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**Sharing skills,  
knowledge  
and technologies**



**“We consider the major markets in which we operate remain both attractive and resilient and provide the Group with strong long-term growth prospects. In addition, our order book and robust bid pipeline give us excellent long-term visibility.**

**We believe that the strength of our business model and our reputation for delivering cost efficiencies for our customers will provide further opportunities for us as pressure on public spending increases.**

**2009 / 10 continues to be another year of excellent progress for the Group and we remain confident that results for the full year will be in line with our expectations.”**

**Peter Rogers, Chief Executive**

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## Financial highlights

	September 2009 (unaudited)	September 2008 (unaudited)	Change
<b>Statutory</b>			
Revenue	<b>£923.0m</b>	£940.6m	- 2%
Operating profit	<b>£76.1m</b>	£65.6m	+ 16%
Profit before tax	<b>£66.1m</b>	£50.9m	+ 30%
Continuing earnings per share	<b>23.17p</b>	17.91p	+ 29%
Interim dividend	<b>4.80p</b>	4.00p	+ 20%
<b>Underlying</b>			
Operating profit	<b>£81.8m</b>	£72.5m	+ 13%
Profit before tax	<b>£71.8m</b>	£57.8m	+ 24%
Continuing earnings per share	<b>24.97p</b>	20.08p	+ 24%

*Underlying results are shown before amortisation of acquired intangibles of £5.7 million (2008: £6.9 million) and before the related tax effects of £1.6 million (2008: £2.0 million).*

## Highlights

**Good revenue growth in Marine and Defence mitigates decline in Rail and Engineering and Plant**

**Excellent growth in profits – underlying operating profit + 13%, underlying profit before tax + 24%**

**Record operating margin 8.9%**

**Underlying eps + 24%, interim dividend increased by 20%**

**Excellent financial position with cash conversion rate of 114%**

**Acquisition of UKAEA Limited completed**

**Record order book maintained at around £6 billion with strong bid pipeline of around £3.3 billion**

## Introduction

Once again we are delighted to report strong results, with profits significantly ahead of last year and a record Group operating margin of 8.9%. Our financial position remains secure and cash generation is strong. The Group's record order book stands at around £6 billion and the pipeline of opportunities available remains extensive.

Over the past few years Babcock has been transformed into the UK's leading engineering support services company through organic growth and a series of successful acquisitions. The strength of our business today reflects the success of this strategy.

In pursuing this strategy, we have established a top 3 position in our principal market sectors. In our Marine and Nuclear divisions, we have built unrivalled scale and quality of resource in the UK through acquisition; allowing us to develop close working relationships with our major customers. They now rely on our skills and expertise to deliver complex through-life support programmes.

The current economic situation has led the UK Government to announce the disposal of some of its assets. We concluded the acquisition of UKAEA from the United Kingdom Atomic Energy Authority on 31 October 2009. We also expect economic pressures are likely to result in an increased level of outsourcing possibilities in both the public and private sectors and we believe our reputation for delivering cost efficient solutions will prove beneficial.

Each of our principal markets provides excellent long-term prospects for organic growth. All have future requirements for major investment programmes for the upgrade and maintenance of strategic infrastructures where we are currently delivering successful long-term contracts. Building on the strength of the business model we have created, we believe there are a number of opportunities in the UK and overseas where we can achieve further growth, both organically and through acquisition.

## Financial review

*In this review, unless otherwise stated, revenue, operating profit, operating margin, profit before tax and earnings per share refer to results from continuing operations, before amortisation of acquired intangibles and exceptional items.*

In the six months to the end of September 2009, revenue remained broadly flat at £923.0 million (2008: £940.6 million). Strong growth in both Marine and Defence of 6% and 14% respectively reduced the impact of the previously highlighted decline in revenue in both Rail and Engineering and Plant of 25% and 28% respectively.

Operating profit increased by 13% to £81.8 million (2008: £72.5 million) as a result of strong growth in Marine and Defence. Our focus on delivering and sharing efficiency gains with our customers, together with reduced losses in Rail, has increased Group operating margins to 8.9% (2008: 7.7%).

As a result of declining net debt, finance costs net of finance income have decreased by £4.8 million to £9.9 million (2008: £14.7 million).

Profit before tax increased by 24% to £71.8 million (2008: £57.8 million). After amortisation of acquired intangibles, profit before tax increased by 30% to £66.1 million (2008: £50.9 million).

The Group's effective rate of corporation tax on profit during the first half of 19% has remained at the same level as the previous financial year and is expected to remain at this level for the full year to 31 March 2010.

Profit for the period from continuing operations, post-tax, was £58.1 million (2008: £46.8 million), an increase of 24%.

### Cash flow and net debt

Cash generation, both in the absolute value of cash generated from operations and in the relative conversion rate of cash from operating profit, is a key performance indicator for the Group. In the six months to 30 September, cash generated from operations was £86.4 million (2008: £86.9 million) representing an operating cash conversion rate of 114% (2008: 132%). In delivering this, the focus has been on controlling contract trading working capital and capital expenditure, which in the first half was £10.4 million (2008: £7.5 million), inclusive of finance leases.

The Group has continued its track record of paying down debt quickly and as a result, Group net borrowings ended the first half at £313.9 million (2008: £373.9 million). The Group continues to have access to committed revolving credit facilities of £600 million expiring in 2012.

As announced on 2 November 2009, the Group completed the acquisition of UKAEA Limited (UKAEA) from the United Kingdom Atomic Energy Authority for a net cash consideration of £38 million, subject only to finalisation of completion accounts, funded from existing debt facilities.

### Interim dividend

Basic earnings per share increased by 24% to 24.97 pence per share (2008: 20.08 pence per share). The Board's confidence in the future prospects of the Group in light of the strong performance in the first half of the year and the positive outlook, is reflected in its approval of a 20% increase in the interim dividend to 4.80 pence per share (2008: 4.00 pence per share). This will be paid on 15 January 2010 to shareholders registered on 18 December 2009.

## Financial review continued

**Pensions**

Our main objective with regard to our long-term pension liabilities is to minimise their cash impact on the Group. In line with that objective, we have put a number of actions in place and are reviewing other options to reduce the risk associated with these liabilities.

We have made good progress capping the risk in longevity and the last of three transactions should be complete by the end of the financial year. Scheme assets are now managed collectively by a single cross-scheme committee which will enable more responsive and efficient asset management and the elimination or reduction of unrewarded risk such as inflation and interest rate movements.

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 will be £27 million and in 2010/11 approximately £37 million, after allowing for pre-payments made in 2008/09. Excluding pre-payments, annual cash contributions are approximately £42 million. The Group has also agreed to fund the incremental cost of the executed longevity swaps over a 20 year period at an annual cash cost of around £8 million.

The longevity swaps had a 'day one' negative balance sheet value of £102.1 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 actuarial valuation 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. There was no impact on the income statement as a result of these transactions.

In common with many companies sponsoring defined benefit schemes, the extreme volatility in financial markets has had a significant adverse effect on IAS19 valuations. In particular shrinking spreads in the corporate bond market have reduced the IAS19 discount rate significantly, from 7.1% at 31 March 2009 to 5.6% at 30 September 2009, increasing the reported IAS19 pension liabilities by £475.4 million to £2,142.2 million and outweighing the improvements in asset values experienced by all the Group's pension schemes and which stood at £1,854.9 million at 30 September. As a result, at 30 September the net IAS19 deficit on the Group's defined benefit pension schemes was £287.3 million including the negative value of the longevity swaps (March 2009: surplus £50.7 million).

**Operational review****Marine**

	30 September 2009 £m	30 September 2008 £m	Change +/- %
Revenue	456.3	432.4	+ 6%
Operating profit	54.3	42.2	+ 29%
Operating margin	11.9%	9.8%	

With an unrivalled position as the leading support partner to the Royal Navy, the division delivers through-life engineering support across the entire fleet of nuclear submarines and surface warships. The division is fully aligned with its major customer, with a close and embedded relationship and a reputation for delivery on time and within budget.

The Marine division represents around half of Group revenue and has had a very successful first half. Revenue growth in the period was, however, reduced by the timing of some contracts which are now expected to come through in the second half. Operating profit showed particularly strong growth benefiting from increased scale in the Integrated Technology business unit, where margins on specialist design work are strong. In addition, we started to share in some of the efficiencies being delivered to our customer.

The Terms of Business Agreement (ToBA) with the Ministry of Defence (MoD) is progressing well and will be submitted for Investment Approval Board approval by the end of this calendar year. Through long-term partnering structures with the MoD we are already ensuring efficiency savings are being made for the Royal Navy and gain-share benefits for Babcock.

We continue to benefit from the ongoing programme of scheduled refits and maintenance on both the surface ship and submarine fleet. Our key roles in both the Submarine Enterprise Collaboration Agreement (SECA) and the Surface Ship Support Alliance (SSSA) through-life support programmes give us excellent long-term visibility of work programmes.

The Queen Elizabeth class aircraft carrier project continues to make good progress and the division is benefiting from an increasing role in the project. With detailed design for the two vessels 60% complete, we are responsible for 50% of stage 2 and 3 design work as well as 30% of the manufacturing man hours. Project revenue for Babcock is now expected to be in the order of £1 billion.

The Integrated Technology business is developing its involvement in a number of other key future naval defence projects in the UK and overseas. In Canada the five year Victoria In-Service Support Contract has performed strongly as we move towards the first submarine's extended docking period. In Australia we have established a secure foothold and are developing relationships at platform level; building on the strength of our expertise. In both Canada and Australia, strategic defence policies are in place to reform and strengthen naval procurement and support programmes which underpin our confidence in the opportunities in these markets. We are also pursuing opportunities for increased involvement in the Spanish and South Korean submarine programmes.

## Operational review continued

We believe the strength of our relationship with our major customer and our ability to deliver cost efficiencies whilst improving the availability of their assets, places us in a strong position from which to benefit. We are confident that the naval support markets in which we operate will remain robust. We have excellent long-term visibility, through both existing orders and the scheduled programme of maintenance and refits across the UK fleet. The strength of our reputation and the expertise within our business are providing us with a number of opportunities, both in the UK and overseas, to deliver further growth.

## Defence

	30 September 2009 £m	30 September 2008 £m	Change +/- %
Revenue	173.8	152.6	+ 14%
Operating profit	14.7	14.1	+ 4%
Operating margin	8.5%	9.2%	

During the period the division has continued to work in partnership with its key customer, the Ministry of Defence, to ensure maximum cost efficiencies and increased effectiveness are achieved on the long-term support contracts it delivers for them.

The division generated strong revenue growth, in part as a result of a full contribution from the Royal School of Military Engineering (RSME) contract. Operating margins have remained stable on the full year 2008/09.

Performance on both the regional Prime contracts has been strong, meeting all financial and operational KPIs. Additional work programmes continue to be injected into these contracts. Building on our reputation and the operational success of these contracts we believe there are a number of opportunities for us to take our business model overseas.

The multi-activity (MAC) and integrated operational support contracts are also performing well and we continue to meet or exceed our customer's expectations for availability levels. During the period we won the RAF Linton-on-Ouse MAC for airfield support and maintenance.

The RSME contract continues to make good progress as we develop closer working relationships with our customer to ensure they meet their principal aim of increasing the number of trained personnel available to take up operational duties. Training delivery has been extremely high with all courses to date meeting target pass rates. We are now well positioned in the technical training market and are looking at a number of opportunities where we can extend the scope of this contract as well as develop our military training activities.

The airport operations have been steady throughout the first half. In addition to current contracts at Heathrow we continue to look at project opportunities at Gatwick and Stansted. During the period we were awarded the contract for maintenance and operation of part of the baggage handling systems at Schipol airport Amsterdam.

We believe the markets in which our Defence division operates are robust and, supported by our successful partnering model and our leading market position, there are a number of opportunities available to us for growth both in the UK and overseas.

## Nuclear

	30 September 2009 £m	30 September 2008 £m	Change +/- %
Revenue	54.1	54.4	- 1%
Operating profit	7.0	6.7	+ 4%
Operating margin	12.9%	12.3%	

The results for the Nuclear division have remained broadly in line with the same period last year. Revenue was flat, mainly as a result of delays in spending by the Nuclear Decommissioning Authority (NDA).

Operating profits and margins have continued to strengthen, reflecting successful contract performance and the strength of our business model.

The division is one of the major suppliers of nuclear engineering and support services in the UK with the largest specialist nuclear services resource. It has significant experience across all sectors of the market.

We have continued to strengthen our position in the power generation support market, where our extensive expertise and resource is key to supporting the continued operation of our customer's fleet of nuclear power stations.

In the decommissioning market we have continued to develop our position at Sellafield where we were awarded an exclusive framework contract for engineering support services for plant enhancement and other project work for the Sellafield operating facilities.

The acquisition of UKAEA enhances our existing and well established positions in both the civil and military nuclear markets. It provides us with our first Tier 1 position in the civil nuclear market and a direct relationship with the NDA, complementing our existing Tier 1 position in the military nuclear market.

Despite the delays being experienced in the decommissioning market the division will be able to benefit from its scale and expertise at all levels and across all market areas. We remain confident in the growth prospects for the division, in both the UK and overseas.

## Rail

	30 September 2009 £m	30 September 2008 £m	Change +/- %
Revenue	84.8	113.7	- 25%
Operating loss	(1.3)	(4.7)	+ 72%
Operating margin	-1.5%	- 4.1%	

The UK Rail market has been difficult throughout the first half. The division has remained focused on long-term recovery and financial improvement. It has restructured, as planned, to exit unprofitable, multi-disciplinary contract work, which reduced revenue by 25%, and to reflect Network Rail's reduction in track renewal volumes. The results for the division demonstrate these actions and the progress made towards recovery. Excluding restructuring costs, the division performed at close to break-even at the operating profit level in the period.

## Operational review continued

On 30 September 2009, Network Rail announced that our SB Rail joint venture with Swietelsky Baugesellschaft m.b.H. had been unsuccessful in its bid for the renewal of the five year contract to deliver high output track renewal operations. This is expected to impact the division's full year operating profit by around £1.5 million and £2.0 million in the 2010/11 financial year, inclusive of restructuring costs (revenue £10 million and £35 million respectively).

Whilst there is still a strong focus on recovery, we are currently reviewing options for the division.

**Networks**

	<b>30 September 2009 £m</b>	30 September 2008 £m	Change +/- %
Revenue	<b>66.2</b>	65.1	+ 2%
Operating profit	<b>4.4</b>	4.4	-
Operating margin	<b>6.6%</b>	6.8%	

The two major electricity Alliance contracts with National Grid and EDF have performed consistently throughout the period, with a steady flow of work at similar levels to the first half of last year. These contracts have provided some insulation for the division from volatility in the market as well as greater visibility.

The telecommunications markets have generally remained quiet although the Digital Switchover Programme continues to provide opportunities. In the mobile network market, despite a slow start to the year there are now signs of a pick up in volume and we have recently been awarded contracts working with Nokia Siemens Networks supporting the Orange network.

We remain confident that the requirement for significant investment in infrastructure upgrade work and the impact of emerging new technologies support the growth prospects for the division.

**Engineering and Plant**

	<b>30 September 2009 £m</b>	30 September 2008 £m	Change +/- %
Revenue	<b>87.8</b>	122.4	- 28%
Operating profit	<b>6.4</b>	11.0	- 42%
Operating margin	<b>7.3%</b>	9.0%	

As we first stated in January this year, the global economic crisis and its effect on commodity prices have severely impacted the market for our South African Equipment business. As anticipated, this was the major cause of the reduction in both revenue and operating profit for the division, when compared with a very strong first half in 2008. Margins in the first half of 2008 also benefited from a particularly strong performance in the Eagleton pipeline business in the US.

Electricity generation remains a major priority for the South African government and our power generation support and Powerlines operations have continued to experience consistent demand for their services.

During the period, the demand for construction equipment was at levels some 50% below peak orders in 2008. However, an increased requirement for parts and servicing as a consequence of extended equipment operating life requirements as well as rigorous control of overheads has been beneficial to both revenue and margin.

We believe the continuing demand for electricity across Southern Africa will provide a secure future for our power generation and Powerlines business. Whilst we are not anticipating any substantial change in market conditions for the Equipment business in the second half, the requirement for significant improvements to civil infrastructure and resurgence in demand for minerals across the region support our confidence in the long-term growth prospects for the division.

**Order book**

At 30 September the value of the Group's order book stood at around £6 billion (2008: £5.2 billion), with a steady flow of contracts in from the bid pipeline. The value of the pipeline remains healthy at £3.3 billion, with a number of significant opportunities at the tracking stage.

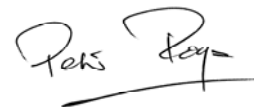
As a result of the strength of the order book and bid pipeline the Group has excellent long-term visibility and security, with a high proportion of next year's revenues already identified.

**Outlook**

We consider the major markets in which we operate remain both attractive and resilient and provide the Group with strong long-term growth prospects. Our order book and robust bid pipeline give us excellent visibility.

We believe that the strength of our business model and our reputation for delivering cost efficiencies for our customers will provide further opportunities for us as pressure on public spending increases.

2009/10 continues to be another year of excellent progress for the Group and we remain confident that results for the full year will be in line with our expectations.



**Peter Rogers**  
Group Chief Executive



**Bill Tame**  
Group Finance Director

# Income statement

For the six months ended 30 September 2009

Year ended 31 March 2009 Total (audited) £m	Note	Six months ended 30 September 2009			Six months ended 30 September 2008		
		Before acquired intangible amortisation and exceptional items (unaudited) £m	Acquired intangible amortisation and exceptional items (unaudited) £m	Total (unaudited) £m	Before acquired intangible amortisation and exceptional items (unaudited) £m	Acquired intangible amortisation and exceptional items (unaudited) £m	Total (unaudited) £m
1,915.2		<b>934.9</b>	–	<b>934.9</b>	942.3	–	942.3
13.3		<b>11.9</b>	–	<b>11.9</b>	1.7	–	1.7
1,901.9		<b>923.0</b>	–	<b>923.0</b>	940.6	–	940.6
133.1		<b>81.8</b>	(5.7)	<b>76.1</b>	72.5	(6.9)	65.6
(0.2)		<b>(0.1)</b>	–	<b>(0.1)</b>	–	–	–
133.7		<b>82.4</b>	(5.7)	<b>76.7</b>	72.6	(6.9)	65.7
(0.8)		<b>(0.7)</b>	–	<b>(0.7)</b>	(0.1)	–	(0.1)
–		–	–	–	–	–	–
132.9		<b>81.7</b>	(5.7)	<b>76.0</b>	72.5	(6.9)	65.6
(32.1)		<b>(11.5)</b>	–	<b>(11.5)</b>	(17.7)	–	(17.7)
5.9		<b>1.6</b>	–	<b>1.6</b>	3.0	–	3.0
106.7		<b>71.8</b>	(5.7)	<b>66.1</b>	57.8	(6.9)	50.9
(19.1)		<b>(13.7)</b>	1.6	<b>(12.1)</b>	(11.0)	2.0	(9.0)
87.6		<b>58.1</b>	(4.1)	<b>54.0</b>	46.8	(4.9)	41.9
(13.3)		–	–	–	–	(13.3)	(13.3)
74.3		<b>58.1</b>	(4.1)	<b>54.0</b>	46.8	(18.2)	28.6
72.0				<b>53.0</b>			27.5
2.3				<b>1.0</b>			1.1
74.3				<b>54.0</b>			28.6
37.42				<b>23.17p</b>			17.91p
37.16				<b>23.04p</b>			17.60p
31.59				<b>23.17p</b>			12.08p
31.38				<b>23.04p</b>			11.87p



## Statement of comprehensive income

For the six months ended 30 September 2009

Year ended 31 March 2009 (audited) £m		Six months ended 30 September 2009 (unaudited) £m	Six months ended 30 September 2008 (unaudited) £m
74.3	Profit for the period (including discontinued operations)	54.0	28.6
	<b>Other comprehensive income</b>		
6.3	Currency translation differences	5.4	2.9
(11.6)	Fair value adjustment of interest rate and foreign exchange hedges	1.5	0.9
(145.6)	Net actuarial (loss)/gains in respect of pensions	(337.8)	11.5
44.0	Tax on net actuarial loss/(gains) in respect of pensions and hedges	94.2	(3.5)
(106.9)	<b>Other comprehensive income, net of tax</b>	<b>(236.7)</b>	11.8
(32.6)	<b>Total comprehensive income</b>	<b>(182.7)</b>	40.4
	<b>Total comprehensive income attributable to:</b>		
(35.2)	Equity holders of the parent	(184.1)	39.2
2.6	Minority interest	1.4	1.2
(32.6)		<b>(182.7)</b>	40.4

## Statement of changes in equity

For the six months ended 30 September 2009

	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
<b>At 1 April 2008</b>	<b>137.6</b>	<b>148.1</b>	<b>30.6</b>	<b>50.6</b>	<b>(2.3)</b>	<b>(7.4)</b>	<b>357.2</b>	<b>3.6</b>	<b>360.8</b>
Shares issued in the period	0.1	–	–	–	–	–	0.1	–	0.1
Recognised income and expense	–	–	–	35.4	0.9	2.9	39.2	1.2	40.4
Dividends	–	–	–	(18.7)	–	–	(18.7)	(1.0)	(19.7)
Share-based payments	–	–	–	0.9	–	–	0.9	–	0.9
Tax on share-based payments	–	–	–	(0.7)	–	–	(0.7)	–	(0.7)
Own shares and other	–	–	–	(1.3)	–	–	(1.3)	–	(1.3)
Net movement in equity	0.1	–	–	15.6	0.9	2.9	19.5	0.2	19.7
<b>At 30 September 2008</b>	<b>137.7</b>	<b>148.1</b>	<b>30.6</b>	<b>66.2</b>	<b>(1.4)</b>	<b>(4.5)</b>	<b>376.7</b>	<b>3.8</b>	<b>380.5</b>
<b>At 1 April 2009</b>	<b>137.7</b>	<b>148.2</b>	<b>30.6</b>	<b>(16.0)</b>	<b>(10.7)</b>	<b>(1.4)</b>	<b>288.4</b>	<b>4.4</b>	<b>292.8</b>
Shares issued in the period	0.1	–	–	–	–	–	0.1	–	0.1
Recognised income and expense	–	–	–	(190.2)	1.0	5.1	(184.1)	1.4	(182.7)
Dividends	–	–	–	(23.8)	–	–	(23.8)	(1.1)	(24.9)
Share-based payments	–	–	–	1.4	–	–	1.4	–	1.4
Tax on share-based payments	–	–	–	0.7	–	–	0.7	–	0.7
Own shares and other	–	–	–	(1.9)	–	–	(1.9)	–	(1.9)
Net movement in equity	0.1	–	–	(213.8)	1.0	5.1	(207.6)	0.3	(207.3)
<b>At 30 September 2009</b>	<b>137.8</b>	<b>148.2</b>	<b>30.6</b>	<b>(229.8)</b>	<b>(9.7)</b>	<b>3.7</b>	<b>80.8</b>	<b>4.7</b>	<b>85.5</b>

## Balance sheet

As at 30 September 2009

As at 31 March 2009 (audited) £m		Note	As at 30 September 2009 (unaudited) £m	As at 30 September 2008 (unaudited) £m
<b>Assets</b>				
<b>Non-current assets</b>				
535.2	Goodwill		535.1	534.7
68.7	Other intangible assets		62.4	75.5
147.1	Property, plant and equipment		147.4	147.2
1.5	Investments in joint ventures		0.5	1.6
12.0	Loan to joint venture		13.0	12.0
90.9	Retirement benefits		–	178.9
0.2	Trade and other receivables		0.2	0.2
2.8	Deferred tax asset		89.0	3.5
858.4			847.6	953.6
<b>Current assets</b>				
94.4	Inventories		94.6	80.4
335.7	Trade and other receivables		309.1	333.4
4.6	Income tax recoverable		–	0.5
1.0	Other financial assets		0.6	0.3
123.6	Cash and cash equivalents	9	189.3	153.7
559.3			593.6	568.3
1,417.7	<b>Total assets</b>		<b>1,441.2</b>	<b>1,521.9</b>
<b>Equity and liabilities</b>				
<b>Equity attributable to equity holders of the parent</b>				
137.7	Share capital		137.8	137.7
148.2	Share premium		148.2	148.1
18.5	Capital redemption and other reserves		24.6	24.7
(16.0)	Retained earnings		(229.8)	66.2
288.4			80.8	376.7
4.4	Minority interest		4.7	3.8
292.8	<b>Total equity</b>		<b>85.5</b>	<b>380.5</b>
<b>Non-current liabilities</b>				
356.5	Bank and other borrowings	9	346.3	449.0
16.0	Trade and other payables		10.8	16.3
0.2	Deferred tax		–	39.5
40.2	Retirement liabilities	10	287.3	9.9
35.4	Provisions for other liabilities		35.1	32.5
448.3			679.5	547.2
<b>Current liabilities</b>				
118.6	Bank and other borrowings	9	156.9	78.6
518.0	Trade and other payables		484.3	488.4
15.2	Income tax payable		13.3	10.5
15.1	Other financial liabilities		13.4	2.6
9.7	Provisions for other liabilities		8.3	14.1
676.6			676.2	594.2
1,124.9	<b>Total liabilities</b>		<b>1,355.7</b>	<b>1,141.4</b>
1,417.7	<b>Total equity and liabilities</b>		<b>1,441.2</b>	<b>1,521.9</b>

## Cash flow statement

For the six months ended 30 September 2009

Year ended 31 March 2009 (audited) £m		Six months ended 30 September 2009 (unaudited) £m	Six months ended 30 September 2008 (unaudited) £m
	Note		
<b>Cash flows from operating activities</b>			
153.6		<b>86.4</b>	86.9
<b>Cash generated from operations</b>			
(7.7)	7	<b>(0.6)</b>	(5.4)
(34.2)		<b>(11.6)</b>	(17.8)
5.4		<b>1.1</b>	3.0
117.1		<b>75.3</b>	66.7
<b>Net cash flows from operating activities</b>			
<b>Cash flows from investing activities</b>			
(16.9)	3	–	(16.9)
4.9		<b>0.2</b>	4.2
(17.0)		<b>(8.7)</b>	(7.3)
(2.1)		<b>(0.6)</b>	(0.2)
(13.3)		–	(13.2)
(66.2)		–	(65.9)
(110.6)		<b>(9.1)</b>	(99.3)
<b>Net cash flows from investing activities</b>			
<b>Cash flows from financing activities</b>			
(27.9)		<b>(23.8)</b>	(18.7)
(0.5)		<b>(0.4)</b>	(0.2)
(20.7)		<b>(10.4)</b>	71.7
(1.8)		<b>(1.1)</b>	(1.0)
0.2		<b>0.1</b>	0.1
(7.5)		<b>(1.9)</b>	(1.3)
(58.2)		<b>(37.5)</b>	50.6
<b>Net cash flows from financing activities</b>			
(51.7)		<b>28.7</b>	18.0
56.5		<b>6.3</b>	56.5
1.5		<b>(0.7)</b>	1.8
6.3	9	<b>34.3</b>	76.3
<b>Cash, cash equivalents and bank overdrafts at end of period</b>			

# Notes to the consolidated half year financial statements

For the six months ended 30 September 2009

## 1. Basis of preparation

The consolidated half year financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority, the Listing Rules and with IAS34, 'Interim financial reporting' as adopted by the European Union. They should be read in conjunction with the Annual Report for the year ended 31 March 2009 (the 'Annual Report'), which has been prepared in accordance with IFRSs as adopted by the European Union. The accounting policies used and presentation of these consolidated half year financial statements are consistent with those in the Annual Report except as detailed below:

- IAS1 (revised), 'Presentation of financial statements'
- IFRS8, 'Operating segments'
- IFRIC13, 'Customer loyalty programmes'
- IFRIC15, 'Agreements for the construction of real estate'
- IFRIC16, 'Hedges of a net investment in a foreign operation'
- IAS39 (amendment), 'Financial instruments: recognition and measurement'

Statutory accounts for the year ended 31 March 2009 have been delivered to the Registrar of Companies. The auditors have reported on those accounts, their report was not qualified and did not contain a statement under section 273(2) or (3) of the Companies Act 1985.

The half year report for the six months ended 30 September 2009 was approved by the Directors on 9 November 2009.

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

## 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).

	Six months ended 30 September 2009				Six months ended 30 September 2008			
	Group revenue £m	Operating profit before acquired intangible amortisation, exceptional items £m	Acquired intangible amortisation and exceptional items £m	Group operating profit £m	Group revenue £m	Operating profit before acquired intangible amortisation, exceptional items £m	Acquired intangible amortisation and exceptional items £m	Group operating profit £m
<b>Continuing operations</b>								
Marine	456.3	54.3	(3.7)	50.6	432.4	42.2	(4.5)	37.7
Defence	173.8	14.7	(0.5)	14.2	152.6	14.1	(0.6)	13.5
Nuclear	54.1	7.0	(0.9)	6.1	54.4	6.7	(1.1)	5.6
Rail	84.8	(1.3)	(0.4)	(1.7)	113.7	(4.7)	(0.5)	(5.2)
Networks	66.2	4.4	(0.2)	4.2	65.1	4.4	(0.2)	4.2
Engineering and Plant Services	87.8	6.4	–	6.4	122.4	11.0	–	11.0
Unallocated	–	(3.7)	–	(3.7)	–	(1.2)	–	(1.2)
<b>Group total</b>	<b>923.0</b>	<b>81.8</b>	<b>(5.7)</b>	<b>76.1</b>	<b>940.6</b>	<b>72.5</b>	<b>(6.9)</b>	<b>65.6</b>

The share of joint venture results not included above are:

	Six months ended 30 September 2009				Six months ended 30 September 2008			
	Revenue £m	Operating profit £m	Tax and interest £m	Net JV results £m	Revenue £m	Operating profit £m	Tax and interest £m	Net JV results £m
<b>Continuing operations</b>								
Defence	11.9	0.6	(0.6)	–	1.2	–	–	–
Rail	–	0.1	(0.1)	–	0.4	0.1	(0.1)	–
Engineering and Plant Services	–	(0.1)	–	(0.1)	0.1	–	–	–
<b>Group total</b>	<b>11.9</b>	<b>0.6</b>	<b>(0.7)</b>	<b>(0.1)</b>	<b>1.7</b>	<b>0.1</b>	<b>(0.1)</b>	<b>–</b>

## Notes to the consolidated half year financial statements continued

**3. Exceptional items and acquired intangible amortisation**

In 2009 there were no exceptional items. Acquired intangible amortisation was £5.7 million (note 2).

In 2008 there were no operating exceptional items. Acquired intangible amortisation was £6.9 million (note 2). The discontinued post tax exceptional item of £13.3 million arose from settlement of a claim in relation to a previously disposed of business.

In 2008 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. Income taxes**

The charge for taxation has been based on the estimated effective tax rate of 19% for the year ended 31 March 2010. (For September 2008, the charge for tax was based on an estimated effective tax rate of 19% for the year ended 31 March 2009). An additional tax credit of £1.6 million relates to acquired intangible amortisation. For 2008 the tax charge included a credit of £2.0 million, which related to acquired intangible amortisation and a further tax credit of £5.1 million which related to exceptional items on discontinued businesses.

**5. Earnings per share**

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

	Six months ended 30 September 2009	Six months ended 30 September 2008
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	228,869,847	227,770,758
Effect of dilutive potential ordinary shares: share options	1,243,695	3,966,419
Weighted average number of ordinary shares for the purpose of diluted EPS	230,113,542	231,737,177

**Earnings**

	Six months ended 30 September 2009			Six months ended 30 September 2008		
	Earnings £m	Basic per share pence	Diluted per share pence	Earnings £m	Basic per share pence	Diluted per share pence
<b>Earnings per share from continuing operations</b>	53.0	23.17	23.04	40.8	17.91	17.60
Add back:						
Amortisation of acquired intangible assets, net of tax	4.1	1.80	1.79	4.9	2.17	2.13
Exceptional items, net of tax	-	-	-	-	-	-
<b>Earnings before amortisation and exceptionals</b>	57.1	24.97	24.83	45.7	20.08	19.73
<b>Earnings per share from continuing and discontinued operations</b>	53.0	23.17	23.04	27.5	12.08	11.87
Add back:						
Amortisation of acquired intangible assets, net of tax	4.1	1.80	1.79	4.9	2.17	2.13
Discontinued operations, net of tax	-	-	-	13.3	5.83	5.73
<b>Earnings before discontinued operations, amortisation and exceptionals</b>	57.1	24.97	24.83	45.7	20.08	19.73

**6. Dividends**

An interim dividend of 4.80 pence per 60 pence ordinary share (2008: 4.00 pence per 60 pence ordinary share) was declared after the balance sheet date and will be paid on 15 January 2010 to shareholders registered on 18 December 2009.

## Notes to the consolidated half year financial statements continued

**7. Reconciliation of operating profit to cash generated from operations**

Year ended 31 March 2009 (audited) £m		Six months ended 30 September 2009 (unaudited) £m	Six months ended 30 September 2008 (unaudited) £m
<b>Cash flows from operating activities</b>			
133.1	Operating profit	76.0	65.6
21.7	Depreciation of property, plant and equipment	10.8	11.1
16.9	Amortisation and impairment of intangible assets	6.9	8.2
1.9	Equity share-based payments	1.4	0.9
(3.4)	Loss/(profit) on disposal of property, plant and equipment	0.3	(3.4)
170.2	<b>Operating cash flows before movement in working capital</b>	<b>95.4</b>	<b>82.4</b>
(7.0)	Decrease/(increase) in inventories	7.1	0.6
(9.9)	Decrease/(increase) in receivables	31.9	12.5
2.1	(Decrease)/increase in payables	(46.3)	(8.0)
(1.8)	Decrease in provisions	(1.7)	(0.6)
153.6	<b>Cash generated from operations</b>	<b>86.4</b>	<b>86.9</b>

**8. Movement in net debt**

Year ended 31 March 2009 (audited) £m		Six months ended 30 September 2009 (unaudited) £m	Six months ended 30 September 2008 (unaudited) £m
(51.7)	Increase/(decrease) in cash in the period	28.7	18.0
21.2	Cash flow from the decrease/(increase) in debt and lease financing	10.8	(71.5)
(30.5)	Change in net funds resulting from cash flows	39.5	(53.5)
(0.2)	New finance leases	(1.1)	–
1.4	Foreign currency translation differences	(0.8)	1.8
(29.3)	Movement in net debt in the period	37.6	(51.7)
(322.2)	Net debt at the beginning of the period	(351.5)	(322.2)
(351.5)	Net debt at the end of the period	(313.9)	(373.9)

**9. Changes in net debt**

	At 1 April 2009 (audited) £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange movement £m	At 30 September 2009 (unaudited) £m
Cash and bank balances	123.6	66.1	–	–	(0.4)	189.3
Bank overdrafts	(117.3)	(37.4)	–	–	(0.3)	(155.0)
<b>Cash, cash equivalents and bank overdrafts at end of period</b>	<b>6.3</b>	<b>28.7</b>	<b>–</b>	<b>–</b>	<b>(0.7)</b>	<b>34.3</b>
Debt	(355.6)	10.4	–	–	(0.1)	(345.3)
Finance leases	(2.2)	0.4	–	(1.1)	–	(2.9)
	(357.8)	10.8	–	(1.1)	(0.1)	(348.2)
<b>Total</b>	<b>(351.5)</b>	<b>39.5</b>	<b>–</b>	<b>(1.1)</b>	<b>(0.8)</b>	<b>(313.9)</b>

## Notes to the consolidated half year financial statements continued

**10. Pensions**

Analysis of movement in the Balance Sheet

	Six months ended 30 September 2009 (unaudited) £m
<b>Fair value of plan assets</b>	
<b>At 1 April 2009</b>	<b>1,702.9</b>
Expected return	56.7
Actuarial gain	239.6
Reimbursement rights (longevity swaps)	(102.1)
Employer contributions	8.2
Employee contributions	1.6
Benefits paid	(51.8)
Exchange differences	(0.2)
<b>At 30 September 2009</b>	<b>1,854.9</b>
<b>Present value of benefit obligations</b>	
<b>At 1 April 2009</b>	<b>1,652.2</b>
Service cost	11.4
Interest cost	53.7
Employee contributions	1.6
Actuarial loss	475.4
Benefits paid	(51.8)
Exchange differences	(0.3)
<b>At 30 September 2009</b>	<b>2,142.2</b>
<b>Net deficit at 30 September 2009</b>	<b>(287.3)</b>
Net surplus at 31 March 2009	50.7

As at 30 September 2009 the key assumptions used in valuing pension liabilities were :

Discount rate	5.6% (31 March 2009: 7.1%)
Inflation rate	3.0% (31 March 2009: 2.7%)

**11. Acquisition**

On 31 October 2009 we completed the acquisition of 100% of the share capital of UKAEA Limited for £50 million, subject to completion of the acquisition Balance Sheet. It is anticipated that the cash acquired will be £12 million.

**12. Related party transactions**

Related party transactions in the half year to 30 September 2009 are sales to joint ventures only and amount to £102.3 million.

**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](http://www.babcock.co.uk). Hard copies of the half year report will be distributed to those shareholders who have requested or subsequently request them. Additional copies are also available from the Company's registered office: 33 Wigmore Street, London W1U 1QX.

## Risks and uncertainties

The principal risks and uncertainties affecting the Group remain those detailed on pages 26 to 29 of the 2009 Annual Report, a copy of which is available at [www.babcock.co.uk](http://www.babcock.co.uk). The principal risks identified are; health safety and environmental issues, reliance on a small number of large customers and contracts, bid process and bid success, contractual performance, political and regulatory environment, people retention and development, acquisitions and disposals, information technology, pensions, ethical and reputational risk, contingent liabilities, financial reporting, accounting controls and treasury. This half year report also includes comments on the outlook for the Group for the remaining six months of the financial year.

## 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.

## Statement of Directors' responsibilities

The Directors confirm that this condensed set of financial statements has been prepared in accordance with IAS34 as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8.

The Directors of Babcock International Group PLC are Mike Turner, Lord Hesketh, Peter Rogers, William Tame, John Rennocks, Sir Nigel Essenhigh, Justin Crookenden and Sir David Omand. A list of the current Directors is maintained on the Babcock International Group website: [www.babcock.co.uk](http://www.babcock.co.uk).

By order of the Board



**Peter Rogers**  
Group Chief Executive

9 November 2009



**W Tame**  
Group Finance Director

9 November 2009



## Shareholder information

### Financial calendar

Half year end	30 September 2009
2009/10 half year results announced	10 November 2009
Interim dividend payment date (record date 18 December 2009)	15 January 2010
Financial year end	31 March 2010

### Registered office and company number

33 Wigmore Street  
London W1U 1QX  
  
Registered in England  
Company number 2342138

### Registrars

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield HD8 0GA  
Tel: 0871 664 0330  
(calls cost 10p per minute plus  
network extras) – lines are open 8.30 am  
to 5.30 pm Monday to Friday  
Tel (from overseas): +44 20 8639 3399  
Email: [sd@capitaregistrars.com](mailto:sd@capitaregistrars.com)  
[www.babcock-shares.com](http://www.babcock-shares.com)

Shareholder enquiries relating to  
shareholding, dividend payments, change  
of address, loss of share certificate etc.,  
should be addressed to Capita Registrars  
at their address given above.

### Independent auditors

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

### Principal UK bankers

The Royal Bank of Scotland plc  
135 Bishopsgate  
London EC2M 3UR  
  
Lloyds TSB Corporate Markets  
25 Gresham Street  
London EC2V 7HN

### Stockbrokers and investment bankers

JPMorgan Cazenove  
20 Moorgate  
London EC2R 6DA

### Share dealing services

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

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

To use the service either log on to  
[www.capitadeal.com](http://www.capitadeal.com) or call  
0871 664 0448 (calls cost 10p per  
minute plus network extras) – lines are  
open 8.00 am to 4.30 pm Monday to  
Friday. Please have your share certificate(s)  
to hand when you log on or call. If you are  
planning to purchase shares, you will need  
to have your debit card to hand with  
cleared funds available at your bank.

These services are offered on an  
execution-only basis and are subject to  
terms and conditions which are available  
on request or at [www.capitadeal.com](http://www.capitadeal.com).  
Capita Share Dealing Services is a trading  
name of Capita IRG Trustees Limited  
which is authorised and regulated by the  
Financial Services Authority.

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

### ShareGift

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

## New and improved website

October 2009 saw the launch of our new website which allows you to find out more about the markets we work in, the services we offer, our 120 years of engineering excellence, and who trusts us to deliver.

New and improved access to our key financial information is now available on the site. View the latest Babcock share price and investor information at [www.babcock.co.uk](http://www.babcock.co.uk)



[www.babcock.co.uk](http://www.babcock.co.uk)

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