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.

We are delighted to report very strong results which again show significant growth in both revenue and profit. Our order book stands at £5.2 billion and the pipeline of opportunities available to our divisions remains extensive. Our funding position is good and there are no refinancing requirements until 2012.

In the six months to the end of September 2008, revenue increased 40% to £940.6 million (2007: £672.6 million) and operating profit increased 32% to £72.5 million (2007: £55.0 million). Despite disappointing results in the Rail division, the Group operating margin held up well at 7.7% (2007: 8.2%, inclusive of one off benefits in Marine and Defence) and was in line with the full year to 31 March 2008. Results from Devonport Management Ltd (DML) and International Nuclear Solutions (INS) are included for a full six month period compared to only three months last year. After adjusting for these and other portfolio changes, revenue and operating profit on a like-for-like basis increased 15% and 10% respectively.

Compared to the same period last year, finance costs net of finance income increased by £3 million to £14.7 million, reflecting both the additional three months of interest at a post-DML acquisition level of net debt and also the increased cost of borrowing. The effect of increased interest costs was partly mitigated by the Group's hedging position which provides a combination of swap and collar arrangements on approximately one half of the Group's drawn financing facilities.

Profit before tax increased by 33% to £57.8 million (2007: £43.6 million). After amortisation of acquired intangibles, profit before tax increased by 30% to £50.9 million (2007: £39.2 million).

The Group's effective rate of corporation tax on profit was 19% in the first half of the year and is expected to remain at this level for the full year to 31 March 2009. Proposals for the reform of tax legislation in the UK remain unclear and therefore whilst we remain reasonably confident that the rate can be maintained at this level for 2009/10, there is still some uncertainty in this area.

Profit for the period from continuing operations, post tax, was £46.8 million (2007: £35.7 million) an increase of 31%.

Exceptional items – discontinued businesses

As announced in our Pre-close statement on 30 September 2008, the Group has reported an exceptional post tax charge of £13.3 million in the first half following a settlement agreed by Babcock and other parties with Tesco Stores Limited. As previously disclosed, Babcock was in dispute with Tesco in relation to matters arising out of a contract for the design and construction of tunnelling works for the store at Gerrards Cross, for which the Peterhouse Group had provided a Parent Company Guarantee. This contract was originally entered into by the civil engineering division of the Peterhouse Group which was sold, by Peterhouse, prior to Babcock's acquisition of the Peterhouse Group in 2004.

After this exceptional charge and amortisation of intangibles, profit for the period was £28.6 million against £32.5 million last year.

Cash flow and net debt

Cash flow performance is one of the Group's key performance indicators and continues to be a main area of focus. The Group has generated consistently high levels of cash for a number of years and we believe this is a good indicator of the quality of earnings. In the six months to 30 September cash generated from operations was £86.9 million (2007: £53.5 million) representing an operating cash conversion rate of 132% (2007: 106%). Trading working capital as a percentage of revenue was maintained at around 2.5%. Capital expenditure was modest in the first half at £7.5 million (2007: £5.0 million) but we expect it to be somewhat higher in the second half of the year as a result of a programme of upgrade works within the Marine division.

As reported at the time of the preliminary results in May, the Group strengthened its position in the Marine and Nuclear equipment markets with the acquisition of Strachan & Henshaw Ltd from the Weir Group PLC in April for a price of £65.2 million net of cash acquired. The business performed ahead of our expectations, generating operating profit of £4.0 million on revenue of £27.6 million in the first half and it offers significant potential for growth within the Marine and Nuclear businesses.

Group net borrowings ended the first half at £374 million (2007: £345 million) up from £322 million at 31 March 2008, following the acquisition of Strachan & Henshaw and the settlement of the legacy legal dispute with Tesco Stores Limited for £13.3 million net of tax. The Group has access to committed revolving credit facilities of £600 million for a term of five years from June 2007, therefore maturing in 2012, and so has no short term refinancing requirement. The Group's banking facility agreement includes the customary covenants regarding limits on the ratio of net debt to earnings before interest, tax, depreciation and amortisation and of net interest paid to earnings before interest, tax, depreciation and amortisation. At the end of September, both of these ratios were comfortably within the covenanted levels.

Pensions

Pensions remain an area of ongoing focus for us and as signalled in the preliminary results announcement in May, a number of projects to reduce the Group's exposure to earnings and ultimately cash flow volatility are underway. These initiatives will involve a combination of bulk annuity purchases and the structuring of various liability hedging instruments, the ultimate solution adopted being dependent upon our assessment of what constitutes the best financial value. We had expected to have these structures in place by 31 March 2009 although current financial market conditions make achieving this more difficult.

The accounting surplus on the combined defined benefit pension schemes had increased to £169 million (31 March 2008: £142 million) on liabilities totalling £1.7 billion. The increase in surplus has arisen as a result of a significant increase in corporate bond yields. In line with Group policy and the mark-to-market principles of International Accounting Standards, we have used corporate bond yields as the basis for setting the discount rate in valuing scheme liabilities.

Order book

The Group's order book has increased by 55% compared with the first half of 2007/08 to £5.2 billion (30 September 2007: £3.3 billion). This is the result of a number of significant long term contract wins during the first half of this year. This provides the Group with excellent forward visibility with a high proportion of next year's revenues already identified in the order book.

Interim dividend

Basic earnings per share increased by 29% to 20.08 pence per share (2007: 15.55 pence per share). In the light of a strong performance in the first half of the year and a positive outlook for the Group, the Directors have approved the payment of an interim dividend of 4.00 pence per share an increase of 21% over last year. This will be paid on 16 January 2009 to shareholders registered on 19 December 2008.

Operational review

Following the completion of the Strachan & Henshaw acquisition in April 2008 we have realigned our civil nuclear activities into a separate Nuclear division. The results for the Nuclear division encompass all the civil nuclear activities of Alstec, INS and Strachan & Henshaw. Previously the results for Alstec and INS were reported within the Marine division.

Marine

	30 September 2008 £m	30 September 2007 (restated) £m	Change +/- %
Revenue	432.4	236.7	+ 83%
Operating profit	42.2	29.1	+ 45%
Operating margin	9.8%	12.3%	

The Marine division, our largest business unit, representing around 46% of Group revenue had an excellent first half. The results show strong growth, in part benefiting from a full contribution from DML compared with only three months in the first half of 2007/08 but also from the division delivering significant organic growth. Excluding the one-off factors reported in the first half of last year, the operating margin for the division remained steady.

We remain comfortable that negotiations on the Terms of Business Agreement (ToBA) are progressing well, although we do not expect final signature to take place until the summer of 2009, alongside other Maritime Change Programme initiatives being signed by the Ministry of Defence. To ensure this does not result in any delay to new contracts being signed and synergy benefits being realised we signed a Process Commitment Document in October. At the end of September we announced that we have now identified a further £10 million of expected annual savings by 2011, in addition to the initial £4 million announced at the time of the acquisition of DML in May 2007.

The programme of scheduled refits and maintenance on both the surface ship and submarine fleet has enabled us to maximise efficiency and resources across the division. The Integrated Technologies business unit within the Marine division had an excellent first half, with continuing high levels of activity on the future aircraft carrier (CVF) project as well as some of the UK's other major defence projects including both the Astute and future deterrent submarine programmes. With over 1,000 engineers and technical staff, Integrated Technologies is one of the largest organisations of its type in the UK.

Following signature of the manufacturing contract at the beginning of July, the CVF project is progressing as planned. Steel has been delivered so construction of the first blocks to be built by Babcock can begin during November. At Rosyth construction work continues on the docks and caissons to accommodate the assembly of the two new carriers and the new Goliath crane, which will be the largest in the UK, has now been ordered.

In Canada the five year Victoria In-Service Support Contract continues to progress well moving towards full operational support in the first half of 2009. We continue to pursue other opportunities to extend our international submarine support activities.

We are confident that the naval support markets in which we operate will remain robust. In addition to the significant amount of secured work already identified within our order book we will continue to benefit from the scheduled refits and maintenance required to ensure the Royal Navy remains fully operational.

Defence

	30 September 2008 £m	30 September 2007 £m	Change +/- %
Revenue	152.6	138.6	+ 10%
Operating profit	14.1	13.5	+ 4%
Operating margin	9.2%	9.7%	

Overall the division maintained steady growth during the first half. Excluding end of contract margin pick-up in the first half of last year, operating margins for the division remained stable.

After reaching financial close in September, the 30 year Royal School of Military Engineering (RSME) contract made a very small contribution to the results in the first half but will add significantly to the division's results going forward. The contract will become operational in January 2009 and we have already identified opportunities which will enable us to expand this contract as well as our military training activities.

Both the regional Prime contracts performed very well and the division has continued to secure additional extension projects and contracts. The multi-activity and integrated operational support contracts also performed successfully, exceeding our customer's expectations for levels of defect free sortie rates.

The airport operations had a very strong first half and have again increased the level of support they provide for BAA at Heathrow. We are currently involved in a number of projects across the airport as the major improvement programmes continue.

The markets in which our Defence division operate are robust. We are confident of securing additional programmes of work as the Government and our other major customers seek the most cost effective solutions to maintain their operations.

Rail

	30 September 2008 £m	30 September 2007 £m	Change +/- %
Revenue	113.7	98.6	+ 15%
Operating loss	(4.7)	(2.7)	- 74%
Operating margin	- 4.1%	- 2.7%	

The Rail market remains strong with our Track Renewals and Signalling framework contracts continuing to provide a steady flow of profitable work. The Projects business, however, has adversely impacted the division's results for the first half as a result of a number of underperforming contracts.

We have now withdrawn from bidding any multi-disciplinary contracts and are closely managing the run out of existing contracts. This should allow us to reverse the poor financial performance during the second half.

Additional framework contracts are being bid in both Track Renewal and Signalling. We are confident that the management actions taken to date will ensure the division delivers acceptable levels of return.

Nuclear

	30 September 2008 £m	30 September 2007 £m	Change +/- %
Revenue	54.4	36.3	+ 50%
Operating profit	6.7	3.3	+ 103%
Operating margin	12.3%	9.1%	

The results for the Nuclear division have been particularly strong and reflect the significant market presence of BNS Nuclear Services as well as the strength of the current operational support markets. Compared with the first half of 2007/08 the division benefited from the integration of Strachan & Henshaw's civil nuclear activities and a full contribution from INS.

Although the nuclear decommissioning market remains subdued we are active on a number of sites and we believe we are well placed to benefit as this market develops. In addition, we have had discussions with a number of parties concerning the UK's nuclear new build programme.

BNS Nuclear Services has one of the largest nuclear resources in the UK. The scale and expertise of the division and the size of the market opportunities available place it in a strong position from which to deliver further growth.

Networks

	30 September 2008 £m	30 September 2007 £m	Change +/- %
Revenue	65.1	54.4	+ 20%
Operating profit	4.4	5.4	- 19%
Operating margin	6.8%	9.9%	

The Networks division has been able to achieve strong growth in revenue during the period mainly driven by a good flow of projects through its two major Alliance contracts in the Transmission business. As previously indicated, the five year Alliance framework contracts provide greater visibility and increased work streams but at a somewhat reduced operating margin compared with previously tendered contracts.

The Telecommunications business benefited from the ongoing Digital Switchover Programme whilst significant new opportunities within the fixed and mobile telecoms market are being developed. Initial costs on our entry into the Irish market resulted in a small loss in the first half.

The market sectors in which we operate remain attractive. The opportunities available as a result of the significant infrastructure upgrade work required give us confidence of achieving further progress.

Engineering and Plant

	30 September 2008 £m	30 September 2007 £m	Change +/- %
Revenue	122.4	108.0	+ 13%
Operating profit	11.0	8.4	+ 31%
Operating margin	9.0%	7.8%	

Once again the division made strong progress. In South Africa, despite some political uncertainty and disruption caused by the global economic recession, the South African government remains committed to improving and extending the supply of electricity and other infrastructures.

The power generation support and Powerlines businesses experienced increasing demand for their services as Eskom seeks to increase outage maintenance and repair during the summer months. Power shortages are affecting a number of industrial customers and our generator order book has reached record levels. Resource, however, remains a challenge and we are managing this issue carefully to ensure no disruption to support for current contracts.

The Equipment business saw further growth in revenue as demand continues from construction and mining sectors. The coal mining industry, which is a significant source of revenue, remains very strong. Building on the huge success of the Volvo equipment franchise in South Africa, a similar arrangement for the franchise of MACK trucks is under negotiation.

The market sectors in which we operate remain strong and provide significant opportunities for further growth. We are confident that we will be able to build further on these.

Outlook

The market sectors in which we operate remain attractive with good growth prospects. Overall, trading conditions across the Group remain strong. The major contracts signed in the first half have further strengthened our order book and provide good long term visibility. We remain confident that this will be another year of excellent progress for the Group.



Peter Rogers
Group Chief Executive



Bill Tame
Group Finance Director

Group income statement

For the six months ended 30 September 2008

Year ended 31 March 2008 Total (audited) £m	Note	Six months ended 30 September 2008			Six months ended 30 September 2007		
		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
1,555.9		940.6	–	940.6	672.6	–	672.6
110.2		72.5	(6.9)	65.6	55.0	(4.4)	50.6
		Share of operating profit					
		– from joint ventures					
	2	–	–	–	0.3	–	0.3
(32.0)		(17.7)	–	(17.7)	(14.2)	–	(14.2)
6.4		3.0	–	3.0	2.5	–	2.5
84.6		57.8	(6.9)	50.9	43.6	(4.4)	39.2
(14.9)	6	(11.0)	2.0	(9.0)	(7.9)	1.2	(6.7)
69.7		46.8	(4.9)	41.9	35.7	(3.2)	32.5
		Discontinued operations					
		Loss for period on					
		– discontinued operations					
	3	–	(13.3)	(13.3)	–	–	–
69.7		46.8	(18.2)	28.6	35.7	(3.2)	32.5
		Attributable to:					
67.3							31.3
							1.2
69.7							32.5
		Earnings per share from continuing operations					
	7						
29.99							14.12p
29.43							13.86p
		Earnings per share from continuing and discontinued operations					
	7						
29.99							14.12p
29.43							13.86p

Group balance sheet

As at 30 September 2008

As at 31 March 2008 (audited) £m		Note	As at 30 September 2008 (unaudited) £m	As at 30 September 2007 (unaudited) £m
Assets				
Non-current assets				
479.6	Goodwill		534.7	468.5
62.9	Other intangible assets		75.5	70.0
145.9	Property, plant and equipment		147.2	150.7
0.4	Investments in joint ventures	5	13.6	0.7
142.6	Retirement benefits		178.9	109.1
1.7	Trade and other receivables		0.2	2.2
3.0	Deferred tax asset		3.5	–
836.1			953.6	801.2
Current assets				
76.7	Inventories		80.4	56.7
340.9	Trade and other receivables		333.4	297.3
2.3	Income tax recoverable		0.5	–
1.7	Other financial assets		0.3	0.4
199.6	Cash and cash equivalents	12	153.7	179.3
621.2			568.3	533.7
1,457.3	Total assets		1,521.9	1,334.9
Equity and liabilities				
Equity attributable to equity holders of the parent				
137.6	Share capital		137.7	137.5
148.1	Share premium		148.1	148.0
20.9	Capital redemption and other reserves		24.7	27.0
50.6	Retained earnings		66.2	17.2
357.2			376.7	329.7
3.6	Minority interest		3.8	4.2
360.8	Total equity	9	380.5	333.9
Non-current liabilities				
377.5	Bank and other borrowings	12	449.0	423.1
15.3	Trade and other payables		16.3	7.1
31.2	Deferred tax		39.5	28.4
0.4	Retirement liabilities		9.9	0.5
32.3	Provisions for other liabilities		32.5	33.9
456.7			547.2	493.0
Current liabilities				
144.3	Bank and other borrowings	12	78.6	100.8
466.7	Trade and other payables		488.4	382.5
11.6	Income tax payable		10.5	8.5
4.2	Other financial liabilities		2.6	1.0
13.0	Provisions for other liabilities		14.1	15.2
639.8			594.2	508.0
1,096.5	Total liabilities		1,141.4	1,001.0
1,457.3	Total equity and liabilities		1,521.9	1,334.9

Group cash flow statement

For the six months ended 30 September 2008

Year ended 31 March 2008 (audited) £m		Note	Six months ended 30 September 2008 (unaudited) £m	Six months ended 30 September 2007 (unaudited) £m
	Cash flows from operating activities			
119.2	Cash generated from operations	10	86.9	53.5
(9.5)	Income tax paid		(5.4)	(5.6)
(26.7)	Interest paid		(17.8)	(9.5)
6.4	Interest received		3.0	2.5
89.4	Net cash flows from operating activities		66.7	40.9
	Cash flows from investing activities			
0.3	Disposal of subsidiaries and joint ventures	3	(16.9)	(0.9)
5.6	Proceeds on disposal of property, plant and equipment and intangible assets		4.2	1.7
0.2	Dividends received from joint ventures		–	0.2
(13.1)	Purchases of property, plant and equipment		(7.3)	(4.7)
(1.1)	Purchases of intangible assets		(0.2)	(0.3)
(12.5)	Acquisition of minority interest		–	–
–	– Investment in joint ventures	5	(13.2)	–
(372.3)	Acquisition of subsidiaries net of cash acquired	4	(65.9)	(372.3)
(392.9)	Net cash flows from investing activities		(99.3)	(376.3)
	Cash flows from financing activities			
(20.3)	Dividends paid		(18.7)	(12.8)
(0.5)	Finance lease principal payments		(0.2)	(0.2)
276.5	Bank loans raised		71.7	321.7
(1.1)	Dividends paid to minority interests		(1.0)	(0.5)
89.8	Net proceeds on issue of shares		0.1	89.6
(5.0)	Movement on own shares		(1.3)	(5.0)
339.4	Net cash flows from financing activities		50.6	392.8
35.9	Net increase in cash, cash equivalents and bank overdrafts		18.0	57.4
22.1	Cash, cash equivalents and bank overdrafts at start of period		56.5	22.1
(1.5)	Effects of exchange rate fluctuations		1.8	0.1
56.5	Cash, cash equivalents and bank overdrafts at end of period	12	76.3	79.6

Group statement of recognised income and expense

For the six months ended 30 September 2008

Year ended 31 March 2008 (audited) £m		Six months ended 30 September 2008 (unaudited) £m	Six months ended 30 September 2007 (unaudited) £m
	Note		
69.7	Profit for the period (including discontinued operations)	28.6	32.5
(3.2)	Currency translation differences	2.9	0.3
(2.7)	Fair value adjustment of interest rate and foreign exchange hedges	0.9	(0.1)
43.0	Net actuarial gains in respect of pensions	11.5	26.0
(9.7)	Tax on net actuarial gains in respect of pensions and hedges	(3.5)	(7.3)
97.1	Total recognised income and expense	40.4	51.4
	Attributable to:		
94.9	Equity holders of the parent	39.2	50.2
2.2	Minority interest	1.2	1.2
97.1		40.4	51.4

Notes to the consolidated half year financial statements

For the six months ended 30 September 2008

1. Basis of preparation

The consolidated half year financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority, the Listing Rules and with IAS34, '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 2008 (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 half year 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 half year financial statements.

Statutory accounts for the year ended 31 March 2008 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 half year report for the six months ended 30 September 2008 was approved by the Directors on 10 November 2008.

The half year report has not been audited or reviewed by auditors.

2. Segmental analysis

Following the completion of the acquisition of Strachan & Henshaw and the acquisitions of the previous year we have realigned all of our civil nuclear activities into one new Nuclear division. The Nuclear division encompasses all of the civil nuclear activities formerly reported under Marine.

	Six months ended 30 September 2008				Six months ended 30 September 2007			
	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	432.4	42.2	(4.5)	37.7	236.7	29.1	(1.9)	27.2
Defence	152.6	14.1	(0.6)	13.5	138.6	13.5	(0.7)	12.8
Rail	113.7	(4.7)	(0.5)	(5.2)	98.6	(2.7)	(0.9)	(3.6)
Nuclear	54.4	6.7	(1.1)	5.6	36.3	3.3	(0.7)	2.6
Networks	65.1	4.4	(0.2)	4.2	54.4	5.4	(0.2)	5.2
Engineering and Plant Services	122.4	11.0	–	11.0	108.0	8.4	–	8.4
Unallocated	–	(1.2)	–	(1.2)	–	(2.0)	–	(2.0)
Group total	940.6	72.5	(6.9)	65.6	672.6	55.0	(4.4)	50.6

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

	Six months ended 30 September 2008				Six months ended 30 September 2007			
	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	1.2	–	–	–	0.6	0.1	–	0.1
Rail	0.4	0.1	(0.1)	–	0.3	0.2	(0.2)	–
Engineering and Plant Services	0.1	–	–	–	3.2	0.3	(0.1)	0.2
Group total	1.7	0.1	(0.1)	–	4.1	0.6	(0.3)	0.3

3. Exceptional items and acquired intangible amortisation

In 2008 there were no operating exceptional items. Acquired intangible amortisation was £6.9 million (note 2). The acquisitions of Strachan & Henshaw resulted in acquired intangible amortisation of £2.1 million, of which £1.9 million is included in the Marine segment and £0.2 million is in the Nuclear segment. The discontinued post tax exceptional item of £13.3 million arises from settlement being agreed between Babcock and other parties with Tesco Stores Limited (Tesco). As previously disclosed Babcock was in dispute with Tesco in relation to matters arising out of tunnelling works for the store at Gerrards Cross. This contract was originally entered into by the civil engineering division of Peterhouse Group plc, which was sold by Peterhouse Group plc, prior to Babcock's acquisition of the Peterhouse Group plc in 2004.

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, which is included in Marine, and International Nuclear Solutions plc resulted in £0.2 million of acquired intangible amortisation, which is included in Nuclear.

The cash outflow on disposals represents £18.8 million gross costs (£13.3 million net of tax) on the discontinued business offset by deferred consideration received on a previously disposed of business.

4. Acquisitions

On 21 April 2008 the Group acquired 100% of the share capital of Strachan & Henshaw (S&H) for a consideration of £72.1 million, inclusive of costs. S&H is a specialist engineering design, project manager and provider of through-life support for the defence and nuclear industries.

The goodwill arises from the experience, knowledge and location of the workforce along with the market position of the entities involved.

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

	S&H £m	Other £m	Total £m
Cost of acquisition			
Purchase consideration	70.6	0.7	71.3
Direct costs	1.5	–	1.5
Total purchase consideration and costs	72.1	0.7	72.8
Fair value of assets acquired (see below)	17.1	0.7	17.8
Goodwill	55.0	–	55.0

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

	S&H		Other	Total	
	Book value of assets acquired £m	Fair value acquired £m	Fair value acquired £m	Book value of assets acquired £m	Fair value acquired £m
Goodwill	1.9	–	–	1.9	–
Intangible assets	0.9	0.6	–	0.9	0.6
Acquired intangibles*	–	19.1	0.9	–	20.0
Property plant and equipment	5.1	4.8	–	5.1	4.8
Deferred tax	0.2	(5.3)	(0.2)	0.2	(5.5)
Cash, cash equivalents and bank overdrafts	6.9	6.9	–	6.9	6.9
Inventory	0.1	0.1	–	0.1	0.1
Current assets	15.1	15.1	–	15.1	15.1
Current and non current liabilities	(22.3)	(22.3)	–	(22.3)	(22.3)
Provisions	(1.9)	(1.9)	–	(1.9)	(1.9)
Net assets acquired	6.0	17.1	0.7	6.0	17.8

*Acquired intangibles are: the value of contracts and customer relationships.

Notes to the consolidated half year financial statements continued

4. Acquisitions (continued)

Cash outflow to acquire businesses net of cash acquired:

	S&H £m	Other £m	Total £m
Total purchase consideration plus costs	72.1	0.7	72.8
Cash, cash equivalents and bank overdrafts	(6.9)	–	(6.9)
Cash outflow this period	65.2	0.7	65.9

The revenue and operating profit of acquired businesses since the date of acquisition as if they had been acquired on 1 April 2008 are:

	Since date of acquisition £m	For full period £m
Revenue		
S&H	27.6	31.0
Other	–	–
	27.6	31.0
Operating profit (before amortisation of acquired intangibles)		
S&H	4.0	4.4
Other	–	–
	4.0	4.4

5. Investment in joint ventures

Following the signing of the RSME contract the Group loaned the joint venture company Holdfast Training Services Limited the sum of £12.0 million. It also acquired an additional interest of 26% in the joint venture company from WS Atkins plc for a net cash consideration of £1.2 million. The resultant shareholding is 74% but due to the sharing of control with our partners it will be accounted for as a joint venture.

6. Income taxes

The charge for taxation has been based on the estimated effective tax rate, of 19%, for the year ended 31 March 2009 (for September 2007, the charge for tax was based on an estimated effective tax rate of 19% for the year ended 31 March 2008). An additional tax credit of £2.0 million relates to acquired intangible amortisation and a further tax credit £5.1 million relates to exceptional items on discontinued businesses. For 2007 the tax charge included a credit of £1.2 million, which related to acquired intangible amortisation.

7. Earnings per share

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

	Six months to 30 September 2008	Six months to 30 September 2007
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	227,770,758	221,441,710
Effect of dilutive potential ordinary shares: share options	3,966,419	4,190,318
Weighted average number of ordinary shares for the purpose of diluted EPS	231,737,177	225,632,028

7. Earnings per share (continued)

	Six months to 30 September 2008			Six months to 30 September 2007		
	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 operations	40.8	17.91	17.60	31.3	14.12	13.86
Add back:						
Amortisation of acquired intangible assets, net of tax	4.9	2.17	2.13	3.2	1.43	1.40
Exceptional items, net of tax	–	–	–	–	–	–
Earnings before amortisation and exceptionals	45.7	20.08	19.73	34.5	15.55	15.26
Earnings per share from continuing and discontinued operations	27.5	12.08	11.87	31.3	14.12	13.86
Add back:						
Amortisation of acquired intangible assets, net of tax	4.9	2.17	2.13	3.2	1.43	1.40
Exceptional items, net of tax	13.3	5.83	5.73	–	–	–
Earnings before discontinued operations, amortisation and exceptionals	45.7	20.08	19.73	34.5	15.55	15.26

8. Dividends

An interim dividend of 4.00 pence per 60 pence ordinary share (2007: 3.30 pence per 60 pence ordinary share) was declared after the balance sheet date and will be paid on 16 January 2009 to shareholders registered on 19 December 2008.

9. Statement of changes in equity

	Share capital £m	Share premium £m	Capital redemption £m	Retained earnings £m	Other reserves £m	Shareholder equity £m	Minority interests £m	Total equity £m
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
At 1 April 2008	137.6	148.1	30.6	50.6	(9.7)	357.2	3.6	360.8
Shares issued in the period	0.1	–	–	–	–	0.1	–	0.1
Recognised income and expense	–	–	–	35.4	3.8	39.2	1.2	40.4
Dividends	–	–	–	(18.7)	–	(18.7)	(1.0)	(19.7)
Share-based payments	–	–	–	0.9	–	0.9	–	0.9
Tax on share-based payments	–	–	–	(0.7)	–	(0.7)	–	(0.7)
Own shares and other	–	–	–	(1.3)	–	(1.3)	–	(1.3)
Net movement in equity	0.1	–	–	15.6	3.8	19.5	0.2	19.7
At 30 September 2008	137.7	148.1	30.6	66.2	(5.9)	376.7	3.8	380.5

Notes to the consolidated half year financial statements continued

10. Reconciliation of operating profit to cash generated from operations

Year ended 31 March 2008 (audited) £m	Six months ended 30 September 2008 (unaudited) £m	Six months ended 30 September 2007 (unaudited) £m	
Cash flows from operating activities			
110.2	Operating profit	65.6	50.6
17.4	Depreciation of property plant and equipment	11.1	7.2
13.5	Amortisation and impairment of intangible assets	8.2	5.5
1.4	Equity share-based payments	0.9	0.9
(0.3)	Impairment of investments	–	–
(2.5)	Profit on disposal of property, plant and equipment	(3.4)	(0.5)
139.7	Operating cash flows before movement in working capital	82.4	63.7
(16.3)	Decrease/(increase) in inventories	0.6	9.6
(95.4)	Decrease/(increase) in receivables	12.5	(31.5)
97.2	(Decrease)/increase in payables	(8.0)	12.9
(6.0)	Decrease in provisions	(0.6)	(1.2)
119.2	Cash generated from operations	86.9	53.5

11. Movement in net debt

Year ended 31 March 2008 (audited) £m	Six months ended 30 September 2008 (unaudited) £m	Six months ended 30 September 2007 (unaudited) £m	
35.9	Increase/(decrease) in cash in the period	18.0	57.4
(276.0)	Cash flow from the increase in debt and lease financing	(71.5)	(321.5)
(240.1)	Change in net funds resulting from cash flows	(53.5)	(264.1)
(7.0)	Loans and finance leases acquired with subsidiaries	–	(7.0)
(1.4)	Foreign currency translation differences	1.8	0.2
(248.5)	Movement in net debt in the period	(51.7)	(270.9)
(73.7)	Net debt at the beginning of the period	(322.2)	(73.7)
(322.2)	Net debt at the end of the period	(373.9)	(344.6)

12. Changes in net debt

	At 1 April 2008 (audited) £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange movement £m	At 30 September 2008 (unaudited) £m
Cash and bank balances	199.6	(54.6)	6.9	–	1.8	153.7
Bank overdrafts	(143.1)	65.7	–	–	–	(77.4)
Cash, cash equivalents and bank overdrafts at end of period	56.5	11.1	6.9	–	1.8	76.3
Debt	(376.1)	(71.7)	–	–	–	(447.8)
Finance leases	(2.6)	0.2	–	–	–	(2.4)
	(378.7)	(71.5)	–	–	–	(450.2)
Total	(322.2)	(60.4)	6.9	–	1.8	(373.9)

13. Pensions

As at 30 September 2008 the key assumptions used in valuing pension liabilities were:

- Discount rate 7.36% (31 March 2008: 6.9%)
- Inflation rate 3.4% (31 March 2008: 3.5%)

14. The financial information in this half year report does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 (as amended).

15. 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 half year 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 33 Wigmore Street, London W1U 1QX.

Risks and uncertainties

The principal risks and uncertainties affecting the Group remain those detailed on pages 26 and 27 of the 2008 Annual Report, a copy of which is available at www.babcock.co.uk. The principal risks identified are: health safety and environmental issues, reliance on a small number of large customers and contracts, bid process and bid success, contractual performance, political and regulatory environment, people retention and development, acquisitions and disposals, information technology, pensions, ethical and reputational risk, contingent liabilities, financial reporting, accounting controls and treasury. This half year report 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 IAS34 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 Mike Turner, Lord Hesketh, Peter Rogers, William Tame, Dipesh Shah, John Rennocks, Sir Nigel Essenhigh and Justin Crookenden. 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
10 November 2008



W Tame
Group Finance Director
10 November 2008

Shareholder information

Financial calendar

Half year end	30 September 2008
2008/09 half year results announced	11 November 2008
Interim dividend payment date (record date 19 December 2008)	16 January 2009
Financial year end	31 March 2009

Registered office and company number

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Registered in England
Company number 2342138

Registrars

Capita Registrars
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(calls cost 10p per minute plus
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Tel (from overseas): +44 20 8639 3399
Email: ssd@capitaregistrars.com
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Shareholder enquiries relating to
shareholding, dividend payments, change
of address, loss of share certificate etc.,
should be addressed to Capita Registrars
at their address given above.

Independent auditors

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Principal UK bankers

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HBOS plc
Level 7 – Bishopsgate Exchange
155 Bishopsgate
London EC2M 3YB

Stockbrokers and Investment bankers

JPMorgan Cazenove
20 Moorgate
London EC2R 6DA

Share dealing services

Capita Share Dealing Services provide
Babcock shareholders with a quick
and easy way to buy or sell Babcock
International Group PLC ordinary shares.
Commission starts from £20 if you deal
online and £25 if you deal by phone.
In addition, stamp duty, currently 0.5%,
is payable on purchases.

There is no need to open an account in
order to deal and you can trade at live
market prices during stock market hours.
You also have the added convenience of
placing 'limit' orders which are valid for up
to 90 days. This means that you decide the
price at which you wish to sell and your
shares will only be sold if the price reaches
this pre-set limit during the 90 day period.

To use the service either log on
to www.capitadeal.com or call
0871 664 0448 (calls cost 10p per
minute plus network extras). Please have
your share certificate(s) to hand when
you log on or call. If you are planning to
purchase shares, you will need to have
your debit card to hand with cleared
funds available at your bank.

These services are offered on an
execution-only basis and are subject to
terms and conditions which are available
on request or at www.capitadeal.com.
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name of Capita IRG Trustees Limited
which is authorised and regulated by the
Financial Services Authority.

*This is not a recommendation to buy, sell,
or hold shares in Babcock International
Group PLC. Shareholders who are unsure
of what action to take should obtain
independent financial advice. Share values
may go down as well as up, which may
result in a shareholder receiving less than
he/she originally invested.*

ShareGift

If you have only a small number of shares
which would cost more for you to sell
than they are worth, you may wish to
consider donating them to the charity
ShareGift (Registered Charity 1052686)
which specialises in accepting such
shares as donations. The relevant stock
transfer form can be obtained from Capita
Registrars. There are no implications for
Capital Gains Tax purposes (no gain or loss)
on gifts of shares to charity and it is also
possible to obtain income tax relief.
Further information about ShareGift
may be obtained on 020 7930 3737
or from www.ShareGift.org.

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