12 May 2009

Babcock International Group PLC Unaudited preliminary results for year ended 31 March 2009

Continuing track record of excellent results – Group outlook secured by strong market positions, healthy long-term prospects and a record £5.7 billion order book

Highlights

Statutory	March 2009	March 2008	Change
Revenue	**£1,901.9m**	£1,555.9m	+ 22%
Operating profit	**£133.1m**	£110.2m	+ 21%
Profit before tax	**£106.7m**	£84.6m	+ 26%
Continuing earnings per share	**37.42p**	29.99p	+ 25%
Full year dividend	**14.40p**	11.50p	+ 25%

Underlying			
Operating profit	**£147.3m**	£121.1m	+ 22%
Profit before tax	**£120.9m**	£95.5m	+ 27%
Continuing earnings per share	**41.90p**	33.40p	+ 25%

Underlying results are shown before amortisation of acquired intangibles of £14.2 million (2008: £10.9 million) and before the related tax effects of £4.0 million (2008: £3.3 million).

- Sixth successive year of revenue and profit growth and continuing attractive growth prospects
- Marine and Nuclear divisions build on strength of market positions and reputation for excellence
  - Marine – revenue + 41%, underlying operating profit + 30%
  - Nuclear – revenue + 40%, underlying operating profit + 128%
- Robust financial position, cash generative business model – cash conversion rate of 115%
- Implementation of liability cap to reduce long-term volatility and risk on pension liabilities nearing completion
- Order book increased by 90 % to £5.7 billion, bid pipeline remains strong providing long-term revenue visibility
- Major contract wins including £1.5 billion RSME contract and HMS Vigilant worth in excess of £300 million
- Full year dividend increased by 25%

Peter Rogers, Chief Executive commented:

"Babcock delivered a sixth successive year of record results thanks to the strength of our operations and cash-generative business model. As a consequence we are in excellent financial health. Our Marine and Nuclear businesses did particularly well and will be major engines of further growth. We have excellent visibility from our growing order book which now stands at an all time high of £5.7 billion. The bid pipeline is at its best for some time and increased pressure for efficiency in public spending will bring further opportunities."

"We are maintaining our commitment to delivering shareholder value by increasing our full year dividend to 14.40p, reflecting both our excellent results last year and our confidence in the Group's prospects. We believe this will be another year of excellent progress."

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A meeting for investors and analysts will be held today at 9.00 am at Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB. A webcast of the presentation will be available at www.babcock.co.uk during the afternoon of 12 May 2009.

Introduction

Babcock is a leading player in the engineering support services sector. We have continued to build on the excellent progress of recent years to deliver another set of record results.

We have a clear strategy of growth in our chosen markets, both organically and through acquisition. In recent years this strategy has not only transformed the financial performance of our business but has significantly strengthened our business model.

We have created a sound business which is supported by our reputation for working in partnership with our customers to deliver cost effective solutions.

Our £5.7 billion order book gives us excellent long-term visibility and we look forward to another year of excellent progress for Babcock.

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.

2008/09 has been another strong year for Babcock. We have achieved 22% growth in revenue to £1,901.9 million (2008: £1,555.9 million), operating profit has also increased by 22% to £147.3 million (2008: £121.1 million) and profit before tax has grown by 27% to £120.9 million (2008: £95.5 million). As a result, continuing earnings per share have increased by 25% to 41.90 pence per share (2008: 33.40 pence per share), a clear demonstration of our continuing success in delivering long-term, sustainable growth for our shareholders.

The Board is recommending a final dividend of 10.40 pence per share (2008: 8.20 pence per share), an increase of 25% giving a total dividend for the year of 14.40 pence per share (2008: 11.50 pence per share). Subject to shareholder approval at the AGM, the dividend will be paid on 7 August 2009, to shareholders on the register at close of business on 10 July 2009.

During the year we successfully completed the integration of Devonport Management Ltd, INS PLC and Strachan & Henshaw, acquisitions that were made during 2007 and early 2008, and our results clearly demonstrate the value we have created from them. The combined businesses give us considerable scale and put us among the leading players in some of our key markets.

Babcock Marine has consolidated its position as the leading support provider to the Royal Navy. We are now working in long-term partnership with the Ministry of Defence (MoD) on a number of major maritime projects to deliver through-life efficiencies and maximum benefits for both parties.

Building on the strength of our UK submarine support business, we are investigating a number of opportunities where the scale of our knowledge and expertise can be extended into overseas markets with Canada being our first major step.

BNS Nuclear Services has a significant presence in all areas of the civil nuclear market and is well placed to benefit further from growth in the decommissioning market and the new build programme.

Elsewhere in our business, our track record of working in partnership with our customers to provide cost effective solutions has helped us achieve growth through extending the length or scope of existing contracts. This has also helped us win new contracts and further strengthen our market positions.

The award of the 30 year, £1.5 billion Royal School of Military Engineering (RSME) contract has established Babcock as a leader in the provision of Army training support. We now have a strong position from which to expand further into the defence training market.

As well as our leading market positions, the Group's order book and record bid pipeline give us excellent forward visibility and confidence in the future. Compared to the same time last year, the order book has increased by 90% to £5.7 billion (2008: £3 billion).

Operational review

Marine

	2009 £m	2008 £m	Change +/–
Revenue	**892.9**	633.2	+ 41%
Operating profit	**89.3**	68.7	+ 30%
Operating margin	**10.0%**	10.8%	

The Marine division is our largest business unit representing 47% of Group revenue. The division has had another excellent year, exceeding all financial and operational targets. This is partly due to the benefit of a full year's contribution from Devonport but is mainly the result of strong organic growth and the considerable scale the division has within the naval support market.

We have made significant synergy cost savings across the division, which has contributed to the growth in profit. By the end of the 2009/10 financial year we expect efficiency and synergy savings to be running at the rate of £14 million per year. At the same time we have maintained our high level of service, confirmed in performance feedback, and have developed long-term partnering arrangements with our customer.

Negotiations on the Terms of Business Agreement (ToBA) have continued throughout the year without any delay to the award of new contracts. The key principles have been agreed and recent contracts have been awarded under new arrangements similar to those to be contained in the ToBA. The MoD continues to negotiate other Maritime Change Programme initiatives with other parties and we do not expect our ToBA to be concluded ahead of these.

Throughout the year we have continued to provide all maintenance and support to the UK's submarine fleet as well as a continuous programme of scheduled refuelling and refit work. In March we announced the Long Overhaul Period and Refuel for HMS Vigilant, expected to be worth in excess of £300 million for a programme of work scheduled to complete in 2012.

Building on the strong partnership we have established with the MoD, the £155 million Submarine Engineering Support contract, awarded since the financial year end, will enable us to use the specialist knowledge within our business to transform the provision of through-life submarine support. We will be leading an industry alliance driving cost reductions and efficiencies across the programme.

A strong team has been established in Canada to deliver the £125 million, five year in-service support contract for Canada's Victoria class submarines. This provides us with a solid base from which to grow our own local engineering support operation.

We continue to expand our international submarine support activities and good progress has been made in the design and manufacture of the weapons handling and launch system for Spain's new S-80 submarine class. Contracts for the provision of initial designs for weapons handling systems for new submarine programmes in South Korea and Australia have also been secured.

At Rosyth and Devonport we have continued to support the Royal Navy with a rolling programme of refit and upgrade projects for surface ships.

The CVF (future aircraft carrier) project is progressing well and is increasingly reliant on the scale of the design capability within our Integrated Technology business unit. In March 2009, revisions to the build strategy for the two vessels were announced and this will result in additional activity for the division. Whilst the impact of this is still to be finalised, we anticipate it will be worth around an additional 25% to the original £675 million contract awarded in July 2008.

During the year the land systems business continued to produce the highly successful Jackal patrol vehicles for the armed forces, with around 200 vehicles delivered to date. The latest Urgent Operational Requirement (UOR) is to provide around a further 200 vehicles and is worth in the order of £55 million.

We are confident the division will continue to benefit from the strength of the relationship with our major customer and our ability to reduce its operational costs whilst improving the availability of its assets. We have excellent long-term visibility through both existing orders and the scheduled programme of refits and maintenance. In addition there are a number of opportunities in the UK and overseas where we believe we can build on the strength of our reputation and expertise to deliver further growth.

Defence

	2009 £m	2008 £m	Change +/–
Revenue	**338.4**	302.1	+ 12%
Operating profit	**28.9**	27.5	+ 5%
Operating margin	**8.5%**	9.1%	

The division has continued to make steady progress throughout the year with the main focus on working in collaboration with the Ministry of Defence, its major customer, to deliver cost efficiencies and increased effectiveness in a number of long-term support contracts.

Revenue growth has been driven mainly by scope expansions within the Regional Prime contracts but also has benefited in the final quarter of the financial year from the start of the RSME contract. As a result, the division's overall operating margin decreased slightly as meaningful profit will only be recognised on this contract during 2009/10.

The RSME contract has started extremely well exceeding our customer's expectations from the outset. The Private Public Partnership contract, the first of its type, is to provide training, training support and facilities management. It establishes Babcock as a major provider in the technical training market sector and the leading provider of Army training support services.

The two Regional Prime contracts continue to perform well with a number of additional projects, services and locations being added. Multi-activity and integrated support contracts have also continued to perform well and have provided high levels of service, availability and operational capability.

Airport operations have had a very strong year continuing to add to the level of support they provide for BAA's integrated baggage handling operations at Heathrow. This now includes Terminal 5, where a first class service is being provided. Additional projects at Gatwick and Stansted have also been completed.

We believe the markets in which the division operates remain robust. We are confident that the Government and other major customers will continue to seek the most cost effective solutions for their operational needs and that our successful partnering model places us in a strong position from which to benefit.

Rail

	2009 £m	2008 £m
Revenue	**228.9**	228.1
Operating loss	**(6.4)**	0.5
Operating margin	**- 2.8%**	0.2%

Throughout the year the division has focused on recovery and delivering long-term financial improvements. We continue to manage out a number of underperforming multi-disciplinary projects that have had an adverse impact on our performance.

We have built on our strong reputation for delivering quality engineering, championing innovation by bringing new technologies to the rail industry and partnering with leading companies. Our effort is now on using our core skills and expertise to secure and deliver track renewal, power and signalling contracts efficiently to ensure the division delivers acceptable levels of return.

Our track, signalling and telecommunication framework contracts continue to provide a steady flow of profitable work. Network Rail is seeking to reduce volumes placed through existing track renewal frameworks and increase work placed through track enhancement frameworks. We are one of seven qualified contractors for these enhancement works, valued in excess of £100 million over five years.

Building on our successful 5 year partnership with Swietelsky for high output track renewals the Swietelsky Babcock Rail (SB Rail) joint venture has submitted a tender for the high output track renewals framework contract currently valued in excess of £500 million over five years. We expect the outcome of this tender process to be known in June/July with work expected to start in September 2009. SB Rail has also been awarded an £11 million, one year extension to the nationwide on-track plant contract.

Despite a 30% reduction in Network Rail's track renewal budget we believe there are a number of opportunities for the division to benefit from growth in track enhancement projects and high output track renewal as well as other framework opportunities. We will continue to take the necessary action to create a more efficient business and complete the withdrawal from unprofitable multi-disciplinary project work to build on our reputation for delivering quality engineering.

Nuclear

	2009 £m	2008 £m	Change +/–
Revenue	**106.7**	76.3	+ 40%
Operating profit	**13.0**	5.7	+ 128%
Operating margin	**12.2%**	7.5%	

The successful consolidation of Alstec, INS and Strachan & Henshaw to create BNS Nuclear Services has created a business with considerable scale and expertise. The financial benefits accruing from the integration and successful contract performance are clearly reflected in the significant improvement in the division's operating margin.

There continues to be a steady programme of investment in existing operational reactors to support life extension projects and the major focus for the division continues to be the operational AGR fleet. In particular, development of Reactor Core Monitoring Equipment for British Energy has been a major success in reducing outage periods.

The decommissioning market remains subdued. Although the Parent Body Organisation (PBO) contract has been let for Sellafield, funding generally remains constrained. BNS Nuclear Services has successfully completed the installation of the complex equipment for the Sellafield Product and Residue Store project. Earlier this year, as part of the Accord Alliance, we were awarded the next phase of the Box Encapsulation Plant Product Store project, along with other engineering packages, to support the high hazard work areas at Sellafield. These contracts are strongly supported by our local design and workshop facilities.

At Dounreay we successfully won a three year support contract to provide maintenance services. This consolidates our position as long-term support provider at the site.

There is growing public acceptance of the need for a new build nuclear power generation programme as well as strong support from Government and an appetite within the industry to make it happen. We are well placed to benefit as this market develops and we are exploring partnering possibilities with a number of parties involved in this programme.

BNS Nuclear Services has one of the largest specialist nuclear resources in the UK. It has a strong position, through its scale and expertise, to serve each market area and deliver further significant growth.

Networks

	2009 £m	2008 £m	Change +/–
Revenue	**119.4**	98.5	+ 21%
Operating profit	**7.0**	7.2	- 3%
Operating margin	**5.9%**	7.3%	

The division has achieved steady growth in revenue following major contract wins in the transmission business and continued growth in the National Grid Electricity Alliance contract (a joint venture with AMEC). Long-term alliance partnering has helped insulate the division from some market volatility and provide greater visibility and increased work streams, although this is at a slightly reduced operating margin. Margins were also impacted by start up losses in the Irish telecoms business.

Both the National Grid and EDF Energy Networks Alliances have had successful second years, delivering strong volumes with notable improvements in efficiency, innovation and safety performance.

Specialist transmission design activities again increased throughout the year. Sustained recruitment for both our London and Sofia offices helped the design function respond to the increasing business needs.

The division's communication business successfully completed its first fixed line communication network contract and there have been consistent work loads throughout the year. We are now established in this market with a strong pipeline of further opportunities.

Digital Switchover work has provided a steady revenue stream. Following the acquisition of National Grid Wireless by Arqiva, we now work with a single customer who is responsible for the entire new network being built for the UK Digital Switchover programme.

Financial review

The markets in which we operate remain attractive with significant opportunities resulting from infrastructure upgrade work as well as emerging new technologies. We believe the strong positions we hold in these markets and the long-term relationships we have developed with our key customers will underpin our performance in the future.

Engineering and Plant

	2009 £m	2008 £m	Change +/–
Revenue	**215.6**	217.7	- 1%
Operating profit	**19.7**	17.1	+15%
Operating margin	**9.1%**	7.9%	

Despite the sudden decline in the African Equipment business during the second half, divisional revenues overall held up well, ending the year broadly in line with the previous year in Sterling terms. Margins for the division benefited from a very strong performance in the Eagleton pipelines business in the US and improving profitability on Eskom related business in South Africa.

Whilst the rapid drop in global commodity prices has impacted the South African economy, the slow down in infrastructure spending has not been as steep as in some more developed countries. The South African government remains committed to improving and extending the supply of electricity and other civil infrastructure and has allocated additional funds to spend within the power markets that we serve.

Eskom, the South African power utility, has announced expansion programmes that include new coal fired power stations as well as upgrades and extensions to the transmission line networks. Our power generation support and maintenance business has shown strong growth during the year with continuing benefit from the return to service programme and increased outage and maintenance work on the in-service power stations.

The Powerlines business has had another good year with successful projects undertaken in South Africa, Namibia and Botswana. An increasing focus on production efficiency has helped to drive margin improvement.

The South African Equipment business has had a challenging year. In the first half we delivered strong results, continuing our track record of growth. However order intake fell by some 40% in the last quarter compared with the prior year. We started to take action to mitigate the impact of declining orders during October putting plans in place to reduce inventory and cut costs. Our focus on parts and servicing has been beneficial with revenue in this area increasing by 51% with consequent margin enhancement.

Building on our track record of growing market share for Volvo construction equipment, we have taken a regional dealership for Nissan trucks and are progressing negotiations for the MACK truck franchise for Southern Africa. Whilst we do not expect significant sales in the short-term, the market for smaller commercial vehicles has been relatively resilient and the larger MACK rigid trucks and concrete mixers will complement the current range of construction equipment.

With a continuing increase in demand for electricity across Southern Africa we anticipate a secure future for our power generation support and Powerlines businesses. In the equipment market we have taken a more cautious approach and in the medium-term we expect the demand in the power markets to offset only some of the decline in the equipment market. As a result we expect results for the division for 2009/10, excluding the effects of currency movements, to return to levels similar to those reported in 2007/08.

Group income statement

In the year to 31 March 2009 Babcock recorded another strong set of financial results as we continued to pursue our growth strategy both organically and through acquisition. We significantly enhanced our presence in the Marine and Nuclear markets through the acquisition of Strachan & Henshaw Ltd (S&H) in May 2008 which contributed revenue and operating profit of £58.9 million and £7.3 million respectively during the year. Performance in these key strategic markets was excellent with both divisions recording double digit growth in revenue and operating profit with a number of major contracts secured during the year. Excluding the contribution from S&H, organic growth in Group revenue and operating profit was 10% and 9% respectively.

The Group operating margin remained robust at 7.7%, in line with last year despite the adverse performance in Rail. The Group's return on invested capital of 18.5% (2008: 14.4%) remains comfortably ahead of our weighted average cost of capital, a performance driven by our focus on operating margins and optimisation of fixed and working capital.

In Rail, the multi-disciplinary projects business failed to improve during the second half and despite profitable trading from the track and signalling businesses, losses overall increased to £6.4 million from £4.7 million at the half year (2008: profit £0.5 million). Whilst this out-turn was a drag on the Group's result, the strength of the performance elsewhere has been more than sufficient to compensate and ensured the Group continued to deliver double digit growth. The anticipated recovery in Rail is expected to add further momentum to bottom line growth in 2009/10.

2008/09 witnessed significant volatility in credit markets with the three month London Interbank Offered Rate (LIBOR) peaking at a high of 6% in early April 2008 and ending the financial year at approximately 1.2%, still significantly above the Bank of England official rate, or 'base rate', of 0.5% reflecting ongoing credit concerns between banks. We have benefited to some extent from the decline in LIBOR in the rate of interest we have paid to our lending banks during the second half and are likely to benefit further during 2009/10. Approximately 50% of the Group's gross debt is hedged at a fixed rate of interest and that portion of Group debt has not and will not benefit from lower rates in the medium-term. The total net interest charge in the year was £26.2 million (2008: £25.6 million) covered 6.5 times (2008: 5.5 times) by earnings before interest, depreciation and amortisation (ebitda) and comfortably within banking covenants.

Consequently, with a flat year-on-year interest charge, profit before tax increased by 27% to £120.9 million (2008: £95.5 million). The related charge to corporation tax of £23.1 million (2008: £18.2 million) represented 19% of the underlying (before amortisation of acquired intangibles and exceptionals) pre-tax profit. The Group benefited from tax on income in overseas jurisdictions at rates below that of the UK. UK legislation currently planned to take effect for financial years commencing on or after 1 January 2010 may cause the Group's effective rate to increase from April 2010 onwards but we estimate (based on currently known rates of taxation) a rate of no more than 23% is likely from that date.

Post-tax profit from continuing operations increased by 27% to £97.8 million (2008: £77.3 million). As reported in the first half of the year, following the settlement of a dispute with Tesco Stores Limited, the Group incurred an exceptional post-tax cash charge of £13.3 million against discontinued businesses. As previously disclosed this related 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 charging this amount, shown in the Group's income statement under discontinued operations, profit for the year after charging amortisation of acquired intangibles was £74.3 million (2008: £69.7 million).

Our commitment to delivering value for shareholders has been clearly demonstrated over the past five years during which period we have paid £78 million to shareholders in dividends and have maintained dividend cover of between 2.5 and 3 times. We have achieved this by growing and acquiring businesses with sustainable growth potential and delivering on that potential. Reflecting our confidence in the strength and resilience of our business model the Board is proposing a final dividend for 2008/09 of 10.40 pence per share. If approved by shareholders, this will make the total dividend for the year 14.40 pence (2008: 11.50 pence) an increase of 25%.

Cash flow and net debt

As our longer term investors will know, we have always considered the most important measure of business health to be cash, both in terms of the absolute value of cash generated from operations and the relative conversion rate of cash from operating profit. Cash conversion in the year was 115% (2008: 108%). We achieve such good conversion through rigorous attention to the negotiation and application of contract terms, being trusted to deliver the services required of us and a thorough understanding of cash payback in both capital expenditure and acquisition projects. Having increased to £373.9 million at the end of the first half, principally as a result of the S&H acquisition, Group net debt reduced to £351.5 million at the year end.

During the year we benefited from significant cash inflows from a number of major contracts both at completion and start-up phases resulting in minimal outflows of funds for working capital and including £25 million paid in advance to Group pension funds. This profile is not unusual for a long-term contracting organisation such as Babcock and working capital cash flows can be volatile from year to year. Capital expenditure of £19.3 million (including finance leases of £0.2 million) represented 0.8 times depreciation and amortisation of non-acquired intangibles (2008: £14.2 million and 0.7 times) and was predominantly in support of major contracts in Marine, Networks and Engineering and Plant together with Group-wide IT systems. Delays in some expenditure intended for 2008/09 will mean that 2009/10 is likely to see higher levels of capital expenditure.

After cash paid in respect of acquisitions of £66.2 million, the net cost of the Tesco dispute settlement of £13.3 million and interest, tax and dividend payments, the net cash outflow was £29.3 million (2008: £248.5 million).

The Group has in place a £600 million revolving credit facility with its banking group which matures in 2012. With net debt at £351.5 million, financial gearing ratios comfortably within covenanted levels, and facilities in place for another three years, the Group's financing position remains secure.

Pensions

Good progress has been made since the half year on securing a solution to the longevity risk on a significant element of the Group's pension scheme liabilities. We have reached agreement in principle with the trustees of two of our defined benefit pension schemes (the Schemes) for them to enter into contracts with an agreed counterparty to cap their exposure to increasing life expectancy.

The exposure will be capped by the use of longevity swaps, which will apply to current pensions in payment, whereby the Schemes have agreed to make fixed payments in exchange for receiving the actual value of pensions due to members, irrespective of how long the members and their dependents live. In return for the Schemes' agreement to enter into this arrangement, the Group has agreed to fund the excess of the swap payment over the funding assumptions adopted by the trustees over a 20 year period. Other than the future benefit of capping the liabilities covered by the swaps, there will be no material direct impact on the Group's income statement, balance sheet or cash flow as a result of this transaction.

This arrangement is designed to ensure for both the Group and the pension schemes that any further financial risk related to improved longevity is eliminated.

At 31 March 2009 the Group's defined benefit pension liabilities and assets each totalled approximately £1.7 billion with a net balance sheet surplus of £50.7 million. Approximately £800 million of the liabilities were in respect of pensions in payment and in this the first stage of the Group's ongoing liability management programme, around £500 million of this amount is planned to be capped by the use of the longevity swaps. Approximately £250 million of the remainder of the pensions in payment liabilities are expected to be the subject of a separate arrangement in the near future.

In conjunction with the execution of these swaps, existing inflation and interest rate risk hedging is under review via the schemes' investment portfolios to ensure that a fully effective hedge is established for all pensions in payment liabilities.

The impact of the defined benefit pensions on the Group income statement was as follows:

	2009 £m	2008 £m
Service Cost	26.7	26.8
Expected return on plan assets	(127.4)	(115.1)
Interest on obligations	116.6	92.1
	(10.6)	(23.0)
Net charge/(credit) (before exceptionals)	15.9	3.8

The above is before £1.4 million curtailment gain following reductions in active membership during the year.

Outlook

The major markets in which we operate remain both attractive and resilient.

Our £5.7 billion order book and strong bid pipeline give us excellent long-term visibility. Our financial strength and ability to deliver cost effective solutions give us confidence that the growth prospects for the Group remain strong. We anticipate increasing pressure for improved efficiency in public-sector spend will further increase the opportunities available to us.

We look forward to another year of excellent progress for Babcock.

Group income statement

For the year ended 31 March 2009

	Note	2009 Before acquired intangible amortisation and exceptional items (unaudited) £m	2009 Acquired intangible amortisation and exceptional items (unaudited) £m	2009 Total (unaudited) £m	2008 Before acquired intangible amortisation and exceptional items (audited) £m	2008 Acquired intangible amortisation and exceptional items (audited) £m	2008 Total (audited) £m
Revenue	2	1,901.9	–	1,901.9	1,555.9	–	1,555.9
Operating profit	2, 3	147.3	(14.2)	133.1	121.1	(10.9)	110.2
Share of loss from joint ventures	2	(0.2)	–	(0.2)	–	–	–
Finance costs		(32.1)	–	(32.1)	(32.0)	–	(32.0)
Finance income		5.9	–	5.9	6.4	–	6.4
Profit before tax		120.9	(14.2)	106.7	95.5	(10.9)	84.6
Income tax expense	6	(23.1)	4.0	(19.1)	(18.2)	3.3	(14.9)
Profit for the year from continuing operations		97.8	(10.2)	87.6	77.3	(7.6)	69.7
Discontinued operations							
Loss for year on discontinued operations	3	–	(13.3)	(13.3)	–	–	–
Profit for the year		97.8	(23.5)	74.3	77.3	(7.6)	69.7
Attributable to:							
Equity holders of the parent				72.0			67.3
Minority interest				2.3			2.4
				74.3			69.7
Earnings per share from continuing operations	7						
– Basic				37.42p			29.99p
– Diluted				37.16p			29.43p
Earnings per share from continuing and discontinued operations	7						
– Basic				31.59p			29.99p
– Diluted				31.38p			29.43p

Dividends

Amounts recognised as distributions to equity holders in the year:

	Note	2009 £m	2008 £m
Final dividend for the year ended 31 March 2008 of 8.20p (2007: 5.65p) per 60p share		18.7	12.8
Interim dividend for the year ended 31 March 2009 of 4.00p (2008: 3.30p) per 60p share		9.2	7.5
Dividends paid during the year		27.9	20.3

Proposed final dividend for the year ended 31 March 2009 of 10.40p (2008: 8.20p) per 60p share.

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 shareholder approval, will be paid on 7 August 2009 to shareholders registered on 10 July 2009.

Group balance sheet

As at 31 March 2009

	Note	2009 (unaudited) £m	2008 (audited) £m
Assets			
Non-current assets			
Goodwill		535.2	479.6
Other intangible assets		68.7	62.9
Property, plant and equipment		147.1	145.9
Investments in joint ventures	5	1.5	0.4
Loan to joint venture	5	12.0	–
Retirement benefits		90.9	142.6
Trade and other receivables		0.2	1.7
Deferred tax		2.8	3.0
		858.4	836.1
Current assets			
Inventories		94.4	76.7
Trade and other receivables		335.7	340.9
Income tax recoverable		4.6	2.3
Other financial assets		1.0	1.7
Cash and cash equivalents	11	123.6	199.6
		559.3	621.2
Total assets		1,417.7	1,457.3
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital		137.7	137.6
Share premium		148.2	148.1
Capital redemption and other reserves		18.5	20.9
Retained earnings		(16.0)	50.6
		288.4	357.2
Minority interest		4.4	3.6
Total equity	8	292.8	360.8
Non-current liabilities			
Bank and other borrowings	11	356.5	377.5
Trade and other payables		16.0	15.3
Deferred tax		0.2	31.2
Retirement liabilities		40.2	0.4
Provisions for other liabilities		35.4	32.3
		448.3	456.7
Current liabilities			
Bank and other borrowings	11	118.6	144.3
Trade and other payables		518.0	466.7
Income tax payable		15.2	11.6
Other financial liabilities		15.1	4.2
Provisions for other liabilities		9.7	13.0
		676.6	639.8
Total liabilities		1,124.9	1,069.5
Total equity and liabilities		1,417.7	1,457.3

Group cash flow statement

For the year ended 31 March 2009

	Note	2009 (unaudited) £m	2008 (audited) £m
Cash flows from operating activities			
Cash generated from operations	9	**153.6**	119.2
Income tax paid		**(7.7)**	(9.5)
Interest paid		**(34.2)**	(26.7)
Interest received		**5.4**	6.4
Net cash flows from operating activities		**117.1**	89.4
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures	3	**(16.9)**	0.3
Proceeds on disposal of property, plant and equipment		**4.9**	5.4
Proceeds on disposal of intangible assets		**–**	0.2
Dividends received from joint ventures		**–**	0.2
Purchases of property, plant and equipment		**(17.0)**	(13.1)
Purchases of intangible assets		**(2.1)**	(1.1)
Acquisition of minority interest		**–**	(12.5)
Investment in and loans to joint ventures	5	**(13.3)**	–
Acquisition of subsidiaries net of cash acquired	4	**(66.2)**	(372.3)
Net cash flows from investing activities		**(110.6)**	(392.9)
Cash flows from financing activities			
Dividends paid		**(27.9)**	(20.3)
Finance lease principal payments		**(0.5)**	(0.5)
Bank loans (repaid)/raised		**(20.7)**	276.5
Dividends paid to minority interests		**(1.8)**	(1.1)
Net proceeds on issue of shares		**0.2**	89.8
Movement on own shares		**(7.5)**	(5.0)
Net cash flows from financing activities		**(58.2)**	339.4
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(51.7)**	35.9
Cash, cash equivalents and bank overdrafts at start of year		**56.5**	22.1
Effects of exchange rate fluctuations		**1.5**	(1.5)
Cash, cash equivalents and bank overdrafts at end of year	11	**6.3**	56.5

Group statement of recognised income and expense

For the year ended 31 March 2009

	Note	2009 (unaudited) £m	2008 (audited) £m
Profit for the period (including discontinued operations)		**74.3**	69.7
Currency translation differences		**6.3**	(3.2)
Fair value adjustment of interest rate and foreign exchange hedges		**(11.6)**	(2.7)
Net actuarial (losses)/gains in respect of pensions		**(145.6)**	43.0
Tax on net actuarial (losses)/gains in respect of pensions and hedges		**44.0**	(9.7)
Total recognised income and expense	8	**(32.6)**	97.1
Attributable to:			
Equity holders of the parent		**(35.2)**	94.9
Minority interest		**2.6**	2.2
	8	**(32.6)**	97.1

Notes

For the year ended 31 March 2009

1. Accounting policies and basis of preparation

The financial information in this statement is prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union. They have been prepared on the basis of the accounting policies set out in the Group's 2008 Annual Report (that comply with IFRS and IAS as adopted by the European Unior) adopted by the Group and have been consistently applied throughout the year.

2. Segmental analysis

The segmental analysis for the year is:

	2009 Group revenue (unaudited) £m	2009 Operating profit before acquired intangible amortisation, exceptional items (unaudited) £m	2009 Acquired intangible amortisation and exceptional items (unaudited) £m	2009 Group operating profit (unaudited) £m	2008 Group revenue (audited) £m	2008 Operating profit before acquired intangible amortisation, exceptional items (audited) £m	2008 Acquired intangible amortisation and exceptional items (audited) £m	2008 Group operating profit (audited) £m
Continuing operations								
Marine	**892.9**	**89.3**	**(9.3)**	**80.0**	633.2	68.7	(5.4)	63.3
Defence	**338.4**	**28.9**	**(1.3)**	**27.6**	302.1	27.5	(1.4)	26.1
Rail	**228.9**	**(6.4)**	**(1.0)**	**(7.4)**	228.1	0.5	(1.8)	(1.3)
Nuclear	**106.7**	**13.0**	**(2.2)**	**10.8**	76.3	5.7	(1.8)	3.9
Networks	**119.4**	**7.0**	**(0.4)**	**6.6**	98.5	7.2	(0.5)	6.7
Engineering and Plant	**215.6**	**19.7**	**–**	**19.7**	217.7	17.1	–	17.1
Unallocated	**–**	**(4.2)**	**–**	**(4.2)**	–	(5.6)	–	(5.6)
Group total	**1,901.9**	**147.3**	**(14.2)**	**133.1**	1,555.9	121.1	(10.9)	110.2

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

	2009 Revenue (unaudited) £m	2009 Operating profit (unaudited) £m	2009 Tax and interest (unaudited) £m	2009 Net JV results (unaudited) £m	2008 Revenue (audited) £m	2008 Operating profit (audited) £m	2008 Tax and interest (audited) £m	2008 Net JV results (audited) £m
Continuing operations								
Defence	**12.5**	**0.4**	**(0.5)**	**(0.1)**	0.6	0.1	–	0.1
Rail	**0.7**	**0.2**	**(0.3)**	**(0.1)**	0.7	0.3	(0.3)	–
Engineering and Plant	**0.1**	**–**	**–**	**–**	3.6	(0.1)	–	(0.1)
Group total	**13.3**	**0.6**	**(0.8)**	**(0.2)**	4.9	0.3	(0.3)	–

3. Exceptional items and acquired intangible amortisation

In 2009 there were no operating exceptional items. Acquired intangible amortisation was £14.2 million (note 2). The acquisition of Strachan & Henshaw (S&H) resulted in acquired intangible amortisation of £4.8 million, of which £4.3 million is included in the Marine segment and £0.5 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 2008 there were no exceptional items. Acquired intangible amortisation was £10.9 million (note 2). The acquisitions of Devonport Management Limited resulted in acquired intangible amortisation of £5.0 million, which is included in Marine, and International Nuclear Solutions plc resulted in £0.9 million of acquired intangible amortisation, which is included in Nuclear.

The cash outflow on disposals represents £18.4 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 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	1.0	71.6
Direct costs	1.5	–	1.5
Total purchase consideration and costs	**72.1**	**1.0**	**73.1**
Fair value of assets acquired (see below)	17.1	1.0	18.1
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	Book value/ 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)	0.3	(22.3)	(22.0)
Provisions	(1.9)	(1.9)	–	(1.9)	(1.9)
Net assets acquired	**6.0**	**17.1**	**1.0**	**6.0**	**18.1**

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

Cash outflow to acquire businesses net of cash acquired:

	S&H £m	Other £m	Total £m
Total purchase consideration plus costs	72.1	1.0	73.1
Cash, cash equivalents and bank overdrafts acquired	(6.9)	–	(6.9)
Cash outflow this period	**65.2**	**1.0**	**66.2**

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	58.9	62.3
Other	–	–
	58.9	62.3
Operating profit (before amortisation of acquired intangibles)		
S&H	7.3	7.7
Other	–	–
	7.3	7.7

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 Group's effective rate of tax on underlying profit before tax for the period to 31 March 2009 was 19%. The effective rate is calculated as the total charge to income tax as a percentage to the Group's profit before tax, excluding amortisation of intangibles, discontinued items, exceptional items, and the associated tax thereon. The Group's effective rate of tax is lower than the UK statutory rate of 28% because the Group benefits from tax rates in overseas jurisdictions that are lower than that statutory rate. Based on the profile of earnings within the Group, we expect this effective rate of tax to be sustainable for the 2009/10 financial year, possibly rising to between 21% and 23% thereafter.

7. Earnings per share

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

	2009 Number	2008 Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	228,037,214	224,459,855
Effect of dilutive potential ordinary shares: share options	1,550,512	4,264,409
Weighted average number of ordinary shares for the purpose of diluted EPS	229,587,726	228,724,264

Earnings

	2009 Earnings £m	2009 Basic per share pence	2009 Diluted per share pence	2008 Earnings £m	2008 Basic per share pence	2008 Diluted per share pence
Earnings per share from continuing operations	85.3	37.42	37.16	67.3	29.99	29.43
Add back:						
Amortisation of acquired intangible assets, net of tax	10.2	4.48	4.45	7.6	3.41	3.34
Exceptional items, net of tax	–	–	–	–	–	–
Earnings before amortisation and exceptionals	95.5	41.90	41.61	74.9	33.40	32.77
Earnings per share from continuing and discontinued operations	72.0	31.59	31.38	67.3	29.99	29.43
Add back:						
Amortisation of acquired intangible assets, net of tax	10.2	4.48	4.45	7.6	3.41	3.34
Exceptional items, net of tax	13.3	5.83	5.78	–	–	–
Earnings before discontinued operations, amortisation and exceptionals	95.5	41.90	41.61	74.9	33.40	32.77

8. 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	11.8	78.0	–	–	–	89.8	–	89.8
Recognised income and expense	–	–	–	100.8	(5.9)	94.9	2.2	97.1
Dividends	–	–	–	(20.3)	–	(20.3)	(1.1)	(21.4)
Share-based payments	–	–	–	1.4	–	1.4	–	1.4
Tax on share-based payments	–	–	–	2.3	–	2.3	–	2.3
INS Acquisition	–	–	–	–	–	–	1.9	1.9
Transactions with minorities	–	–	–	(11.5)	–	(11.5)	(1.0)	(12.5)
Own shares and other	–	–	–	(5.0)	–	(5.0)	–	(5.0)
Net movement in equity	11.8	78.0	–	67.7	(5.9)	151.6	2.0	153.6
At 31 March 2008	**137.6**	**148.1**	**30.6**	**50.6**	**(9.7)**	**357.2**	**3.6**	**360.8**
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	–	–	–	0.2	–	0.2
Recognised income and expense	–	–	–	(32.8)	(2.4)	(35.2)	2.6	(32.6)
Dividends	–	–	–	(27.9)	–	(27.9)	(1.8)	(29.7)
Share-based payments	–	–	–	1.9	–	1.9	–	1.9
Tax on share-based payments	–	–	–	(0.3)	–	(0.3)	–	(0.3)
Own shares and other	–	–	–	(7.5)	–	(7.5)	–	(7.5)
Net movement in equity	0.1	0.1	–	(66.6)	(2.4)	(68.8)	0.8	(68.0)
At 31 March 2009	**137.7**	**148.2**	**30.6**	**(16.0)**	**(12.1)**	**288.4**	**4.4**	**292.8**

Other reserves include a translation reserve of £1.4 million debit (2008: £7.4 million debit) and a hedging reserve of £10.7 million debit (2008: £2.3 million debit).

9. Reconciliation of operating profit to cash generated from operations

	2009 (unaudited) £m	2008 (audited) £m
Cash flows from operating activities		
Operating profit	**133.1**	110.2
Depreciation of property plant and equipment	**21.7**	17.4
Amortisation of intangible assets	**16.9**	13.5
Equity share-based payments	**1.9**	1.4
Impairment of investments	**–**	(0.3)
Profit on disposal of property, plant and equipment	**(3.4)**	(2.5)
Operating cash flows before movement in working capital	**170.2**	139.7
Increase in inventories	**(7.0)**	(16.3)
Increase in receivables	**(9.9)**	(95.4)
Increase in payables	**2.1**	97.2
Decrease in provisions	**(1.8)**	(6.0)
Cash generated from operations	**153.6**	119.2

10. Movement in net debt

	2009 (unaudited) £m	2008 (audited) £m
(Decrease)/increase in cash in the period	(51.7)	35.9
Cash flow from the decrease/(increase) in debt and lease financing	21.2	(276.0)
Change in net funds resulting from cash flows	(30.5)	(240.1)
Loans acquired with subsidiaries	–	(7.0)
New finance leases	(0.2)	–
Foreign currency translation differences	1.4	(1.4)
Movement in net debt in the year	(29.3)	(248.5)
Net debt at the beginning of the year	(322.2)	(73.7)
Net debt at the end of the year	(351.5)	(322.2)

11. 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 31 March 2009 (unaudited) £m
Cash and bank balances	199.6	(84.5)	6.9	–	1.6	123.6
Bank overdrafts	(143.1)	25.9	–	–	(0.1)	(117.3)
Cash, cash equivalents and bank overdrafts at end of year	56.5	(58.6)	6.9	–	1.5	6.3
Debt	(376.1)	20.7	–	–	(0.2)	(355.6)
Finance leases	(2.6)	0.5	–	(0.2)	0.1	(2.2)
	(378.7)	21.2	–	(0.2)	(0.1)	(357.8)
Total	(322.2)	(37.4)	6.9	(0.2)	1.4	(351.5)

12. Pensions

As at 31 March 2009 the key assumptions used in valuing pension liabilities were :

- Discount rate 7.1% (2008: 6.9%)
- Inflation rate 2.7% (2008: 3.5%)

13. 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). The financial statements for the year to March 2009 have not yet been delivered to the Registrar of Companies, nor have the auditors yet reported on them. Full accounts for Babcock International Group PLC for the year ended 31 March 2008, prepared under IFRS, have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under Section 237(2) or Section 237(3) of the UK Companies Act 1985. These unaudited preliminary results were approved by the Board on 11 May 2009.

14. Distribution

Copies of this statement will be available at the Company's registered office: 33 Wigmore Street, London, W1U 0QX. In addition, this report is available on the company's website: www.babcock.co.uk.

Forward looking statements

Certain statements in this announcement are forward looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. You should not place undue reliance on forward-looking statements, which speak only as of the date of this announcement. Except as required by law, Babcock is under no obligation to update or keep current the forward-looking statements contained in this announcement or to correct any inaccuracies which may become apparent in such forward-looking statements.