11 May 2010

Babcock International Group PLC Preliminary Results for year ended 31 March 2010

Excellent profit growth and strong cash generation. Leading positions in markets with healthy long-term prospects and an £8.3 billion order book underpin the positive Group outlook.

Financial Highlights

Statutory	March 2010	March 2009	Change
Revenue	£1,895.5m	£1,901.9m	-
Operating profit	£148.1m	£133.1m	+ 11%
Profit before tax	£129.2m	£106.7m	+ 21%
Continuing earnings per share	46.29p	37.42p	+ 24%
Full year dividend	17.60p	14.40p	+ 22%

Underlying			
Operating profit	£164.2m	£147.3m	+ 11%
Profit before tax	£145.3m	£120.9m	+ 20%
Continuing earnings per share	51.37p	41.90p	+ 23%

Underlying results are shown before amortisation of acquired intangibles of £16.1 million (2009: £14.2 million) and before the related tax effects of £4.5 million (2009: £4.0 million).

Operational Highlights

- Strong growth in Marine and Defence divisions
  - Marine - revenue + 7%, underlying operating profit + 26%
  - Defence - revenue + 13%, underlying operating profit + 13%
- Strong cash generative business model – cash conversion rate of 115%, £126.4 million free cash flow
- Signature of Terms of Business Agreement in Marine division
  - confirms Babcock as key naval support partner to MoD
  - provides 15 years' visibility of workstreams
- Long term revenue visibility - order book increased by 46% to £8.3 billion, bid pipeline remains strong
- Total dividends for the year 17.6p, + 22%
- Proposed acquisition of VT Group plc on track to create one of the largest and most focused engineering support services companies in the UK

Peter Rogers, Chief Executive commented

"Babcock has delivered another set of strong results. We consider the major markets in which we operate remain attractive with significant long-term growth prospects. We believe that our strong market positions and our track record of delivering efficiencies for our customers will be beneficial as pressure on public spending increases. The proposed acquisition of VT Group, further strengthens our scale and capabilities in our core markets.

Our future is supported by an order book of £8.3 billion and by the embedded relationships with our key customers that provide us with long-term visibility of future work streams.

We believe the outlook for the 2010/11 financial year remains positive and we look forward to another year of good 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 11 May 2010.

Introduction

Babcock is the UK's leading engineering support services company. Once again we have reported excellent results. We have delivered profits significantly ahead of last year, with a Group operating margin of 8.7%, and have retained our secure financial position and strong cash generative profile.

Our future is supported by a record order book of £8.3 billion and by the embedded relationships with our key customers that provide us with long-term visibility of future work streams.

Operational 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.

During this year we have continued to strengthen and grow our business overall, using the extensive knowledge and experience we have built up within our operations. In many instances our customers rely on our skills and expertise to deliver complex through-life support programmes. We have been seeking to broaden the range of services we provide them or extend the length or scope of existing contracts.

Central to our business model is our capacity to work in close partnership with our customers. Through this we have been able to establish and build an excellent reputation for delivering cost effective solutions at the same time as delivering the operational efficiencies they require. We believe this reputation will provide a number of opportunities across the Group as the current economic climate and pressure on budgets leads to an increased level of outsourcing in both the public and private sector.

The strength of our business today has been achieved through our strategy of growth and positioning in our chosen markets. This has been achieved through organic growth as well as through acquisition. Since 2001 we have successfully acquired and integrated nine businesses, the last of which was UKAEA Ltd, completed in October 2009, which has enhanced our existing and well established position in the nuclear market.

Building on the scale of our knowledge and expertise in the UK, we believe there are a number of opportunities for us in new overseas markets where our business model and reputation will prove beneficial. In the past year we have successfully expanded our operations in Canada and Australia and have opened a new office in Abu Dhabi as a first step into the Middle East.

On 23 March 2010 we announced the recommended acquisition of VT Group plc for £1.3 billion. This will be a major acquisition for Babcock but one which we believe has a clear and compelling strategic logic. VT is a high quality business with similar culture, engineering based skills and experience to our own, and in addition, they have comparable markets and customers. If the acquisition is approved by shareholders, we firmly believe that the enhanced capabilities of the combined Group will enable us to increase opportunities to create value for our shareholders and customers, building on the successful growth strategy we have executed in recent years.

Dividend

Our commitment to delivering value for shareholders over recent years has been clearly demonstrated through consistent growth in earnings and dividends. In 2010 continuing earnings per share increased by 23% to 51.37 pence per share (2009: 41.90 pence per share). Reflecting their confidence in the strength and underlying resilience of our business model, the Board has proposed a second interim dividend for 2010 of 12.80 pence per share. This will make the total dividend payments for the year 17.60 pence (2009: 14.40 pence) an increase of 22%. The dividend will be paid on 9 July 2010 to shareholders on the register at close of business on 18 June 2010. This second interim dividend is in lieu of any final dividend for the year and will not be paid on any shares issued in connection with the acquisition of VT.

Order book

Following signature of the Terms of Business Agreement (ToBA) with the Ministry of Defence (MoD), the Group's order book increased by £2.6 billion to around £8.3 billion. Throughout the year there has been no change to the anticipated level of work coming through to our operating divisions, with a steady flow of contracts from the bid pipeline into the order book. We have had no contracts cancelled.

The strength of the order book supported by a healthy bid pipeline provides the Group with excellent long-term visibility and security.

Outlook

We consider the major markets in which we operate remain attractive with significant long-term growth prospects. We believe that our strong market positions and our track record of delivering efficiencies for our customers will be beneficial as pressure on public spending increases. We are confident that the proposed acquisition of VT Group will further strengthen our scale and capabilities in our core markets.

We believe the outlook for the 2010/11 financial year remains positive and we look forward to another year of good progress.

Operational review

Marine

	2010	2009	Change +/-
Revenue	£958.3m	£892.9m	+ 7%
Operating profit	£112.9m	£89.3m	+ 26%
Operating margin	11.8%	10.0%	

Market overview

The UK Naval support sector is the division's most important market. The Ministry of Defence (MoD), our key customer, continues to seek efficiencies and cost benefits and our principal focus remains on the generation of long-term partnerships and arrangements with the MoD that are designed to achieve cost savings and improvements in service delivery.

The key framework for the delivery of major savings is provided by the MoD's Maritime Change Programme. This has the dual aims of improving efficiency within the naval sector whilst ensuring that strategic design, build and support capabilities are retained within the overall UK industrial base.

As governments overseas seek similar cost efficiencies for their submarine support activities, we continue to pursue and engage in a number of international opportunities where our expertise can be used.

Operational review

The division has performed well, exceeding all internal financial and operational targets. Revenue increased by 7% to £958.3 million (2009: £892.9 million) with operating profits increasing 26% to £112.9 million (2009: £89.3 million) and operating margins increasing to 11.8% (2009: 10.0%). These results reflect the considerable scale the division has within the naval support market and the level of synergy and efficiency savings that have resulted as our organisational structure has developed and been streamlined. We have continued to maintain our high level of service as confirmed in performance feedback from our customer.

Negotiations with the MoD on the Terms of Business Agreement (ToBA), designed to support the Maritime Change Programme, were concluded successfully towards the end of the financial year. This confirms Babcock as the MoD's key support partner in the maritime sector and underpins the delivery of key aspects of the Change Programme.

The ToBA covers the fifteen year period between 2010 and 2025 during which the Marine division has committed to the progressive delivery of guaranteed cost savings to the MoD. In return the division is nominated to undertake specific roles and to perform particular types of engineering work in support of the Royal Navy's major warships and nuclear-powered submarines. The ToBA also extends Babcock's management roles at the Clyde and Devonport Naval Bases from 2013 to 2025. Overall, the ToBA provides an unprecedented level of visibility of the division's forward work programme and is an excellent foundation on which to continue the division's development.

Submarines

The division is the leading submarine support partner to the Royal Navy. Routine maintenance and support of the submarine flotilla has continued at our Devonport facilities and at HMNB Clyde (Faslane) and we have continued to benefit from the ongoing programme of scheduled refuelling and refit work.

The refuelling and refit of HMS Triumph was completed just after the end of the financial year. This is the last of the seven Trafalgar class submarines to undergo a refit and we have now completed a cost reduction programme to reduce workforce capacity as Devonport's submarine refit programme moves to a single refit stream. Refuelling and refitting work on HMS Vigilant made excellent progress during the year and all major milestones have been met. The submarine began its refuelling cycle at the end of March, with the refit scheduled to complete in 2012.

Devonport's nuclear facilities are currently undergoing a £150 million project to upgrade the equipment used to remove used fuel from submarines at the end of their operational lives. Our design and procurement activities associated with this project continued to plan during the year, with the facilities due to become available for use in 2012.

The first Astute class submarine has now arrived at Faslane and we are completing the planning activities associated with the support of this new class of submarines. The Astute class will have a thirty year operational life and their support will involve teams from Clyde, Devonport and Bristol.

Surface ships

In our core warship support activities we have supported the Royal Navy with its continuous programme of refit and upgrade projects at both Devonport and Rosyth. A major docking period for the amphibious assault ship HMS Albion involved an especially large programme of upgrades and alterations and these were successfully completed during the reporting period, as were maintenance periods on a number of frigates and mine hunters at both Devonport and Rosyth.

Under an alliance formed with MoD and one other industrial partner we generated a pilot project focused on providing support for Type 22 frigates. The arrangement involves industry taking responsibility for delivering a specified level of warship availability at reduced cost compared to previous levels. We have the opportunity to share in the savings that are generated under this arrangement, which is expected to extend to other classes of warship in due course.

Babcock is a key member of the Aircraft Carrier Alliance that is designing, building, assembling and supporting the two new Queen Elizabeth class aircraft carriers. This year we received the first structural modules for HMS Queen Elizabeth at Rosyth, including the bow section from our Appledore facility. The assembly programme at Rosyth required a number of modifications and upgrades to civil structures and other facilities. The main aspects of work to the dock where the ships will be assembled are complete and we are now completing changes to the basin. Manufacture of the large 1,000 tonne capacity crane is underway and delivery is expected late in 2010 after which the crane will be erected and commissioned.

Integrated Technology
Integrated Technology has delivered strong growth across all its business streams and areas of operation during the year.

Our long-term UK Submarine Engineering Support Contract (SESC) has had a successful first year, with a joint MoD-industry team under Babcock leadership delivering an effective upkeep planning and engineering support service. SESC will be a cornerstone of Flotilla Output Management, an over-arching submarine support arrangement that Babcock is developing as the first Astute-class submarine enters service.

Our team is heavily involved in concept development of the future nuclear deterrent submarine platform, the planned Vanguard class replacement. Integrated Technology is providing a broad range of capabilities into this programme, from overall submarine naval architecture, through specialist systems to designing for high availability and cost-effective upkeep. These inputs are being delivered both through the collaborative industry project team and independently as an expert consultancy service to the MoD.

As the Queen Elizabeth Class aircraft carrier programme moves into the build phase, delivery of key systems developed in-house has commenced, balanced by a consistent output from our designers plus increased build engineering responsibilities and additional specialist equipment packages.

In overseas markets our range of opportunities and contracts for the supply of new equipment and support services associated with conventionally-powered submarines continued to develop strongly. In Canada, the Victoria In-Service Support Contract (VISSC) continues to perform well and HMCS Chicoutimi, the first submarine to require a two year Extended Docking Work Period, has been successfully moved into dry dock in preparation for work starting during the summer. In Australia, the secure foothold we have established is allowing us to develop relationships at a platform level.

The commercial marine market remained flat during the year, albeit the diversity of our other activities allowed us to retain our engineering capability.

Naval bases
At the Devonport and Clyde Naval Bases we continue to work closely with the Royal Navy and the MoD to improve the efficiency of their operations. The ToBA extends our management role at both sites to 2025 and it also provides an important framework within which long-term initiatives can be developed to ensure cost savings are delivered through the rationalisation and modernisation of facilities.

Equipment support
Our Equipment Support business unit has had a very successful year and continues to deliver improved equipment upgrade and availability services to our land, sea and air customers in the MoD as well as to the wider defence industry. Market conditions have been strong, demonstrating long-term growth opportunities for the expansion of equipment management services, weapon system upgrades and other maintenance operations.

During the year our Land Systems team has delivered in excess of 200 Jackal and Coyote off-road armoured patrol vehicles in support of Urgent Operational Requirements (UOR) for the Army. We also supported deployment of these vehicles through specialist driver training services and integrated logistic support for the provision of spares and repairs to the vehicles.

The Marine Equipment Support business has delivered a very good performance across its extensive range of equipment availability contracts, including the management of naval pumps, motors and generators, whilst our Weapons Systems support team continued with the delivery of upgraded medium calibre naval guns and Phalanx defensive close in weapons systems.

Our Supply Chain Services business achieved strong growth during the year adding to its broad portfolio of contracts for the provision of unique spare parts.

Divisional outlook
We remain confident the division will continue to benefit from the strength of the relationship with our major customer as well as our ability to reduce operational costs whilst improving the availability of assets. We have excellent long-term visibility through existing orders as well as the scheduled programme of refits and maintenance. This degree of visibility has been further enhanced by the signature of our ToBA. In addition we continue to pursue and develop a number of opportunities to deliver further growth in the UK and overseas where we believe we can build on the strength of our reputation and expertise.

Defence

	2010	2009	Change +/-
Revenue	£383.8m	£338.4m	+13%
Operating profit	£32.8m	£28.9m	+13%
Operating margin	8.5%	8.5%	

Market overview
The Ministry of Defence (MoD) continues to be the division’s major customer. Current budgetary pressures have resulted in the MoD focusing their resources on supporting frontline operations whilst seeking to achieve cost efficiencies in UK based support activities. We continue to work collaboratively with our customers to provide value for money whilst delivering high quality operational performance.

Operational review
The division has increased revenue by 13% to £383.8 million (2009: £338.4 million) mainly as a result of a full year’s contribution from the Royal School of Military Engineering (RSME) contract as well as continued growth in the Regional Prime contracts. The division’s operating margin remained stable on last year at 8.5% with operating profit increasing to £32.8 million.

Training
After its first full year of operation, the RSME contract has exceeded our customer’s initial expectations as we deliver financial and operational benefits through improved training. The quality of our training output has been extremely high with all courses meeting or exceeding target pass rates. The outsourcing process itself allowed the Army to redeploy 300 soldiers from training to operational duties.

In addition to training and training support services, a key part of the RSME contract is the provision of estates maintenance at four major locations. This contract is now being cited by the MoD Partnership Steering Group as a best practice example of partnership working.

Infrastructure
The division has made strong progress during the year consolidating its position as the leading Prime Contractor to Defence Estates. Through more integrated and efficient contract delivery arrangements we have been able to deliver increased cost savings for the customer. Building on the operational success of these contracts we believe there are a number of opportunities for us to take our business model overseas.

The South West Regional Prime Contract has maintained a high order book of additional works and projects during the year. Sites added to the contract scope include the MoD's training college at Southwick Park.

The East Regional Prime Contract broadened its self delivery capability and completed a number of additional projects including Project ELAN, an accommodation modernisation programme for the RAF.

We have continued to deliver improved living accommodation for the MoD through the Single Living Accommodation Modernisation (SLAM) programme, with 14,000 new bed spaces under the care of our maintenance programme.

Technical support
We are delivering engineering excellence through our Multi Activity (MAC) and Integrated Operational Support (IOS) contracts all of which are performing well, meeting or exceeding previous levels of service. For example, availability of the Hawk jet trainer aircraft consistently runs at over 98%. This level of performance has been achieved despite a reduction in the fleet size of 30%, resulting in further savings to the MoD's operating budget. During the year we also supported the introduction of the new Advanced Jet Trainer Hawk TMk2 at RAF Valley.

In addition to winning the multi-activity contract for airfield support and maintenance at RAF Linton-on-Ouse during the first half of the year, we successfully entered the component spares market with a contract to manage the overhaul of under carriage components and assemblies for the Harrier, Hawk, VC10 and Nimrod fleets.

Airports
The airport operations have had another good year. Building on our success in the UK at London Heathrow and Gatwick during the first half of the year we were awarded the contract for maintenance and operation of part of the baggage handling systems at Schipol Airport, Amsterdam.

Divisional outlook
Our existing long-term contracts provide us with good visibility across the division. We believe the pressure across our markets to achieve greater cost savings will continue. We will seek to help our customers meet their savings targets by developing new innovative ways of delivering support and services. We are confident our track record of reducing costs whilst maintaining high service performance will place us in a strong position from which to benefit.

Nuclear

	2010	2009	Change +/-
Revenue	£115.9m	£106.7m	+ 9%
Operating profit	£13.0m	£13.0m	-
Operating margin	11.2%	12.2%	

Market overview
The power generation sector has maintained good momentum throughout the year. However, as previously highlighted, the decommissioning sector remains somewhat subdued resulting in delays to several major waste management contracts.

Operational review
The division has achieved a 9% increase in revenue to £115.9 million (2009: £106.7 million), benefiting from five months' contribution from UKAEA Ltd. Operating profits were stable at £13.0 million (2009: 13.0 million) after approximately £4 million of restructuring costs were incurred following completion of the acquisition of UKAEA Ltd.

The acquisition of UKAEA Ltd greatly enhances our nuclear credentials and provides us with our first Tier 1 civil nuclear site management positions at Dounreay, Harwell and Winfrith, replicating similar positions already held in the defence nuclear sector. It also expands our existing capabilities in nuclear engineering and scientific consultancy, establishing us as one of the UK leaders in this field. The name of UKAEA is recognised around the world and as part of the combined nuclear division we believe will provide us with strong credentials from which to establish and develop an international civil nuclear business.

The major site management contract at Dounreay is performing well and continues to deliver a steady stream of revenue as expected. The competition for the rebid of the management and operation of the Dounreay site has now been announced by the Nuclear Decommissioning Authority (NDA). Through our acquisition of UKAEA Ltd and our broader nuclear capabilities, we have been able to put together a strong alliance team with CH2M Hill and URS Corporation to compete for this contract.

We continue to strengthen our position in the power generation market where our expertise and high calibre resource is key to the continuing operation of our customer's nuclear power stations. We are looking at a number of opportunities which will help us further expand the level of business in this sector. We are consolidating and upgrading our spares and service centre for our power generation support operations onto one site at Whetstone. This will enable us to deliver improved efficiencies for our customers and also allow for further expansion of the spares operation.

In the nuclear defence sector we have made progress both in terms of site decommissioning and also in the provision of engineering consultancy services for existing facility upgrades and new facilities. There are a number of significant opportunities in this area that, if successful, will increase momentum going forward.

The decommissioning market generally remains difficult as a result of delays in spending and budgetary pressures on the NDA. However, the division has been successful in winning a framework contract to provide engineering support services for plant enhancement and other operational facilities on the Sellafield site, which is expected to deliver around £18 million over the next 3 years. Whilst initial volumes have been slow, we anticipate there will be a considerable increase in volume going forward. Funding has recently been withdrawn from the sludge encapsulation project as Sellafield continues to refine its programme of works. However, we were well advanced with testing and trials using bespoke equipment developed at our Irlam site. We are confident that the innovative solution we have developed and successfully tested can be successfully deployed to deal with waste materials both at Sellafield and other UK sites in the future.

Divisional outlook

The closure of most of the UK's nuclear power stations by 2017 has helped create a huge demand for the building of new power generating stations. In addition, there are plans being developed to extend the generating life of a small number of existing facilities. We have extensive knowledge and experience of these plants, and are well positioned to benefit from any future investment, both in support of continued operations and life extensions and in new build.

Although we expect the decommissioning market will continue to face some uncertainty as government spending priorities are reviewed, we believe there are opportunities to assist the NDA in reducing expenditure through the outsourcing of more site activities.

We remain confident in the growth prospects for the division, both in the UK and overseas, and believe our track record and scale and depth of our resource will place us in a strong position from which to benefit.

Rail

	2010	2009	Change +/-
Revenue	£150.7m	£228.9m	- 34%
Operating loss	£(1.2)m	£(6.4m)	

Market overview

The Office of Rail Regulation (ORR) has agreed a settlement of £28.5 billion with Network Rail for Control Period 4 (CP4) covering 1 April 2009 to 31 March 2014. We anticipate that some £22 billion will be spent on infrastructure renewals and upgrades, providing the division with significant potential opportunities in an area where we excel operationally.

The ORR's settlement provides Network Rail with a lower overall level of funding than had been requested so Network Rail will need to identify and implement savings in project delivery costs of over 20% during the control period. With this in mind it is looking at each area of its business to identify more cost effective and innovative contracting and delivery mechanisms. These include changes to the way that core track renewals are contracted and the introduction of new low cost technologies in key elements of the market. Discussions on the detail and implications of these proposals are ongoing with Network Rail.

Operational review

As anticipated, revenue for the division was below last year at £150.7 million (2009: £228.9 million), mainly due to our withdrawal from the multi-disciplinary contract market but also due to the loss of the High Output Track Renewals contract that we had successfully operated for Network Rail for five years through our SB Rail joint venture with Swietelsky.

As a result we have developed a robust three year transformation plan to return the business to profit and improve its overall market position. The implementation of this plan is well underway and is already having a significant positive impact on the division's financial and operational performance. Including restructuring costs in the order of £4 million, operating losses for the division have been reduced to £1.2 million (2009: £6.4 million) and the division operated profitably during the second half of the year. Overall headcount in the division will be reduced by 25% during the second quarter of 2010 and the number of operating locations across the North West are being rationalised.

During the year we have concluded settlements on the majority of outstanding legacy contracts. This significant achievement further reduces the level of commercial risk in the business and has enabled us to strengthen our relationship with key customers.

Operationally, it has been a strong period with positive feedback from Network Rail on a number of changes we have introduced to the way work packages are planned and managed. Our framework contracts in track, signalling and telecoms continue to provide a stable platform for the business. In support of Network Rail's cost reduction targets we are discussing a move to a single incentive-based contract for track renewals in North West England and Scotland replacing the separate contracts which existed previously. We have also recently secured one of only three telecoms framework contracts for the next 12 – 18 months positioning us strongly for the next long-term contract which we anticipate should be awarded before the end of this financial year.

Divisional outlook

The challenges that Network Rail faces in delivering significant cost savings are driving a move to more open, collaborative type contracts. This is a way of working in which Babcock has traditionally excelled.

Although Network Rail's spend will reduce we believe there are a number of significant opportunities available to us. In addition we will continue to try to diversify our customer base to improve stability. However, our key imperative will continue to be the ongoing transformation of the business to deliver reduced costs, improved operational performance and increased safety.

Networks

	2010	2009	Change +/-
Revenue	£112.6m	£119.4m	- 6%
Operating profit	£4.1m	£7.0m	- 41%
Operating margin	3.6%	5.9%	

Market overview

The electricity transmission and distribution markets have been stable throughout the year, with network owners maintaining a consistent spend on their infrastructure despite an increased focus on value for money. This will continue to be a priority as the Regulator seeks improved efficiencies through the Price Control Review process.

In the telecommunications market there has been some volatility, although visibility has improved as network operators outsource services to the original manufacturers. In addition, to enhance network coverage and reduce expenditure, the mobile network operators have started to merge their network assets (Vodafone with O2 and Orange with T-Mobile) which we believe will result in further work for the division. Following the Digital Britain report last year, the next generation of communications networks are starting to show increased opportunities.

Operational review

As a result of changes in the market, revenue for the division has reduced by 6% to £112.6 million (2009: £119.4 million). Operating profits were £4.1 million (2009: £7.0 million) as a result of both the slow UK telecommunications market and losses in the Irish telecommunications business. We have now exited the Irish market at a cost of c £1.5 million. Operating margins were also impacted and reduced to 3.6% (2009: 5.9%).

Both the National Grid Electricity Alliance contract (a joint venture with AMEC and Mott Macdonald) and the EDF Energy Networks Alliance contract have performed well and have provided the division with visibility of future income and the opportunity to deliver improvements in efficiency, innovation and safety performance. As a result, the division is well placed to meet the challenges ahead following the conclusion of Distribution Price Control Review 5.

Specialist transmission design services continue to be a key part of the value we can add to support the power network operators. As a result, we have continued to increase resource in our UK and Bulgarian design offices to match demand.

In the telecommunications sector, the division secured strategic supplier status with Nokia Siemens Networks which is now providing the division with more consistent volumes. The division is offering wider services across a number of mobile networks.

We continue to look at opportunities in the Next Generation Networks (NGN) market and have designed and developed our first NGN, a wireless broadband network in Norwich, due to go live in the summer of 2010. This will provide a foundation to build further volumes of work in this growing market sector.

Digital Switchover in the TV and radio broadcasting provided consistent revenue streams during the year following the successful delivery of further key projects, although this programme is now drawing to a successful conclusion in readiness for the Olympic Games in 2012.

Divisional outlook

We anticipate our customers will continue to seek greater value for money solutions. However we believe this year's successful delivery to a wide range of customers in the power and communications markets will ensure we are well placed to maximise the significant opportunities in the years ahead, as investment by transmission and communication network owners and operators is required to upgrade their infrastructure for new technologies.

Engineering and Plant

	2010	2009	Change +/-
Revenue	£174.2m	£215.6m	- 19%
Operating profit	£10.9m	£19.7m	- 45%
Operating margin	6.3%	9.1%	

Market overview

During the year the world market for mining and construction equipment has seen dramatic changes. The sudden drop in commodity prices, the reduction in available finance and the turmoil from the global recession have led to a much longer than expected slowdown of the South African economy. The cost of the two new coal fired power stations has been greater than anticipated and this has resulted in some reduced spending on maintenance, reduced plant outages and postponement of new projects. Infrastructure spend has stood up well in the run up to the World Cup.

Operational review

As anticipated the economic climate has impacted revenue for the division. Operating profit and margins have also been affected, as the prior year benefited from a very strong performance in the Eagleton pipelines business in the US and improved profitability on power generation support work in South Africa.

Due to cash constraints, the expansions announced by Eskom, the South African power utility, have been limited and this has meant that some transmission line extension projects have been postponed. The return to service programme for moth-balled power stations was completed during the year and our power generation support and maintenance business has been limited to essential maintenance and a limited outage programme. Although this has led to some reduction in revenue, profit has been held at levels similar to last year though a combination of operational efficiencies and an overhead reduction programme.

We are now starting to see some increase in demand for our Powerlines business which has just been awarded a new line construction contract which began in April 2010 with a further six projects currently progressing through evaluation along with

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other expansion work throughout Southern Africa. To strengthen our position we have begun to apply the line maintenance and upgrade programme "CARE" from the UK Networks division to South Africa.

The Equipment market is beginning to show some early signs of growth with enquiries starting to pick up. With commodity prices recovering, and mining stockpiles being sold, we expect the demand for equipment will increase. Parts and service sales have doubled over the prior year and we expect this trend to continue as operators keep machines for longer. A continuing focus on tight overhead control will ensure the division is well placed to capitalise on market recovery.

In addition the Plant hire business has continued to perform well, benefiting from infrastructure spend, and we expect this trend to continue. Our recent success in winning a military elementary flying training project is opening doors for further military outsourcing possibilities.

Divisional Outlook

The demand for electricity throughout Southern Africa, although slowed by the world economic crisis, continues to be strong. Eskom is progressing with the new power stations and generation projects throughout the region are returning to previous levels. We anticipate that this expansion will continue to provide opportunities within our power generation and transmission line businesses. The cautious approach taken in our equipment operation has led to a much more streamlined business, well able to exploit growth opportunities as the market recovers. Despite the impact of the current economic crisis, we remain confident in the long-term growth prospects for the division.

VT Acquisition

Progress towards completion of the acquisition of VT is on-going. The shareholder documents were published on 26 April and the Babcock General meeting will take place on 9 June 2010 and the VT General Meeting and Court Meeting will take place on 10 June 2010

In the US, Hart-Scott-Rodino antitrust clearance has been received. Completion is therefore expected to take place on 8 July 2010.

We are making good progress with integration planning. Integration teams have been identified, and include members from both Babcock and VT and preparations are being made, where possible, to ensure an efficient integration process starts on completion.

The financial year to 31 March 2010 has been another excellent year for Babcock, one in which we have continued to deliver strong financial results despite the more difficult economic climate in which many of our key customers are operating. The strength of our business model and our ability to work in partnership with our customers to deliver shared efficiencies has proved beneficial.

For the Group as a whole, whilst revenue remained at a similar level to last year at £1.9 billion (2009: £1.9 billion) the continuing strength of our Marine division and growth from a full year's contribution from the RSME contract in the Defence division have mitigated the adverse impact of weaker market conditions for the Engineering and Plant division in South Africa and the re-focusing of the Rail division.

Our increasing involvement in long-term contracts and through-life solutions for customers is enabling us to deliver and share in efficiency gains. In addition, our focus on delivering increasingly complex engineering support across the Group has supported the strong profit growth with operating profit increasing by 11%.

The Group operating margin benefited from our focus on contract efficiencies as well as improvement in performance in the Rail division and increased to 8.7% (2009: 7.7%). The Group's return on invested capital of 19.1% (2009: 20.1%) remains comfortably ahead of our weighted average cost of capital, a performance driven by focus on operating margins and optimisation of fixed and working capital.

2009/10 saw stability return to the UK credit market with the short-term London Interbank Offered Rate (LIBOR) only marginally ahead of the Bank of England base rate. The total net charge for interest in the year was £18.4 million (2009: £26.2 million) covered 10.3 times (2009: 6.5 times) by earnings before interest, depreciation and amortisation (EBITDA) and comfortably within banking covenants.

Profit before tax increased by 20% to £145.3 million (2009: £120.9 million). The related charge to corporation tax of £25.3 million (2009: £23.1 million) represented 19% of the underlying (before amortisation of acquired intangibles and exceptionals) pre-tax profit before allowing for the benefit of a one-off prior year credit of £2.4 million. The Group's underlying effective tax rate has remained stable at 19% benefitting from tax on income in overseas jurisdictions at rates below that of the UK. Based on currently known rates of taxation, we estimate a rate of no more than 23% is likely for 2010/11.

Post-tax profit from continuing operations increased by 23% to £120.0 million (2009: £97.8 million).

Operating profit after amortisation and exceptionals is £148.1 million compared to £133.1 million in the prior year. Profit before tax after amortisation and exceptionals is £129.2 million compared to £106.7 million in the prior year.

During recent years we have established a track record of delivering significant growth both organically and through a series of successful acquisitions and our commitment to delivering value for shareholders has been clearly demonstrated through continuous growth in both earnings per share and dividends. In 2010, continuing earnings per share increased by 23% to 51.37 pence per share (2009: 41.90 pence per share). Reflecting its confidence in the strength and underlying resilience of our business model, the Board has declared a second interim dividend for 2009/10 of 12.8 pence per share. This will make a total dividend for the year of 17.6 pence (2009: 14.40 pence) an increase of 22%.

Cash flow and net debt

Our ability to generate cash, both in the absolute value of cash generated from operations and the relative conversion of cash from operating profit, has always been a key measure of the health of our business. Cash conversion in the year was 115% (2009: 115%) as a result of our ongoing focus on controlling working capital and capital expenditure.

We continue to use our strong cash generation to pay down debt and at the end of the year net debt stood at £302.3 million, compared with £351.5 million at 31 March 2009. During the second half we completed the acquisition of UKAEA Ltd for a consideration of £50 million including £13 million of cash, funded from existing debt facilities. Capital expenditure of £25.0 million (including finance leases of £5.0 million) represented 1.0 times depreciation and amortisation of non-acquired intangibles (2009: £19.3 million and 0.8 times) and was predominantly in support of major contracts in Marine, Networks and Engineering and Plant together with the development of Group-wide IT systems.

After cash paid in respect of acquisitions of £37.9 million (2009: £66.2 million), interest, tax and dividend payments, the net cash in flow was £49.2 million (2009: £29.3 million).

In addition to the £600 million revolving credit facility the Group currently has available until 2012, £100 million of US private placement loan notes (of seven and ten year duration) were issued in January 2010 to provide a more diversified funding structure and reduce our reliance on bank lending.

With net debt at £302.3 million (2009: £351.5 million) and financial gearing ratios comfortably within covenanted levels our financing position remains secure. At 31 March 2010 net debt to EBITDA was 1.6 times (2009: 2.0 times).

Acquisitions

On 2 November 2009 we announced the acquisition of UKAEA Ltd for which cash paid was £37.9 million. From the date of acquisition to 31 March 2010 UKAEA Ltd has contributed £16.6 million in revenue and £1.5 million in operating profit before amortisation.

On 23 March 2010 we announced a recommended offer for VT Group plc to be funded by cash and the issue of new ordinary shares. At completion the cash element of the offer will be funded from an agreed £400 million bridge financing facility and the Group's existing £600 million revolving credit facility underpinned by a £600 million 'backstop' facility.

Pensions

The Group is responsible for a number of large pension schemes and our main objective in managing these long-term pension liabilities has been to limit their cash impact on the Group. As a result, during 2009/10 we have put a number of actions in place and we continue to review other options to reduce the risk associated with these liabilities.

Pension scheme assets are now managed by a single cross-scheme committee which will ensure more responsive and efficient asset management which in turn should help to eliminate or reduce unrewarded risk such as inflation or interest rate movements.

Longevity swaps are now in place on three of the Groups' defined benefit pension schemes to hedge our longevity risk on 45% of the schemes' liabilities. The longevity swaps had a negative balance sheet value at 31 March 2010 of £158 million. This represents the schemes' commitment to pay funds to the counterparty over a 50 year period relative to the mortality assumptions currently used in the accounting of the schemes. If the longevity of the scheme members improves, the initial negative value will decrease or, if the longevity does not improve, it will remain broadly at the current level subject to the volatility in market based valuation metrics. There was no impact on the 2009/10 income statement as a result of these transactions.

As determined by the triennial actuarial valuations, based on long-term assumptions and as formally agreed with the Trustees, the Group's funding payments to defined benefit schemes in 2009/10 was £46 million and in 2010/11 will be approximately £32 million, after allowing for pre-payments of £15 million made in 2009/10. Excluding pre-payments, annual cash contributions for 2009/10 were approximately £48 million and will be approximately £50 million in 2010/11. In addition, the Group has agreed to fund the incremental cost of the executed longevity swaps over a 20 year period at an annual cash cost of around £7 million.

The IAS19 pension valuation for accounting purposes is based on a number of financial assumptions. The key assumptions include the interest rate used to discount the pension liabilities to their net present value, known as the discount rate. This rate is obtained from the market yield from AA corporate bonds at the financial period end and at 31 March 2010 was 5.5% (2009; 7.1%). The lower the discount rate the higher the calculated net present value of the liabilities. The significant drop in the rate between 31 March 2009 and 31 March 2010 caused by the disruption in credit markets has substantially increased the value of liabilities at 31 March 2010.

At 31 March 2010 under IAS19, the Group's defined benefit pension liabilities and assets totalled approximately £2.3 billion (2009: £1.7 billion) and £2.0 billion (2009; £1.7 billion) respectively, giving a net balance sheet deficit/surplus before tax of £324.0 million (2009: £50.7 million surplus). After allowing for tax, the net deficit at 31 March 2010 was £233.3 million (2009; £36.5 million surplus).

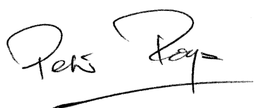
Principal Risks

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

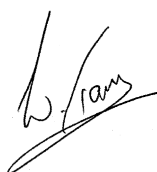
	2010 £m	2009 £m
Service Cost	23.3	26.7
Expected return on plan assets	(113.1)	(127.4)
Interest on obligations	107.2	116.6
	(5.9)	(10.8)
Net charge/(credit) (before exceptionals	17.4	15.9

The above is before a £1.4 million curtailment gain in 2009 following reductions in active membership during the year. There were no curtailment gains in 2010.

Volatility in the discount rate as well as in the estimated long term inflation rate from period to period can have a material effect on the IAS19 value of pension liabilities. This value, however, does not represent the basis upon which cash contributions are calculated. Cash contributions are based upon triennial valuations determined by longer term, scheme specific assumptions.



Peter Rogers
Group Chief Executive



Bill Tame
Group Finance Director

In the course of our day-to-day operations we face a number of risks and uncertainties. The Board considers the matters described in this section to be principal risks that face the Group as it currently stands and that could adversely affect the business, results of operations, revenue, profit, cash flow, assets and the delivery of our growth strategy. Given the size, complexity and spread of our businesses and the continually changing environment in which the Group currently operates, this cannot be an exhaustive list of such risks.

Systems and procedures are in place across the Group intended to identify, assess and mitigate major business risks. The management of risk is an integral part of our operational review process and is supplemented at Group level by independent challenge and review by the Group Risk Manager and the Audit and Risk Committee.

Risk: Health, safety and environmental issues

The working environments in which the Group operates are complex and, in some instances, can be inherently dangerous. Some of our activities, if not appropriately managed, could have an adverse effect on the environment which could reasonably be avoided.

Our commitment to our employees and the nature of our business and our customers mean that our ability to manage these issues is a key element of our business reputation and success.

Impact

Damage to our reputation would affect our ability to win and retain contracts and attract and retain our staff and therefore adversely affect the financial performance of the Group.

Action

The Executive Committee and the Board review health, safety and environmental performance regularly and satisfactory performance on these matters is one of the performance criteria included in executive bonus schemes. A Safety Leadership Team comprising the Executive Directors and all divisional Managing Directors meets regularly to set policy and procedures and to monitor performance and agree corrective actions where necessary.

Risk: The Group is dependent on a number of key people

The Group operates in highly technical and complex businesses and is dependent on recruiting, retaining and developing highly skilled, qualified and experienced engineers and project management staff. The marketplace for such staff remains highly competitive.

Impact

The Group's operations could be constrained by a lack of suitably qualified and experienced employees in key areas.

Action

We seek to make our businesses attractive places to work by offering competitive remuneration packages aimed at long-term employee retention as well as appropriate training and

development opportunities. In the past few years we have extended both our graduate and apprentice recruitment and development programmes and we continue to improve our management development programmes.

Risk: The Group's ethical reputation could be damaged

We pride ourselves on our 'trusted to deliver' ™ reputation. This is a key factor in our ability to win, complete and retain contracts and is an important element in our ability to build and maintain long-term relationships with our customers.

Impact

Any damage to our reputation could have an adverse effect on the Group's future results and financial position.

Action

We insist on the highest standards of honesty, integrity and performance in all aspects of business. We have an ethical policy in place that defines the level of behaviour we expect. The policy is formally re-emphasised to senior management every year and they formally confirm compliance. We have established a 'whistle blower' hot line so all employees can anonymously express any concerns they have about the way the business is being operated. We maintain regular dialogue with customers and carry out customer surveys to ensure we identify any potential threats to our customer relationships and act on them.

Risk: Information technology

The Group relies on the use of complex software for the management of engineering, commercial and financial data. The Group and its customers are dependent on the resilience of the applications' software, the data processing facilities and the network infrastructure linking the sites where we operate.

Impact

A serious failure in any of these areas would have a significant adverse effect on our businesses.

Action

During the year we appointed a Group Chief Information Officer to be responsible for and to develop the Group's extensive IT systems. The Group's businesses have detailed disaster recovery plans in place. We have also established a Group data centre which has in-built high resilience levels with a physically separate disaster recovery facility. This will increasingly form the hub of all shared IT services.

Risk: The Group is reliant on large contracts from a limited number of major customers

A significant proportion of the Group's revenue comes from large contracts placed by a limited number of major customers such as the Ministry of Defence, Network Rail, and National Grid. These customers are affected by budgetary, regulatory or political constraints which could have a significant impact on the size, scope, timing and duration of contracts and orders under them. In addition, because of their size, these customers have considerable bargaining power and the ability to cancel contracts at short notice.

Impact

The loss, expiration, delay, suspension, cancellation or termination of a number of these large contracts, or any damage to the relationship with any of our major customers, could have a material adverse effect on the Group's future results and financial position.

Action

We make it a priority to have a close understanding of our customers and their needs and objectives. Our aim is to develop and maintain long-term co-operative working relationships with them, and to ensure the financial success or failure of contracts is fairly shared. We aim to position our businesses in markets where the risk of adverse changes to the size, scope, timing and duration of contracts is low.

Management regularly reviews contract performance and Executive Committee members are closely involved in ensuring the strength of customer relationships.

Risk: Maintaining growth through continuing bid success

Our ability to achieve growth and deliver value for our shareholders relies on our ability to win new contracts and retain existing contracts on expiry. Our ability to manage the bid process successfully is vital. Bid processes can be long and are often subject to delays, changes or abandonment by the customer, all of which are outside our control. The significant financial and manpower costs of these bids are generally not recoverable if bids are unsuccessful or the tenders are withdrawn or aborted by the customer.

Impact

Failure to win significant new contracts will materially affect the Group's future results and its ability to achieve its strategic growth objectives.

Action

All bids are subject to continuous monitoring and review by senior Group and divisional executives to ensure resources are appropriately focused so the chances of success and the financial returns are acceptable. The final submission of any significant bid or re-bid requires formal approval from one or more Executive Directors.

Risk: Poor contract performance

The continuing financial success of the Group depends on our ability to meet or exceed the contractual requirements of our customers. On many contracts we employ sub-contractors or work with other commercial partners and so are reliant on their performance as well as that of our own employees to meet the key performance indicators and financial standards expected.

Impact

Failure to meet contractual performance criteria either directly or through sub-contractors and the resultant damage to our reputation could have an adverse effect on the Group's future results and financial position.

Action

Each division has procedures in place to monitor the ongoing performance of each contract and these are discussed at operational reviews with Group Executive management. The financial performance of all significant contracts is reviewed quarterly by Group Finance.

Risk: The Group derives a large proportion of its revenues from national and local government activities

Our largest customer is the Ministry of Defence. We also have significant contracts with private sector companies who are strongly influenced by political and regulatory considerations. As such our businesses are susceptible to changes in government policy, budget allocations and the political environment.

Impact

The termination or significant amendment of any of our large contracts arising from changes in the factors noted could have an adverse effect on the Group's future results and financial position.

Action

We seek to maintain a regular dialogue with our customers and others within government departments to ensure we fully understand at both Group and divisional levels the considerations that are affecting budgetary and policy decisions and the changing political environment.

Risk: The Group has experienced growth through acquisitions, the financial and strategic benefits of these acquisitions may not be realised

Since 2001 the Group has grown through a series of acquisitions. This is expected to continue as the Group seeks to meet its strategic objectives. The integration of operations and employees is a complex process and post-acquisition performance may not be at the levels anticipated. The Group may not be able to integrate the operations of acquired businesses with existing operations as rapidly as expected or without encountering other difficulties.

Impact

The diversion of management attention to integration issues and other difficulties encountered could adversely affect the Group's business. Post-acquisition performance may not meet the financial performance expected and could therefore not justify the price paid and could adversely affect the Group's future results and financial position.

Action

We seek to carry out appropriate due diligence as far as we are able and carry out a detailed valuation process based on information available and our knowledge of the marketplace. All acquisition processes are overseen by the Board and no acquisition may be completed without their formal approval.

Risk: The Group operates large defined benefit pension schemes

The Group's defined benefit pension schemes are subject to three yearly formal actuarial valuations with annual updates. The latest adopted valuations form the basis for determining the level of cash contributions required for the schemes. These could vary adversely due to differences between the actual experience of the scheme and the valuation assumptions made which could result in increases in the cash requirements. The most significant differences can occur due to differences in the actual and assumed investment returns and changes in the allowance made for longevity. This may reduce the cash available to meet the Group's other obligations or business needs.

The Group must also comply with the requirements of IAS19 for all of its defined benefit schemes. As a consequence of the requirements to use a corporate bond related discount rate to value the liabilities, variations will occur from year to year due to a mismatch with the investments held and because of variations in the yields available on corporate bonds and inflationary expectations. This may increase the pensions charge from year to year as well as the value of the difference between the assets and the liabilities shown on the Group's balance sheet.

Action

We seek to maintain constructive and open relationships with the schemes' Trust Boards and to work with them to follow appropriate investment policies for the profile of their members as well as seeking other means of eliminating or mitigating risk.

As an example of how the Group is addressing this see the Financial Review, where we discuss the introduction of longevity swaps to reduce our exposure to the impact of increasing life expectancy which would otherwise increase the cash and accounting impact of the schemes over time. The Group has also agreed a consistent long term investment strategy with the Trust Boards, which will help to mitigate investment risk. An investment sub-committee across the schemes has been established to implement the strategy efficiently and take advantage of opportunities as and when they arise. It will also provide the necessary framework to hedge the schemes' exposure to changes in inflation and interest rate to stabilise the impact on the Group's cash requirements and accounting entries.

The Group has also established a governance committee across the schemes to build on existing arrangements to ensure the Trust Boards follow a strong governance regime in running the schemes.

The Group maintains a suitable ongoing funding rate based on prudent assumptions agreed with the Trustee Boards. We have a Group Pensions Manager reporting to the Group Finance Director whose task is to keep such strategic matters under close review. He regularly reports to the Board. An annual review of the pension schemes is also conducted by the Board and the schemes form part of Board discussions at other times of the year. Further details of the Group's pension schemes are detailed in note xx to the Group financial statements

Risk: The material misstatement of financial results

The Group could materially misstate financial results through fraud or error if financial and operational controls are inadequate.

Impact

Misstatement of financial results could adversely damage the Group's reputation, affect its ability to operate and its future results and financial position.

Action

The Group has robust structures to mitigate or manage these risks, including a comprehensive financial policy and accounting standards manual with authority and approval mandates. All material commercial and contractual

activities are overseen by Group executives and governed by the Group Policy and Procedures manual which sets out the Group's approach to doing business. These policies and procedures are backed up by a system of regular contract reviews conducted by Group Finance and a regime of internal audit, conducted by Ernst and Young which reports to the Audit and Risk Committee.

Risk: Default of a significant debtor or counterparty
Impact
The failure of a significant debtor or counterparty could adversely effect the cash flow of the Group.

Action
All significant credit risks are reviewed by Group Finance and an Executive Director and, where appropriate and available, risk limitation actions are taken.

Risk: Liquidity risk
The Group relies on the ongoing provision of lines of credit from its relationship banks. Banking lines of credit could be withdrawn if legally binding covenants are not met.

Impact
The Group's ability to fund current and future obligations and future expansion could be adversely affected

Action
The Group has committed lines of credit of £600 million through to 2012. An additional £400 million facility has been negotiated for up to 18 months to finance the proposed acquisition of VT Group plc. Borrowing ratios are comfortably within the banking covenants set out in financing agreements and are monitored on a regular basis. The conversion of profit to cash is a key performance indicator.

Risk: Interest and foreign exchange risk
Historically the Group has financed its operations through equity and bank debt. Some of the Group's debt is denominated in foreign currency. The interest rate charged on bank debt could increase significantly or foreign currency exchange rates could move materially against Sterling, the Group's base currency.

Impact
Adverse movements in interest and foreign exchange rates could impact Group profit and net assets causing a reduction in returns to shareholders.

Action
Interest rate risk is managed by the use of interest rate collars and swaps to ensure an appropriate mix of fixed and floating rate debt is maintained. Foreign exchange translation exposure is managed by restricting foreign borrowing to the value of assets denominated in the same currency or in the case of transactions in foreign currency, by the mandatory use of foreign currency contracts.

In addition to the principal risks described above, other risks that face the Group are described in the Prospectus issued by the Company dated 26 April 2010 in connection with the proposed acquisition of VT Group plc, including risks relating to that acquisition and risks that will face the enlarged Group. A copy of the Prospectus is available to view on our website www.babcock.co.uk.

Income statement

For the year ended 31 March 2010

	Note	2010 Before acquired intangible amortisation and exceptional items £m	2010 Acquired intangible amortisation and exceptional items £m	2010 Total £m	2009 Before acquired intangible amortisation and exceptional items £m	2009 Acquired intangible amortisation and exceptional items £m	2009 Total £m
Total revenue		1,923.4	–	1,923.4	1,915.2	–	1,915.2
Less: joint venture revenue		27.9	–	27.9	13.3	–	13.3
Group revenue	2	1,895.5	–	1,895.5	1,901.9	–	1,901.9
Operating profit	2, 3	164.2	(16.1)	148.1	147.3	(14.2)	133.1
Share of loss from joint ventures	2	(0.5)	–	(0.5)	(0.2)	–	(0.2)
Operating profit including share of joint venture		164.7	(16.1)	148.6	147.9	(14.2)	133.7
Joint venture share of interest		(1.1)	–	(1.1)	(0.8)	–	(0.8)
Joint venture share of tax		0.1	–	0.1	–	–	–
Operating profit plus share of joint venture loss		163.7	(16.1)	147.6	147.1	(14.2)	132.9
Finance costs		(21.8)	–	(21.8)	(32.1)	–	(32.1)
Finance income		3.4	–	3.4	5.9	–	5.9
Profit before tax		145.3	(16.1)	129.2	120.9	(14.2)	106.7
Income tax expense	4	(25.3)	4.5	(20.8)	(23.1)	4.0	(19.1)
Profit for the period from continuing operations		120.0	(11.6)	108.4	97.8	(10.2)	87.6
Discontinued operations							
Loss for period on discontinued operations	3	–	–	–	–	(13.3)	(13.3)
Profit for the period		120.0	(11.6)	108.4	97.8	(23.5)	74.3
Attributable to:							
Equity holders of the parent				106.0			72.0
Minority interest				2.4			2.3
				108.4			74.3
Earnings per share from continuing operations	5						
– Basic				46.29p			37.42p
– Diluted				46.10p			37.16p
Earnings per share from continuing and discontinued operations	5						
– Basic				46.29p			31.59p
– Diluted				46.10p			31.38p

Statement of comprehensive income

For the year ended 31 March 2010

	2010 £m	2009 £m
Profit for the period (including discontinued operations)	108.4	74.3
Other comprehensive income		
Currency translation differences	10.7	6.3
Fair value adjustment of interest rate and foreign exchange hedges	-	(11.6)
Net actuarial (loss)/gains in respect of pensions	(403.5)	(145.6)
Tax on net actuarial loss/(gains) in respect of pensions and hedges	113.0	44.0
Other comprehensive income, net of tax	(279.8)	(106.9)
Total comprehensive income	(171.4)	(32.6)
Total comprehensive income attributable to:		
Equity holders of the parent	(174.4)	(35.2)
Minority interest	3.0	2.6
	(171.4)	(32.6)

Statement of changes in equity

For the year ended 31 March 2010

	Share capital £m	Share premium £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Shareholder equity £m	Minority interests £m	Total equity £m
At 1 April 2008	137.6	148.1	30.6	50.6	(2.3)	(7.4)	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)	(8.4)	6.0	(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)	(8.4)	6.0	(68.8)	0.8	(68.0)
At 31 March 2009	137.7	148.2	30.6	(16.0)	(10.7)	(1.4)	288.4	4.4	292.8
At 1 April 2009	137.7	148.2	30.6	(16.0)	(10.7)	(1.4)	288.4	4.4	292.8
Shares issued in the period	0.1	0.1	-	-	-	-	0.2	-	0.2
Recognised income and expense	-	-	-	(184.6)	-	10.2	(174.4)	3.0	(171.4)
Dividends	-	-	-	(34.7)	-	-	(34.7)	(2.2)	(36.9)
Share-based payments	-	-	-	2.7	-	-	2.7	-	2.7
Tax on share-based payments	-	-	-	0.5	-	-	0.5	-	0.5
Own shares and other	-	-	-	(2.1)	-	-	(2.1)	-	(2.1)
Net movement in equity	0.1	0.1	-	(218.2)	-	10.2	(207.8)	0.8	(207.0)
At 31 March 2010	137.8	148.3	30.6	(234.2)	(10.7)	8.8	80.6	5.2	85.8

Balance sheet

As at 31 March 2010

	Note	2010 £m	2009 £m
Assets			
Non-current assets			
Goodwill		548.3	535.2
Other intangible assets		80.2	68.7
Property, plant and equipment		149.3	147.1
Investments in joint ventures		1.0	1.5
Loan to joint venture		13.3	12.0
Retirement benefits	10	-	90.9
Trade and other receivables		0.4	0.2
Deferred tax asset		84.9	2.8
		877.4	858.4
Current assets			
Inventories		84.2	94.4
Trade and other receivables		330.9	335.7
Income tax recoverable		1.9	4.6
Other financial assets		1.1	1.0
Cash and cash equivalents	9	189.6	123.6
		607.7	559.3
Total assets		1,485.1	1,417.7
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital		137.8	137.7
Share premium		148.3	148.2
Capital redemption and other reserves		28.7	18.5
Retained earnings		(234.2)	(16.0)
		80.6	288.4
Minority interest		5.2	4.4
Total equity		85.8	292.8
Non-current liabilities			
Bank and other borrowings	9	329.1	356.5
Trade and other payables		12.3	16.0
Deferred tax		-	0.2
Income tax payable		0.2	-
Retirement liabilities	10	324.0	40.2
Provisions for other liabilities		37.1	35.4
		702.7	448.3
Current liabilities			
Bank and other borrowings	9	162.8	118.6
Trade and other payables		498.1	518.0
Income tax payable		6.9	15.2
Other financial liabilities		15.7	15.1
Provisions for other liabilities		13.1	9.7
		696.6	676.6
Total liabilities		1,399.3	1,124.9
Total equity and liabilities		1,485.1	1,417.7

Cash flow statement

For the year ended 31 March2010

	Note	2010 £m	2009 £m
Cash flows from operating activities			
Cash generated from operations	7	170.3	153.6
Income tax paid		(1.7)	(7.7)
Interest paid		(22.3)	(34.2)
Interest received		3.8	5.4
Net cash flows from operating activities		150.1	117.1
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures	3	-	(16.9)
Proceeds on disposal of property, plant and equipment and intangible assets		1.3	4.9
Purchases of property, plant and equipment		(16.8)	(17.0)
Purchases of intangible assets		(3.2)	(2.1)
Investment in and loans to joint ventures		-	(13.3)
Acquisition of subsidiaries net of cash acquired		(37.9)	(66.2)
Net cash flows from investing activities		(56.6)	(110.6)
Cash flows from financing activities			
Dividends paid		(34.7)	(27.9)
Finance lease principal payments		(1.4)	(0.5)
Bank loans repaid		(130.5)	(20.7)
Bank loans raised		100.0	-
Dividends paid to minority interests		(2.2)	(1.8)
Net proceeds on issue of shares		0.2	0.2
Movement on own shares		(2.1)	(7.5)
Net cash flows from financing activities		(70.7)	(58.2)
Net increase in cash, cash equivalents and bank overdrafts		22.8	(51.7)
Cash, cash equivalents and bank overdrafts at start of period		6.3	56.5
Effects of exchange rate fluctuations		(0.1)	1.5
Cash, cash equivalents and bank overdrafts at end of period	9	29.0	6.3

Notes

For the year ended 31 March 2010

1. Basis of preparation

The financial information has been extracted from the Annual Report, including the audited financial statements for the year ended 31 March 2010 . They should be read in conjunction with the Annual Report for the year ended 31 March 2009, which has been prepared in accordance with IFRSs as adopted by the European Union. The accounting policies used and presentation of these consolidated financial statements are consistent with those in the Annual Report for the year ended 31 March 2009, except as detailed below. The standards, amendments and interpretations effective in 2009 have had minimal impact on the Group.

IAS 1 (revised), 'Presentation of financial statements'

IAS 23 (revised), 'Borrowing costs'

IFRS 7 (amendment), 'Financial instruments: disclosure'

IFRS 8, 'Operating segments'

Improvements to IFRS 2008

Statutory accounts for 2009 have been delivered to the Registrar of Companies and those for 2010 will be delivered following the company's Annual General Meeting.

The Annual Report for the year ended 31 March 2010 and these financial statements were approved by the Directors on X May 2010.

The auditors have reported on the Annual Report for the year ended 31 March 2010 and 31 March 2009 and neither report was qualified and neither contain statements under section 498(2) or (3) of the Companies Act 2006.

2. Segmental analysis

Following the adoption of IFRS 8 the segments have remained the same. The segments reflect the accounting information reviewed by the Chief Operating Decision Maker (CODM), who is the Chief Executive.

	2010 Group revenue £m	2010 Operating profit before acquired intangible amortisation, exceptional items £m	2010 Acquired intangible amortisation and exceptional items £m	2010 Group operating profit £m	2009 Group revenue £m	2009 Operating profit before acquired intangible amortisation, exceptional items £m	2009 Acquired intangible amortisation and exceptional items £m	2009 Group operating profit £m
Continuing operations								
Marine	958.3	112.9	(7.5)	105.4	892.9	89.3	(9.3)	80.0
Defence	383.8	32.8	(1.1)	31.7	338.4	28.9	(1.3)	27.6
Rail	150.7	(1.2)	(0.8)	(2.0)	228.9	(6.4)	(1.0)	(7.4)
Nuclear	115.9	13.0	(6.2)	6.8	106.7	13.0	(2.2)	10.8
Networks	112.6	4.1	(0.5)	3.6	119.4	7.0	(0.4)	6.6
Engineering and Plant	174.2	10.9	-	10.9	215.6	19.7	-	19.7
Unallocated	-	(8.3)	-	(8.3)	-	(4.2)	-	(4.2)
Group total	1,895.5	164.2	(16.1)	148.1	1,901.9	147.3	(14.2)	133.1

The share of joint venture results not included above are:

	2010 Revenue £m	2010 Operating profit £m	2010 Tax and interest £m	2010 Net JV results £m	2009 Revenue £m	2009 Operating profit £m	2009 Tax and interest £m	2009 Net JV results £m
Continuing operations								
Defence	27.2	0.8	(1.0)	(0.2)	12.5	0.4	(0.5)	(0.1)
Rail	0.7	(0.2)	-	(0.2)	0.7	0.2	(0.3)	(0.1)
Engineering and Plant	-	(0.1)	-	(0.1)	0.1	-	-	-
Group total	27.9	0.5	(1.0)	(0.5)	13.3	0.6	(0.8)	(0.2)

Notes to the consolidated half year financial statements continued

3. Exceptional items and acquired intangible amortisation

In 2010 there were no exceptional items. Acquired intangible amortisation was £16.1 million (note 2). The acquisition of UKAEA Limited resulted in acquired intangible amortisation of £4.4 million all of which is included in the Nuclear segment.

In 2009 there were no operating exceptional items. Acquired intangible amortisation was £14.2 million (note 2). The discontinued post tax exceptional item of £13.3 million arose from settlement being agreed between Babcock and other parties with Tesco Stores Limited in relation to a business discontinued prior to the acquisition of Peterhouse Group plc. The cash outflow on disposals represents £18.4 million gross costs (£13.3 million net of tax) on this settlement.

4. Income taxes

The Group's effective rate of tax on underlying profit before tax for the year to 31 March 2010 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, and the associated tax thereon and excluding a prior year credit of £2.4 million. The Group's effective rate of tax is lower than the statutory rate of 28% because the Group benefits from tax rates in overseas jurisdictions that are lower than the statutory rate.

5. Earnings per share

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

	2010 Number	2009 Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	228,890,548	228,037,214
Effect of dilutive potential ordinary shares: share options	936,028	1,550,512
Weighted average number of ordinary shares for the purpose of diluted EPS	229,826,576	229,587,726

Earnings

	2010 Earnings £m	2010 Basic per share pence	2010 Diluted per share pence	2009 Earnings £m	2009 Basic per share pence	2009 Diluted per share pence
Earnings per share from continuing operations	106.0	46.29	46.10	85.3	37.42	37.16
Add back:						
Amortisation of acquired intangible assets, net of tax	11.6	5.08	5.06	10.2	4.48	4.45
Exceptional items, net of tax	-	-	-	-	-	-
Earnings before amortisation and exceptionals	117.6	51.37	51.16	95.5	41.90	41.61
Earnings per share from continuing and discontinued operations	106.0	46.29	46.10	72.0	31.59	31.38
Add back:						
Amortisation of acquired intangible assets, net of tax	11.6	5.08	5.06	10.2	4.48	4.45
Discontinued operations, net of tax	-	-	-	13.3	5.83	5.78
Earnings before discontinued operations, amortisation and exceptionals	117.6	51.37	51.16	95.5	41.90	41.61

6. Dividends

The Directors have proposed a second interim dividend of 12.8 pence per 60 pence ordinary share (2009 final dividend: 10.4 pence per 60 pence ordinary share) after the balance sheet date and it will be paid on 9 July 2010 to shareholders registered on 18 June 2010.

Notes to the consolidated half year financial statements continued

7. Reconciliation of operating profit to cash generated from operations

	2010 £m	2009 £m
Cash flows from operating activities		
Operating profit	148.1	133.1
Depreciation of property plant and equipment	22.3	21.7
Amortisation and impairment of intangible assets	18.9	16.9
Equity share-based payments	2.7	1.9
Loss/(profit) on disposal of property, plant and equipment	(0.4)	(3.4)
Operating cash flows before movement in working capital	191.6	170.2
Decrease/(increase) in inventories	22.7	(7.0)
Decrease/(increase) in receivables	23.6	(9.9)
(Decrease)/increase in payables	(72.4)	2.1
Increase/(decrease) in provisions	4.8	(1.8)
Cash generated from operations	170.3	153.6

8. Movement in net debt

	2010 £m	2009 £m
Increase/(decrease) in cash in the period	22.8	(51.7)
Cash flow from the decrease/(increase) in debt and lease financing	31.9	21.2
Change in net funds resulting from cash flows	54.7	(30.5)
New finance leases	(5.0)	(0.2)
Foreign currency translation differences	(0.5)	1.4
Movement in net debt in the period	49.2	(29.3)
Net debt at the beginning of the period	(351.5)	(322.2)
Net debt at the end of the period	(302.3)	(351.5)

9. Changes in net debt

	At 1 April 2009 £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange movement £m	At 31 March 2010 £m
Cash and bank balances	123.6	52.9	13.4	-	(0.3)	189.6
Bank overdrafts	(117.3)	(43.5)	-	-	0.2	(160.6)
Cash, cash equivalents and bank overdrafts at end of period	6.3	9.4	13.4	-	(0.1)	29.0
Debt	(355.6)	30.5	-	-	-	(325.1)
Finance leases	(2.2)	1.4	-	(5.0)	(0.4)	(6.2)
	(357.8)	31.9	-	(5.0)	(0.4)	(331.3)
Total	(351.5)	41.3	13.4	(5.0)	(0.5)	(302.3)

Notes to the consolidated half year financial statements continued

10. Pensions

Analysis of movement in the Balance Sheet

	2010 £m	2009 £m
Fair value of plan assets		
At 1 April	1,702.9	1,983.8
Expected return	113.1	127.4
Actuarial gain/(loss)	375.5	(383.0)
Reimbursement rights (longevity swaps)	(157.7)	-
Employer contributions	46.0	68.6
Employee contributions	5.9	5.8
Benefits paid	(105.9)	(100.5)
Exchange differences	-	0.8
At 31 March	1,979.8	1,702.9
Present value of benefit obligations		
At 1 April	1,652.2	1,841.6
Service cost	23.3	26.7
Interest cost	107.2	116.6
Employee contributions	5.9	5.8
Actuarial loss/(gain)	621.3	(237.4)
Curtailment gain	-	(1.4)
Benefits paid	(105.9)	(100.5)
Exchange differences	(0.2)	0.8
At 31 March	2,303.8	1,652.2
Net deficit at 31 March	(324.0)	50.7

As at 31 March 2010 the key assumptions used in valuing pension liabilities were :

- Discount rate 5.5% (31 March 2009: 7.1%)
- Inflation rate 3.4% (31 March 2009: 2.7%)

11. Acquisition

On 2 November 2009 the Group acquired 100% of the share capital of UKAEA Limited for a consideration of £51.3 million, inclusive of costs. UKAEA operates in nuclear site management, operations and decommissioning and it has a number of established advisory roles.

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:

	UKAEA £m
Cost of acquisition	
Purchase consideration	49.6
Direct costs	1.7
Total purchase consideration and costs	51.3
Fair value of assets acquired (see below)	38.5
Goodwill	12.8

Notes to the consolidated half year financial statements continued

11. Acquisitions (continued)

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

	UKAEA	
	Book value of assets acquired £m	Fair value acquired £m
Acquired intangibles*	-	27.1
Property plant and equipment	0.3	0.1
Deferred tax	-	(7.6)
Cash, cash equivalents and bank overdraft	13.4	13.4
Inventory	0.2	0.2
Current assets	12.1	12.2
Current liabilities	(6.7)	(6.7)
Provisions	-	(0.2)
Net assets acquired	19.3	38.5

* Acquired intangibles are: customer relationships and order book.

Cash outflow to acquire business net of cash acquired:

	UKAEA £m
Total purchase consideration plus costs	51.3
Cash, cash equivalents and bank overdraft	(13.4)
Cash outflow this period	37.9

The revenue and operating profit of acquired businesses since the date of acquisition and as if they had been acquired on 1 April 2009 are:

	Since date of acquisition £m	For full year £m
Revenue		
UKAEA	16.6	35.5
Operating profit (before amortisation of acquired intangibles)		
UKAEA	1.5	1.2

12. Related party transactions

(a) The following related parties either sell to or receive services from the Group. There are no companies related by common directorships in the current year but there were in prior years.

	2010 Sales to £	2010 Purchases from £	2010 Year end debtors balance £	2010 Year end creditors balance £
Joint ventures and alliances				
Debut Services (South West) Limited	123,593,000	-	17,000	-
DynCorp-Hiberna Limited	-	-	-	-
Holdfast Training Services Limited	61,228,000	485,000	6,976,000	65,000
Mouchel Babcock Education Services Limited	-	-	-	-
First Swietelsky Operations and Maintenance	5,479,000	-	685,000	-
First Swietelsky Joint Venture High Output	27,492,000	-	-	-
At 31 March			7,678,000	65,000

Notes to the consolidated half year financial statements continued

12. Related party transactions (continued)

	2009 Sales to £	2009 Purchases from £	2009 Year end debtors balance £	2009 Year end creditors balance £
Joint ventures and alliances				
Debut Services (South West) Limited	121,120,000	-	81,000	-
DynCorp-Hiberna Limited	14,761,000	-	35,000	-
Holdfast Training Services Limited	21,470,000	-	4,820,000	-
Mouchel Babcock Education Services Limited	1,402,000	-	355,000	-
First Swietelsky Operations and Maintenance	6,235,000	-	1,846,000	-
First Swietelsky Joint Venture High Output	34,573,000	-	2,939,000	-
Related by common directorships				
BAE systems PLC	21,473,000	2,478,000	2,705,000	625,000
BVT Surface Fleet Limited	71,219,000	-	-	-
British Nuclear Fuels PLC	9,804,000	-	-	-
At 31 March			12,781,000	625,000

(b) Babcock Employee Share Trust and Peterhouse Employee Share Trust
During the year the Company sold ordinary shares through the Babcock Employee Share Trust and Peterhouse Employee Share Trust.

(c) Defined benefit pension schemes
During the year the Group had a number of transactions with defined benefit pension schemes.

13. Financial information
The financial information in this half year report does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

14. Communication
At our Annual General Meeting on 13 July 2007 our shareholders unanimously agreed to proposals to allow us to use electronic communications with them as allowed for under the Companies Act 2006. For shareholders who agreed, or who are treated as having agreed, to receive electronic communications, the Company website is now the main way for them to access shareholder information. These shareholders will be sent a ‘notice of availability’ notifying them that this report is available on the Company website: www.babcock.co.uk. Hard copies of the Annual 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.

Forward looking statements

Certain statements in this announcement are forward looking statements. Such statements may relate to Babcock's business, strategy and plans. Statements that are not historical facts, including statements about Babcock's or its management's beliefs and expectations, are forward-looking statements. Words such as 'believe', 'anticipate', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', and variations of these words and similar future or conditional expressions are intended to identify forward-looking statements but are not the exclusive means of doing so. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions, some known and some unknown, that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements, many of which are beyond Babcock's control. Please see pages 9-12 which set out some of these risks and uncertainties. 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. Nor are they indicative of future performance and Babcock's actual results of operations and financial condition and the development of the industry and markets in which Babcock operates may differ materially from those made in or suggested by the forward-looking statements. You should not place undue reliance on forward-looking statements, which speak only as of the date of this announcement because such statements relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements reflect Babcock's judgement at the date of this announcement and are not intended to give any assurance as to future results. Except as required by law, Babcock is under no obligation to update (and will not) 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.

Statement of Directors' responsibilities

The responsibility statement below has been prepared in connection with the Group's full Annual Report for the year ended 31 March 2010. Certain parts thereof are not included within this announcement.

We confirm that to the best of his knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole and the Company; and
- the Directors' report (which includes the Business review) includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

The responsibility statement was approved by the Board of Directors on 10 May 2010.

By order of the Board

Peter Rogers
Group Chief Executive

10 May 2010

W Tame
Group Finance Director

10 May 2010