Babcock International Group PLC
Half year report
for six months ended 30 September 2011

8 November 2011

Continuing to deliver growth with prospects enhanced by significant bid pipeline and order book.

Financial highlights

Underlying	September 2011	September 2010	Change
Revenue*	£1,587.9m	£1,221.2m	+ 30%
Operating profit**	£161.7m	£113.7m	+ 42%
Profit before tax***	£132.8m	£90.9m	+ 46%
Basic earnings per share****	29.79p	24.56p	+ 21%

Statutory			
Revenue	£1,499.8m	£1,182.0m	+ 27%
Operating profit	£96.7m	£58.7m	+ 65%
Profit before tax	£80.4m	£41.1m	+ 96%
Basic earnings per share	20.25p	11.48p	+ 76%

Net debt	£678.8m	£796.1m	
Net debt:ebitda annualised (per financial covenants)	2.0 x	2.8 x	
Half year dividend	5.70p	5.20p	
Order book	£12bn	£12bn	

*Underlying revenue includes the Group's share of joint venture and associates revenue

**Underlying operating profit includes IFRIC 12 investment income and joint venture and associates operating profit but is before amortisation of acquired intangibles and operating profit exceptional items

***Underlying profit before tax is inclusive of pre-tax joint venture and associates income but before amortisation of acquired intangibles exceptional items and other

****Basic earnings per share is before amortisation of acquired intangibles, exceptional items and other and before the related tax effects

Operational highlights

- Strength of business model drove further underlying revenue and profit growth
  - 5% organic growth in underlying revenue
  - 15% organic growth in underlying operating profit
  - underlying Group operating margin 10.2% (2010: 9.3%)
- Order book maintained at £12 billion
  - first half major contract wins include Lafarge UK mobile asset management, MoD White Fleet Service Provider, Navy training and a number of civil nuclear decommissioning projects
- Significant new contract awards expected in the next 6 months
- New outsourcing opportunities support future growth: bid pipeline £10 billion
- Cash conversion of 117%, net debt reduced to £678.8 million
- Board's confidence in future growth prospects of the business reflected in 10% increase in half year dividend to 5.70 pence per share.

Peter Rogers, Chief Executive commented

"Babcock made good progress in the first half of this year as we built on our market leadership in engineering support services and continued to generate significant operational and financial benefits from our integration of VT. Our expanding bid pipeline demonstrates that existing and prospective customers are increasingly aware of our ability to meet their needs both to increase efficiency and to enhance their service quality. We have excellent business visibility into next year and expect to continue to make good progress."

Contact:

Babcock International Group PLC
Peter Rogers, Chief Executive — Tel: 020 7355 5300
Bill Tame, Finance Director
Terri Wright, Head of Investor Relations

FTI Consulting
Andrew Lorenz — Tel: 020 7269 7291

A meeting for investors and analysts will be held today at 9:00 am at RBS, 250 Bishopsgate, London EC2M 4AA. A webcast of the presentation will be available at www.babcock.co.uk from mid afternoon on 8 November 2011.

Overview

Introduction

Babcock is the UK's leading engineering support services company.

During the first half of the 2011/12 financial year the Group has maintained its momentum and continued to build on the progress made in recent years. In an environment where our customers' budgets remain constrained, the first half results, which include a full contribution from the VT Group plc (VT) businesses, demonstrate the financial strength of the combined Group and our ability to deliver value for our customers and our shareholders.

Our strategic objective is to grow from our position as the UK's leading engineering support services company, seeking growth both in the UK and overseas. The acquisition of VT significantly strengthened our business and the positions we hold in our market places. In an environment where engineering knowledge and skills are scarce, we have an experienced workforce of considerable scale and depth that is highly regarded and valued by our customers.

Our distinctive engineering based support model and focus on driving operational and financial efficiencies, places us in a strong position in the current economic climate. After experiencing a hiatus in new outsourcing programmes during 2010, we have seen this trend reverse as our customers seek to improve operational performance whilst reducing costs. In addition we are already working with some of our customers to deliver major investment programmes to replace, upgrade or life extend their critical infrastructures and assets delivering vital services across the UK and overseas.

We believe our ability to offer a broad range of through-life or end-to-end services critical to ensuring our customers' success, as well as our track record of delivering cost efficient solutions, will create significant opportunities for the Group in the medium to long-term, both in the UK and overseas.

Financial review

In this review, unless otherwise stated, revenue, operating profit, operating margin, net finance costs, profit before tax and earnings per share refer to results before amortisation of acquired intangibles and exceptional items. Revenue, operating profit, operating margins and net finance costs also include the Group's share of equity accounted joint ventures and associates (jv). Operating profit and operating margin include investment income arising under IFRIC12 (Accounting for Service Concession Arrangements) which is presented as financial income in the income statement. Collectively these adjustments are made to derive the underlying operating results of the business. All numbers are stated before the effect of tax rate changes.

A reconciliation of statutory to underlying results is set out below. We feel that the underlying figures provide a consistent measure of business performance year to year thereby enabling comparison and understanding of Group financial performance.

The financial results of the Group for the six months to 30 September 2011 include the trading results of the former VT businesses for the full period. Results for the six months to 30 September 2010, included for comparison purposes, are those of Babcock and the contribution from the VT businesses from 8 July, completion of the acquisition, to 30 September 2010.

Overview

Following the successful operational and financial integration of VT further progress has been made during the first half of 2011/12 in growing revenue and profits, improving margins and reducing debt. At the same time the value of the order book has remained stable and the bid pipeline and tracked growth opportunities have both seen significant increase over the period since the 2010/11 full year results were reported in May. The Group remains financially well positioned to make further progress in achieving its strategic objectives.

Income statement

Revenue increased 30% to £1.6 billion (2010: £1.2 billion). Excluding the effects of acquisitions, disposals and movements in foreign exchange rates, the organic growth rate of the combined business for the first six months was 5%. Marine and Technology revenues remained strong, growing 5% organically in the period, with activity levels on the aircraft carrier programme increasing further and continued growth in Technology, particularly on overseas programmes. Support Services growth remained muted in the first half but will benefit in the second half from the Lafarge contract and certain nuclear contracts. After adjusting for one off revenues last year, Defence and Security saw 6% organic growth principally from the Royal School of Military Engineering and within the vehicle fleet management contracts. In International, South African operations once again achieved significant growth with revenue increasing 35% driven by improving equipment sales into the mining sector although this was offset to some extent within the division by the planned exit from low margin support contracts in the US.

Underlying operating profit grew 42% to £161.7 million (2010: £113.7 million). Organic growth of the combined business was 15% with in-period cost synergy benefits of £13.0 million and improved contract performance contributing to an enhanced operating margin of 10.2% (2010: 9.3%). Within Marine, the Technology and Warship businesses' margins improved in line with contract maturity and performance, leading the divisional

Statutory to underlying reconciliation

	Statutory £m	Revenue from jv £m	Operating profit £m	Interest cost £m	Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Exceptional items £m	Underlying £m
30 September 2011									
Revenue	1,499.8	88.1							1,587.9
Operating profit	96.7		4.6			12.9	42.6	4.9	161.7
Share of profit from jv	0.8		(4.6)	10.5	1.8	(11.6)	3.1		-
Investment income	1.3					(1.3)			-
Net finance costs	(18.4)			(10.5)					(28.9)
Profit before tax	80.4	-	-	-	1.8	-	45.7	4.9	132.8
Tax	(7.1)				(1.8)		(12.4)	(4.0)	(25.3)
Profit after tax	73.3	-	-	-	-	-	33.3	0.9	107.5
30 September 2010									
Revenue	1,182.0	39.2							1,221.2
Operating profit	58.7		2.6			4.8	30.6	17.0	113.7
Share of profit from jv	-		(2.6)	4.5	(0.1)	(4.1)	1.0	1.3	-
Investment income	0.7					(0.7)			-
Net finance costs	(18.3)			(4.5)					(22.8)
Profit before tax	41.1	-	-	-	(0.1)	-	31.6	18.3	90.9
Tax	(6.5)				0.1		(8.8)	(3.4)	(18.6)
Profit after tax	34.6	-	-	-	-	-	22.8	14.9	72.3

margin to 12.5% (2010: 11.9%). A combination of synergy savings and improving performance in Nuclear, Rail and Infrastructure contracts in the Support Services division contributed to an operating margin of 9.2% (2010: 6.6%). In Defence and Security, following the completion of the Main Operating Base aspect of the UK Military Flying Training Systems (MFTS) and Future Strategic Tanker Aircraft (FSTA) contracts, operating margins declined, as expected, to 13.3% (2010: 15.2%).

Whilst the operational and financial integration of VT is complete, the programme of cost synergy benefit realisation continues and in this regard £4.9 million was charged to exceptional items in the first half of the year, comprising IT, purchasing and property integration costs. We would expect a further approximately £10 million to be incurred in the second half of this financial year and a final programme total of £45 million by March 2013, as indicated in the VT acquisition documentation. Synergy benefits delivered in the first half of this year totalled £13 million and on an annualised run-rate basis these now stand at £26 million. We remain on track to deliver £50 million of synergy savings by March 2013 as previously indicated.

Net finance costs including the Group's share of joint venture net interest expense of £10.5 million (2010: £4.5 million) and a full six months of Group interest on post-VT net debt, were £28.9 million (2010: £22.8 million). With the successful refinancing of the expiring bank financing in June 2011, all Group borrowings are now 5 year maturity or longer term debt with a blend of bank revolving credit facilities and US private placement loan notes.

Profit before tax increased to £132.8 million, up 46% from £90.9 million last year. Taxation charges were £25.3 million including the Group's share of joint venture income tax before exceptionals and amortisation credit of £2.6 million (2010: £0.1 million credit). The Group's effective rate of income tax based on underlying profit before tax was 19% (2010: 20.5%).

Earnings per share

Underlying earnings per share for the first half year was 29.79 pence (2010: 24.56 pence) an increase of 21% over last year. Basic earnings per share as defined by IAS 33 was 20.25 pence (2010: 11.48 pence).

Interim dividend

In line with the strong performance in the first half of the year and the Board's confidence in the future growth prospects of the Group, the interim dividend will be 5.7 pence per share (2010: 5.2 pence), an increase of 10% over last year. This will be paid on 13 January 2012 to shareholders on the register at 16 December 2011.

Cash flow and net debt

Cash generated from operations was £157.7 million (2010: £143.3 million) a conversion rate of underlying operating profit to cash of 117% (2010: 158%). Cash collection remained strong during the first six months but certain contract based repayments to customers remained outstanding at the period end, which are likely to be settled in the second half of the year. As signalled at the end of 2010/11 a major IT transformation project was commenced in the final quarter of that year. Expenditure on the project totalled £7.0 million in the first half of this year and total capital expenditure for the Group was £23.8 million (including leases, IT and other) (2010: £9.4 million). Capital expenditure for the full year is expected to be in the order of £60 million (2010/11: £34.4 million). After tax, interest and dividend payments totalling £87.3 million (2010: £51.3 million) net cash flow was £50.2 million. Net debt reduced to £678.8 million (30 September 2010: £796.1 million; 31 March 2011: £729.0 million) and, as previously indicated, we fully expect the key performance indicator of net debt to earnings before interest tax depreciation and amortisation (ebitda) to drop below 2 times by 31 March 2012.

Pensions

Accounting valuations

The volatility created by uncertainty in financial markets at the current time makes mark-to-market valuations particularly unhelpful when looking at the very long-term liabilities represented by defined benefit pension schemes. With a combination of a new round of Quantitative Easing from the Bank of England and depressed asset values, the value of the IAS 19 accounting deficit on the Group's combined defined benefit pension schemes was, unsurprisingly, higher than that reported at 31 March 2011. The net deficit, pre-tax, at 30 September was £317 million, up from £225 million in March 2011 but lower than that in September 2010 of £356 million.

As at 30 September 2011 the key assumptions used in valuing pension liabilities were

Discount rate	5.2% (31 March 2011: 5.6%)
Inflation rate	2.5% (31 March 2011: 3.1%)

Funding valuations

Cash contributions by the Group to the combined schemes during the first half of the year were £15 million with a further approximately £55 million expected to be paid in the period to 31 March 2012. No new triennial funding valuations were completed during the period under review. The Devonport scheme valuation at 31 March 2011 is expected to be completed in 2012.

Corporate development

We continue to explore options, including possible disposal, for the US defence business and the divestment of previously identified non-core activities. Further updates on progress will be made when appropriate.

Operational review

Defence markets

As has been evident for the past few years, our major customers in the defence market have been seeking to reduce their overall costs whilst maintaining operational efficiency at home and on the front line. At a time when world events continue to place increasing demands on the UK's armed forces, the Ministry of Defence (MoD) through the Defence Reform Unit is seeking to maximise output whilst reducing resources. The Strategic Defence and Security Review published in October 2010 also sought to balance current and future requirements and respond to increasing budgetary pressures. For both Marine and Technology and Defence and Security these changes have resulted in positive decisions and removed a number of uncertainties.

Our business model in both the Marine and Technology and Defence and Security divisions is based on long-term partnering relationships and contracts which reward the delivery of efficiencies. In the current environment, we believe our customers will seek to outsource more of their support activities as a key driver to achieving their goals and this approach is entirely consistent with our business model.

Marine and Technology

		30 September 2011	30 September 2010
Revenue	total	£538.0m	£502.4m
Operating profit	total	£67.4m	£59.6m
Operating margin	total	12.5%	11.9%

The Marine and Technology division continues to perform strongly benefiting from its position as the Royal Navy's key support partner and the key roles it has on a number of naval projects in the UK as well as a growing presence in overseas programmes.

The core Marine activities of surface ship and submarine support and naval base management operate in partnership with the Royal Navy and MoD under the framework of the Terms of Business Agreement (ToBA). Through the ToBA we continue to seek opportunities to enhance the service we provide to our customer whilst driving further efficiencies.

We continue to benefit from excellent visibility of the long-term surface ship and submarine refit programme and during the first half our dockyards at both Devonport and Rosyth have been involved in a number of refit projects.

As part of the Aircraft Carrier Alliance, work on the assembly of Queen Elizabeth class aircraft carriers at Rosyth remains on schedule and on budget with blocks manufactured by our Appledore facilities in Devon and at other shipyards around the UK already in place. As the project has progressed our role in both the design and build has increased and revenue from the carriers is expected to be in the order of £1.3 billion over the course of the project. We would expect to see further benefit from the re-engineering required to reconfigure the vessels for non-STOVL (short take off vertical landing) aircraft.

Our submarine support activities have continued as anticipated, with the long overhaul period (refuelling) (LOP (R)) for HMS Vigilant nearing completion and preparations for HMS Vengeance's LOP(R), scheduled to start in mid 2012, progressing well.

The Technology activities continue to perform strongly. In the UK we have growing involvement in the future deterrent submarine programmes, 50% of design work on the QE class carriers as well as significant involvement in the Submarine Engineering Support Contract supporting cost-efficient through-life support for the Royal Navy's submarine flotilla.

Overseas activities accounted for over 10% of the division's revenue in the first half. In Canada, work supporting the Royal Canadian Navy's Victoria class submarines is progressing well with HMCS Chicoutimi expected to begin sea trials in early 2013. The first package of long-term support to the minor vessels in the Canadian surface ship fleet was awarded to the current provider but we will pursue future more complex ship classes. In Australia we continue to build our presence and use our involvement in current submarine programmes through our weapons handling and discharge systems to develop our position on wider naval support programmes.

Through our equipment support activities we continue to provide engineering support for a range of key assets as well as procurement and logistics support to all three services. Although the MoD decided to retain the in-house solution for the Maritime Equipment Transformation programme, we expect there will be further opportunities to help our customer achieve the efficiencies it requires across the broader programme as it progresses.

Divisional outlook

We are ideally placed to assist the MoD and the Royal Navy to reduce costs and improve operational efficiencies through our ToBA and through the major roles we have on a number of their key programmes. We believe there are a number of opportunities to build on the strength of our business model, our experience and depth of knowledge in both the UK and overseas.

Defence and Security

		30 September 2011	30 September 2010
Revenue	group	£233.7m	£130.1m
	jv	£58.7m	£24.8m
	total	£292.4m	£154.9m
Operating profit	group	£26.4m	£18.1m
	jv	£12.4m	£5.5m
	total	£38.8m	£23.6m
Operating margin	group	11.3%	13.9%
	jv	21.1%	22.2%
	total	13.3%	15.2%

The Defence and Security division provides essential support to all three armed services with key roles on major programmes delivering training and equipment support.

Our Air operations are performing as expected. Following completion of the main operating base at RAF Brize Norton for FSTA earlier in the year, activities are focused on achieving Into Service delivery milestones. Our elements of building infrastructure and the Communications Information System have all been delivered on schedule.

We continue to focus on delivering the highest standards of training for both the Navy and Army. At HMS Sultan, a recent OFSTED review rated our training provision 'outstanding', the first time this level has been achieved at an MoD training facility.

After being selected as Preferred Bidder for the new Fleet Outsourced Activities Project earlier this year, the contract was awarded in October and becomes operational on 1 January 2012.

Following the cancellation of the Defence Training Rationalisation programme in 2010, the MoD is reviewing its long-term training requirements and we have benefitted from some interim extensions to our training and support contracts whilst a long-term solution is formulated. As the largest provider of military training in the UK, we have identified and are pursuing opportunities for new training packages, previously delivered in-house, to be included within our existing service provision.

Our vehicle fleet support contracts are performing in line with our expectations. We won the four year contract as the Service Provider for MoD's new framework for the management of its White Fleet. This contract, expected to be worth up to £27 million over four years, will come into operation over the next few months. In this role we will now be working with the MoD to manage its fleet more efficiently by increasing vehicle utilisation and reducing costs. As the service provider we will identify the optimum method of procuring and maintaining the fleet and until these new contracts are let, we have been awarded an extension of the existing White Fleet service until February 2012 at a value of up to £50 million.

Divisional outlook

For the Defence and Security division there are a number of large tri-service programmes that the MoD is progressing. Over the medium to long-term we believe these will result in new outsourcing initiatives that align with the division's core capabilities and where we have a demonstrable track record of delivering efficiencies. We expect these opportunities to come into the bidding pipeline over the course of the next financial year.

In the short-term, as new contracts become operational, we will continue to seek growth by increasing the scope of our existing training and vehicle support contracts.

Support Services markets

For the support services division, the ongoing constraint on public and private sector budgets continues to provide a positive trading environment. The division's business model is based on delivering high value, complex and critical support for its customers. This enables the business to operate in long-term strategic partnerships and play a critical role in our customers' success. Many of our customers are trying to balance the conflicting requirements of managing large investment programmes to upgrade or life-extend critical infrastructures and assets at the same time as improving service delivery or front line services, all within increasingly constrained budgets. For these customers, we expect their solution will be to outsource more of their support activities.

We have a broad range of skills and capabilities across the division that will enable us to deliver growth by growing our existing contracts, extending our customer relationships to offer a broader range of services or by seeking to create new opportunities across our key growth areas, Nuclear, Education and Training, Mobile Assets and Infrastructure.

Support Services

		30 September 2011	30 September 2010
Revenue	group	£460.7m	£377.3m
	jv	£29.4m	£14.4m
	total	£490.1m	£391.7m
Operating profit	group	£41.1m	£24.5m
	jv	£3.8m	£1.2m
	total	£44.9m	£25.7m
Operating margin	group	8.9%	6.5%
	jv	12.9%	8.3%
	total	9.2%	6.6%

The division as a whole continues to perform well and in line with our expectations.

During the first half we have seen some improvement in the civil nuclear decommissioning market as legacy clean-up activities at Sellafield start to come to market. We have been successful in winning the last three major projects at Sellafield, the most recent of which is Phase 1 of Silos Maintenance Facility, a key part of the hazard reduction programme at the site. This phase will deliver the concept and preliminary designs and Phases 2 and 3 will see the project through detailed design, construction and commissioning scheduled for 2017. This contract is being delivered through a Babcock, Balfour Beatty joint venture and is expected to have a project value in the region of £150 million. Through this project and our role on the Box Encapsulation Plant Product Store and Comprehensive Import Export Facility project and the Pile Fuel Cladding Silo Retrieval Project we believe we are well placed to compete for other major engineering projects that are to be undertaken at Sellafield as well as introduce new services, such as training, to support their activities.

We continue to work with EdF on its existing generation of nuclear power stations providing specialist fuel route support as their strategic partner on AGR reactor island systems. EdF are concentrating their new build activities at Hinkley Point and Sizewell and we have established a partnership with a major French contractor to bid for future contracts on these projects.

The Education and Training business has performed well and as market leaders in the delivery of apprenticeship training and schools improvement services we are pursuing a number of opportunities where we can transfer our training expertise to new customers both in the UK and overseas. We welcome the announcement by the Business Secretary, Vince Cable, that £11 million of Government matched funding will be provided to employers to fund more apprenticeships, new professional standards and closer partnerships with education and training providers.

As announced at the end of September we have signed a 10 year contract with Lafarge for the management and maintenance of its heavy mobile equipment in the UK. This contract is worth £50 million over 10 years. We are now in exclusive negotiations with Lafarge to roll out this innovative management and maintenance model across its global operations. We are making good progress on the US, which is the next phase and expected to be concluded by the end of the year and worth in the order of a further £100 million. We now have a proven through-life management model for customers who operate complex mixed vehicle fleets and we have identified a number of opportunities where we can deliver growth for the business.

For the Infrastructure business, the current reorganisation that is taking place within the Defence Infrastructure Organisation will create a number of opportunities where our experience of managing large infrastructure projects for the MoD will place us in a strong position. Both the existing Regional Prime contracts, which continue to perform in line with our expectations, have been extended until 2013/14 when the Next Generation Estates contracts become operational. In Germany, our contract to provide facilities management for the British Forces bases is now fully operational. We are currently involved in the competitive dialogue stages for both the Scotland and Northern Ireland Prime and the Housing Estate Prime. In addition the business is looking at a number of other opportunities where it can help other public and private sector customers unlock value from their complex and critical property portfolios.

Divisional outlook

As our customers seek to operate in longer-term strategic partnerships with their suppliers and achieve significant financial and operational efficiencies, the depth of our technical knowledge and experience and our track record of managing complex projects places us in a strong position from which to benefit.

Over the next six months a number of significant contracts being bid by the division will be awarded: Dounreay PBO, BBC World Service, London Fire Brigade Training and others. Thereafter, the division would expect to benefit from its significant bid pipeline and further opportunities being tracked.

International

		30 September 2011	30 September 2010
Revenue	total	£267.4m	£172.2m
Operating profit	total	£14.2m	£9.8m
Operating margin	total	5.3%	5.7 %

In South Africa the equipment market has continued to experience steady growth and as anticipated there has been good demand for Volvo equipment during the first half of the year. However, the market remains competitive and securing appropriate financing is still an issue for some customers.

The critical shortage of power within Southern Africa has put considerable pressure on the current power generation capacity within the region. Our power generation support and Powerlines activities have seen good levels of activity in the first half, although for the Powerlines business competition from foreign importers remains stiff.

During the first half of this financial year, as well as pursuing opportunities within our existing South African business, we have identified a number of opportunities where we believe we can benefit from the expertise elsewhere within the Group. In particular we have identified opportunities for equipment and facilities support for defence customers.

In the US, defence budgets are coming under increasing pressure and this has impacted activities levels within the US defence operations. Activities undertaken through IDIQ (indefinite duration indefinite quantity) contracts have been at lower levels than during the same period last year, partly as we move away from lower margin activities and partly from a reduction in the number of contracts being let.

Elsewhere in the US, operations continue to perform in line with our expectations and we continue to seek opportunities to support and develop the business in line with its strategic objectives.

In the Middle East despite the current political unrest we continue to build our presence and identify opportunities where we can exploit the enhanced capabilities of the Group.

Order book and bid pipeline

The order book has remained stable at £12 billion since the completion of the VT acquisition in July 2010. During this period there has been an ongoing flow of rebids, contract extensions and new contracts from the bid pipeline into the order book and then through into reported revenue. This provides us with excellent visibility and we now have 92% of revenue for the second half of the year contracted and c 45% for 2012/13.

As we anticipated in November 2010, after a period of hiatus, the past 12 months have seen a significant number of contracts coming out to tender and our pipeline of bids on which we have pre-qualified (PQQ) or have been invited to tender (ITT) for has increased from £5 billion to £10 billion. This includes a number of new projects being outsourced. We expect to see this trend continue over the course of the next financial year although absolute growth in the pipeline may be lower than this year as a number of significant contracts are awarded and move out of the pipeline and, if we are successful, into the order book.

The bid pipeline includes over 20 bids in excess of £100 million with new bids comprising 68% of the total.

Outlook

The Group's key markets remain attractive and we believe the current economic climate will continue to create significant medium and long-term growth opportunities for our businesses, both in the UK and overseas.

In this environment we believe we are well placed to benefit from the scale of our operations, the breadth of our experience and our track record of delivering operational and financial efficiencies.

The Board therefore remains confident in the outlook for the Group and, supported by the excellent visibility in the order book and bid pipeline, expects to achieve good progress this year in line with our expectations and build on this further in 2012/13.

Peter Rogers
Group Chief Executive

Bill Tame
Group Finance Director

Income statement

For the six months ended 30 September 2011

Year ended 31 March 2011 Total £m		Note	£m	Six months ended 30 September 2011 Total £m	£m	Six months ended 30 September 2010 Total £m
2,894.5	Total revenue	2		1,587.9		1,221.2
138.7	Less: joint venture and associate revenue			88.1		39.2
2,755.8	Group revenue			1,499.8		1,182.0
	Group					
261.6	Operating profit before amortisation of acquired intangibles and exceptional items	2	144.2		106.3	
(83.4)	Amortisation of acquired intangibles	3	(42.6)		(30.6)	
(20.7)	Exceptional items	3	(4.9)		(17.0)	
157.5	Group operating profit			96.7		58.7
	Joint ventures and associates					
9.3	Share of operating profit		4.6		2.6	
13.8	Investment income		11.6		4.1	
(4.6)	Amortisation of acquired intangibles	3	(3.1)		(1.0)	
–	Exceptional items	3	–		(1.3)	
(8.3)	Finance costs		(10.5)		(4.5)	
(4.1)	Income tax (expense)/credit		(1.8)		0.1	
6.1	Share of results of joint ventures and associates			0.8		–
	Group and joint ventures and associates					
270.9	Operating profit before amortisation of acquired intangibles and exceptional items		148.8		108.9	
16.0	Investment income		12.9		4.8	
286.9	Underlying operating profit*	2	161.7		113.7	
(88.0)	Amortisation of acquired intangibles		(45.7)		(31.6)	
(20.7)	Exceptional items		(4.9)		(18.3)	
(2.2)	Group investment income		(1.3)		(0.7)	
(8.3)	Joint venture and associate finance costs		(10.5)		(4.5)	
(4.1)	Joint venture and associate income tax (expense)/credit		(1.8)		0.1	
163.6	Group operating profit plus share of joint ventures and associates			97.5		58.7
	Finance costs					
2.2	Investment income		1.3		0.7	
(59.0)	Finance costs		(23.0)		(22.1)	
8.6	Finance income		4.6		3.8	
(48.2)				(17.1)		(17.6)
115.4	Profit before tax	2		80.4		41.1
(10.7)	Income tax expense	4		(7.1)		(6.5)
104.7	Profit for the period			73.3		34.6
	Attributable to:					
101.1	Owners of the parent			72.5		33.1
3.6	Non-controlling interest			0.8		1.5
104.7				73.3		34.6
	Earnings per share	5				
31.28p	– Basic			20.25p		11.48p
31.17p	– Diluted			20.23p		11.45p

*Including IFRIC 12 investment income, but before exceptional items and amortisation of acquired intangibles

Statement of comprehensive income

For the six months ended 30 September 2011

Year ended 31 March 2011 £m		Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m
104.7	Profit for the period	73.3	34.6
	Other comprehensive income		
(7.7)	Currency translation differences	(8.1)	(1.1)
7.3	Fair value adjustment of interest rate and foreign exchange hedges	6.3	(0.2)
(1.5)	Tax on fair value adjustment of interest rate and foreign exchange hedges	(0.2)	–
8.8	Fair value adjustment of joint venture and associate derivatives	(43.3)	(13.3)
(2.4)	Tax on fair value adjustment of joint venture and associate derivatives	11.3	3.7
103.5	Net actuarial (loss)/gain in respect of pensions	(97.7)	17.7
(34.0)	Tax on net actuarial loss/(gain) in respect of pensions*	22.0	(8.0)
74.0	Other comprehensive income, net of tax	(109.7)	(1.2)
178.7	Total comprehensive income	(36.4)	33.4
	Total comprehensive income attributable to:		
175.0	Owners of the parent	(36.7)	31.8
3.7	Non-controlling interest	0.3	1.6
178.7		(36.4)	33.4

* Includes change in UK tax rate.

Statement of changes in equity

For the six months ended 30 September 2011

	Share capital £m	Share premium £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Owners of parent £m	Non-controlling interests £m	Total equity £m
At 1 April 2010	137.8	148.3	30.6	(234.2)	(10.7)	8.8	80.6	5.2	85.8
Total comprehensive income	–	–	–	42.8	(9.8)	(1.2)	31.8	1.6	33.4
Shares issued in the period	77.3	722.9	–	–	–	–	800.2	–	800.2
Dividends	–	–	–	(29.4)	–	–	(29.4)	(1.3)	(30.7)
Share-based payments	–	–	–	2.6	–	–	2.6	–	2.6
Tax on share-based payments	–	–	–	1.3	–	–	1.3	–	1.3
Non-controlling interest acquired	–	–	–	–	–	–	–	3.6	3.6
Acquisition costs	–	–	–	(2.0)	–	–	(2.0)	–	(2.0)
Net movement in equity	77.3	722.9	–	15.3	(9.8)	(1.2)	804.5	3.9	808.4
At 30 September 2010 (restated)	215.1	871.2	30.6	(218.9)	(20.5)	7.6	885.1	9.1	894.2
At 1 April 2011	215.3	872.8	30.6	(109.5)	1.5	1.0	1,011.7	8.9	1,020.6
Total comprehensive income	–	–	–	(3.1)	(25.9)	(7.7)	(36.7)	0.3	(36.4)
Shares issued in the period	0.2	0.2	–	–	–	–	0.4	–	0.4
Dividends	–	–	–	(50.9)	–	–	(50.9)	(1.0)	(51.9)
Share-based payments	–	–	–	2.5	–	–	2.5	–	2.5
Tax on share-based payments	–	–	–	–	–	–	–	–	–
Own shares and other	–	–	–	0.1	–	–	0.1	–	0.1
Net movement in equity	0.2	0.2	–	(51.4)	(25.9)	(7.7)	(84.6)	(0.7)	(85.3)
At 30 September 2011	215.5	873.0	30.6	(160.9)	(24.4)	(6.7)	927.1	8.2	935.3

Balance sheet

As at 30 September 2011

As at 31 March 2011 (restated) £m		Note	As at 30 September 2011 £m	As at 30 September 2010 (restated) £m
	Assets			
	Non-current assets			
1,622.2	Goodwill		1,621.7	1,625.1
473.4	Other intangible assets		434.3	526.4
205.8	Property, plant and equipment		216.0	202.5
64.9	Investments in joint ventures and associates	7	30.2	43.0
22.1	Loans to joint ventures and associates	7	25.4	21.5
12.2	Retirement benefits	11	10.3	–
1.9	Trade and other receivables		2.8	1.4
38.2	IFRIC 12 financial assets		25.4	39.6
1.0	Other financial assets	10	39.8	–
5.9	Deferred tax asset		18.2	26.4
2,447.6			2,424.1	2,485.9
	Current assets			
96.6	Inventories		88.1	90.8
540.3	Trade and other receivables		515.5	470.4
2.7	Income tax recoverable		2.7	14.3
0.8	Other financial assets		3.7	0.5
104.3	Cash and cash equivalents	10	122.2	141.0
744.7			732.2	717.0
3,192.3	**Total assets**		3,156.3	3,202.9
	Equity and liabilities			
	Equity attributable to equity holders of the parent			
215.3	Share capital		215.5	215.1
872.8	Share premium		873.0	871.2
33.1	Capital redemption and other reserves		(0.5)	17.7
(109.5)	Retained earnings		(160.9)	(218.9)
1,011.7			927.1	885.1
8.9	Non-controlling interest		8.2	9.1
1,020.6	**Total equity**		935.3	894.2
	Non-current liabilities			
799.0	Bank and other borrowings	10	822.0	838.5
13.6	Trade and other payables		11.8	14.4
23.2	Deferred tax		–	17.8
–	Income tax payable		–	0.2
237.3	Retirement liabilities	11	327.7	356.4
134.4	Provisions for other liabilities		133.8	146.5
1,207.5			1,295.3	1,373.8
	Current liabilities			
35.3	Bank and other borrowings	10	18.8	96.3
877.8	Trade and other payables		854.9	767.5
17.3	Income tax payable		22.8	35.6
4.1	Other financial liabilities		4.9	5.2
29.7	Provisions for other liabilities		24.3	30.3
964.2			925.7	934.9
2,171.7	**Total liabilities**		2,221.0	2,308.7
3,192.3	**Total equity and liabilities**		3,156.3	3,202.9

Cash flow statement

For the six months ended 30 September 2011

Year ended 31 March 2011 £m		Note	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m
	Cash flows from operating activities			
308.5	Cash generated from operations	8	157.7	143.3
(19.3)	Income tax paid		(16.3)	(5.6)
(58.6)	Interest paid		(25.1)	(20.1)
8.6	Interest received		5.0	3.8
239.2	Net cash flows from operating activities		121.3	121.4
	Cash flows from investing activities			
2.2	Disposal of subsidiaries, joint ventures and associates		–	2.2
1.0	Proceeds on disposal of property, plant and equipment		1.5	0.5
0.2	Proceeds on disposal of intangible assets		–	–
(30.2)	Purchases of property, plant and equipment		(19.8)	(8.7)
(4.2)	Purchases of intangible assets		(4.0)	(0.7)
0.2	Investment in and loans to joint ventures and associates		(3.0)	(0.5)
–	Dividends received from joint ventures and associates		3.7	–
(486.2)	Acquisition of subsidiaries net of cash acquired		–	(486.9)
(517.0)	Net cash flows from investing activities		(21.6)	(494.1)
	Cash flows from financing activities			
(48.0)	Dividends paid		(50.9)	(29.4)
(12.9)	Finance lease principal payments		(1.0)	(1.2)
(457.5)	Bank loans repaid		(263.6)	(60.8)
845.1	Loans raised		251.0	513.3
(3.5)	Dividends paid to non-controlling interests		(1.0)	(1.3)
(2.2)	Movement on own shares		0.4	–
321.0	Net cash flows from financing activities		(65.1)	420.6
43.2	Net increase in cash, cash equivalents and bank overdrafts		34.6	47.9
29.0	Cash, cash equivalents and bank overdrafts at start of period		72.7	29.0
0.5	Effects of exchange rate fluctuations		(2.6)	0.1
72.7	Cash, cash equivalents and bank overdrafts at end of period	10	104.7	77.0

Notes to the consolidated half year financial statements

For the six months ended 30 September 2011

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 IAS 34, 'Interim financial reporting' as adopted by the European Union. They should be read in conjunction with the Annual Report for the year ended 31 March 2011 (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:

- IAS 24 (revised), 'Related party disclosures'
- Amendment to IAS 32, 'Classification of rights issue'
- Amendment to IFRIC 14, 'Prepayment of a minimum funding requirement'
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'.

The consolidated half-yearly financial information has been prepared on a going concern basis. The Directors of the Group have a reasonable expectation that, on the basis of current financial projections and borrowing facilities available, the Group is well positioned to meet its commitments and obligations for the next 12 months from the date of this report and will remain in operational existence for the foreseeable future.

The comparatives have been restated to reflect the final VT Group plc acquisition balance sheet (see note 12).

The half year report for the six months ended 30 September 2011 was approved by the Directors on 7 November 2011. The half year report has not been audited or reviewed by auditors.

2. Segmental analysis

The segments reflect the accounting information reviewed by the Chief Operating Decision Maker (CODM).

2011	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Group total £m
Continuing operations						
Total revenue	538.0	292.4	490.1	267.4	–	1,587.9
Joint venture and associate revenue	–	58.7	29.4	–	–	88.1
Group revenue	538.0	233.7	460.7	267.4	–	1499.8
Operating profit – Group	67.4	25.5	40.7	14.2	(3.6)	144.2
IFRIC 12 investment income – Group	–	0.9	0.4	–	–	1.3
Share of operating profit – joint ventures and associates	–	4.0	0.6	–	–	4.6
Share of IFRIC 12 investment income – joint ventures and associates	–	8.4	3.2	–	–	11.6
Underlying operating profit	67.4	38.8	44.9	14.2	(3.6)	161.7
Share of interest - joint ventures and associates	–	(7.3)	(3.2)	–	–	(10.5)
Share of tax - joint ventures and associates	–	(1.7)	(0.1)	–	–	(1.8)
Acquired intangible amortisation – Group	(6.5)	(6.3)	(25.9)	(3.9)	–	(42.6)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.9)	(0.2)	–	–	(3.1)
Net finance costs – Group	–	–	–	–	(18.4)	(18.4)
Exceptional items	–	–	–	–	(4.9)	(4.9)
Group profit before tax	60.9	20.6	15.5	10.3	(26.9)	80.4

Notes to the consolidated half year financial statements continued

2. Segmental analysis (continued)

2010	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Group total £m
Continuing operations						
Total revenue	502.4	154.9	391.7	172.2	–	1,221.2
Joint venture and associate revenue	–	24.8	14.4	–	–	39.2
Group revenue	502.4	130.1	377.3	172.2	–	1,182.0
Operating profit – Group	59.6	17.6	24.3	9.8	(5.0)	106.3
IFRIC 12 investment income – Group	–	0.5	0.2	–	–	0.7
Share of operating profit – joint ventures and associates	–	2.4	0.2	–	–	2.6
Share of IFRIC 12 investment income – joint ventures and associates	–	3.1	1.0	–	–	4.1
Underlying operating profit	59.6	23.6	25.7	9.8	(5.0)	113.7
Share of interest - joint ventures and associates	–	(3.4)	(1.1)	–	–	(4.5)
Share of tax - joint ventures and associates	–	(0.6)	–	–	0.7	0.1
Acquired intangible amortisation – Group	(6.2)	(2.9)	(19.5)	(2.0)	–	(30.6)
Share of acquired intangible amortisation – joint ventures and associates	–	(0.9)	(0.1)	–	–	(1.0)
Net finance costs – Group	–	–	–	–	(18.3)	(18.3)
Exceptional items	–	–	–	–	(18.3)	(18.3)
Group profit before tax	53.4	15.8	5.0	7.8	(40.9)	41.1

3. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m
Exceptional items and other						
Profit on disposal of subsidiaries	–	(2.9)	–	–	–	(2.9)
Reorganisation and rationalisation costs	4.9	7.5	–	–	4.9	7.5
Acquisition costs	–	12.4	–	–	–	12.4
Operating profit – exceptional items	4.9	17.0	–	–	4.9	17.0
Interest	–	–	–	1.3	–	1.3
Exceptional items and other	4.9	17.0	–	1.3	4.9	18.3
Acquired intangible amortisation	42.6	30.6	3.1	1.0	45.7	31.6
	47.5	47.6	3.1	2.3	50.6	49.9

Exceptional items are those items which are exceptional in nature or size. In the period ended 30 September 2011 the reorganisation and rationalisation costs relate to redundancies, property costs and IT rationalisation costs arising in achieving synergy benefits on the VT Group plc acquisition. In addition to the above, a £2.7 million exceptional tax credit arose on the change in UK tax rates.

In the period ended 30 September 2010 exceptional costs were:

- Acquisition costs related to the acquisition of VT Group plc (see note 12).
- Reorganisation and rationalisation costs related to the integration of Babcock International Group PLC and VT Group plc.
- Interest cost, being the movement in the fair value of the ineffective hedges within PFI joint ventures and associates.

4. Income taxes

The charge for taxation has been based on the estimated effective tax rate of 19% before amortisation of acquired intangibles and exceptional items for the full year ended 31 March 2012. (For September 2010, the charge for tax was based on an estimated effective tax rate of 20.5% for the full year ended 31 March 2011). An additional tax credit of £12.4 million relates to acquired intangible amortisation of which £0.8 million is included in share of profit/(loss) from joint ventures and associates; and a further tax credit of £1.3 million relates to exceptional items. (For September 2010 an additional tax credit of £8.8 million related to acquired intangible amortisation).

Notes to the consolidated half year financial statements continued

5. Earnings per share

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

	Six months ended 30 September 2011	Six months ended 30 September 2010
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	358,456,519	288,413,115
Effect of dilutive potential ordinary shares: share options	398,320	992,527
Weighted average number of ordinary shares for the purpose of diluted EPS	358,854,839	289,405,642

Earnings

	Six months ended 30 September 2011			Six months ended 30 September 2010		
	Earnings £m	Basic per share pence	Diluted per share pence	Earnings £m	Basic per share pence	Diluted per share pence
Earnings per share from continuing operations	72.5	20.25	20.23	33.1	11.48	11.45
Add back:						
Amortisation of acquired intangible assets, net of tax	33.3	9.28	9.27	22.8	7.89	7.86
Exceptional items and other, net of tax	3.6	1.01	1.01	14.9	5.19	5.17
Impact of change in UK tax rate	(2.7)	(0.75)	(0.75)	–	–	–
Earnings before amortisation, exceptional items and other	106.7	29.79	29.76	70.8	24.56	24.48

6. Dividends

An interim dividend of 5.70 pence per 60 pence ordinary share (2010: 5.20 pence per 60 pence ordinary share) was declared after the balance sheet date and will be paid on 13 January 2012 to shareholders registered on 16 December 2011.

7. Investments in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m
At 1 April	64.9	1.0	22.1	13.3	87.0	14.3
Acquisition of subsidiaries	–	50.8	–	8.5	–	59.3
Investments in joint ventures and associates	0.2	0.2	–	–	0.2	0.2
Loans to/(repayments from) joint ventures and associates	–	–	3.4	(0.2)	3.4	(0.2)
Share of profits	0.8	0.6	–	(0.6)	0.8	–
Dividends received	(3.7)	–	–	–	(3.7)	–
Interest accrued	–	–	0.5	0.5	0.5	0.5
Interest received	–	–	(0.6)	–	(0.6)	–
Fair value adjustment of derivatives	(43.3)	(13.3)	–	–	(43.3)	(13.3)
Tax on fair value adjustment of derivative	11.3	3.7	–	–	11.3	3.7
Total	30.2	43.0	25.4	21.5	55.6	64.5

Notes to the consolidated half year financial statements continued

8. Reconciliation of operating profit to cash generated from operations

Year ended 31 March 2011 £m		Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m
	Cash flows from operating activities		
178.2	Operating profit before exceptional items	101.6	75.7
(20.7)	Exceptional items	(4.9)	(17.0)
157.5	Operating profit	96.7	58.7
31.2	Depreciation of property, plant and equipment	16.5	13.2
87.3	Amortisation of intangible assets	44.4	32.3
2.2	Investment income	1.3	0.7
5.8	Equity share-based payments	2.5	2.6
(2.9)	Profit on disposal of subsidiaries	–	(2.9)
0.4	(Profit)/loss on disposal of property, plant and equipment	(0.2)	0.4
0.2	Loss on disposal of intangible assets	–	–
281.7	Operating cash flows before movement in working capital	161.2	105.0
3.5	Decrease in inventories	0.3	8.4
(83.0)	Decrease/(increase) in receivables	16.8	(16.1)
123.1	(Decrease)/increase in payables	(14.3)	50.1
(16.8)	Decrease in provisions	(6.3)	(4.1)
308.5	Cash generated from operations	157.7	143.3

9. Movement in net debt

Year ended 31 March 2011 £m		Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m
43.2	Increase in cash in the period	34.6	47.9
(374.7)	Cash flow from the (increase)/decrease in debt and lease financing	13.6	(451.5)
(331.5)	Change in net funds resulting from cash flows	48.2	(403.6)
(90.3)	Loans and finance leases acquired and disposed of with subsidiaries	–	(90.3)
(4.9)	Foreign currency translation differences and other	2.0	0.1
(426.7)	Movement in net debt in the period	50.2	(493.8)
(302.3)	Net debt at the beginning of the period	(729.0)	(302.3)
(729.0)	Net debt at the end of the period	(678.8)	(796.1)

10. Changes in net debt

	At 1 April 2011 £m	Cash flow £m	Exchange movement /other £m	At 30 September 2011 £m
Cash and bank balances	104.3	20.1	(2.2)	122.2
Bank overdrafts	(31.6)	14.5	(0.4)	(17.5)
Cash, cash equivalents and bank overdrafts at end of period	72.7	34.6	(2.6)	104.7
Debt	(798.7)	12.6	(34.5)	(820.6)
Finance leases	(4.0)	1.0	0.3	(2.7)
	(802.7)	13.6	(34.2)	(823.3)
Net debt before derivatives	(730.0)	48.2	(36.8)	(718.6)
Net debt derivative	1.0	–	38.8	39.8
Net debt including derivative	(729.0)	48.2	2.0	(678.8)

11. Pensions

Analysis of movement in the balance sheet

	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m
Fair value of plan assets		
At 1 April	2,579.9	1,979.8
Acquisitions	–	432.6
Expected return	86.0	72.2
Actuarial (loss)/gain	(158.1)	19.1
Change in reimbursement rights	13.6	1.2
Employer contributions	15.0	21.3
Employee contributions	3.0	3.0
Benefits paid	(66.7)	(57.2)
Exchange differences	0.1	(0.4)
At 30 September	2,472.8	2,471.6
Present value of benefit obligations		
At 1 April	2,794.6	2,303.8
Acquisitions	–	483.6
Service cost	22.7	21.2
Interest cost	72.8	64.6
Employee contributions	3.0	3.0
Actuarial (gain)/ loss	(45.6)	1.5
Benefits paid	(66.7)	(57.2)
Exchange differences	0.1	(0.2)
At 30 September	2,780.9	2,820.3
Present value of unfunded obligations	(0.1)	(0.2)
IFRIC 14 adjustment	(9.2)	(7.5)
Net deficit at 30 September	(317.4)	(356.4)
Net deficit at 31 March 2011	(225.1)	(324.0)

Analysis of charge to Income Statement

	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m
Current service cost	(22.7)	(21.2)
Interest on obligations	(72.8)	(64.6)
Expected return on plan assets	86.0	72.2
Total included within operating profit	(9.5)	(13.6)

As at 30 September 2011 the key assumptions used in valuing pension liabilities were:

Discount rate	5.2% (31 March 2011: 5.6%)
Inflation rate	2.5% (31 March 2011: 3.1%)

12. Acquisition

In the previous financial year, on 8 July 2010 we completed the acquisition of 100% of the share capital of VT Group plc for a cash and share consideration of £1,471.3 million. On 27 September 2010 we completed the acquisition of the assets and trading of Evergreen Unmanned Systems (Evergreen) in the USA for a cash consideration of £8.9 million (US$14 million).

The goodwill arising on the acquisition derives from the experience, knowledge and location of the workforce, the market position of the entities involved and expected synergies.

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

	VT Group plc £m	Evergreen £m	Total £m
Cost of acquisition			
Cash paid	665.7	8.9	674.6
129,034,886 shares issued	805.6	–	805.6
Purchase consideration	1,471.3	8.9	1,480.2
Fair value of assets acquired (see below)	397.6	2.2	399.8
Goodwill	1,073.7	6.7	1,080.4

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

	VT Group plc		Evergreen		Total	
	Book value of assets acquired £m	Fair value acquired £m	Book value of assets acquired £m	Fair value acquired £m	Book value of assets acquired £m	Fair value acquired £m
Goodwill	302.9	–	–	–	302.9	–
Intangible assets	13.3	8.3	–	–	13.3	8.3
Acquired intangibles*	115.9	464.9	–	4.5	115.9	469.4
Property, plant and equipment	74.6	59.6	0.9	0.9	75.5	60.5
Investment in and loans to joint ventures and associates	16.0	59.3	–	–	16.0	59.3
Retirement liabilities	(84.8)	(58.1)	–	–	(84.8)	(58.1)
Deferred tax	(11.5)	(84.3)	–	–	(11.5)	(84.3)
Income tax	(1.8)	(1.2)			(1.8)	(1.2)
Cash, cash equivalents and bank overdrafts	193.6	193.6	0.4	0.4	194.0	194.0
Bank loans	(80.9)	(81.5)	–	–	(80.9)	(81.5)
Finance leases	(10.6)	(10.6)	–	–	(10.6)	(10.6)
Inventory	14.7	14.3	–	–	14.7	14.3
Current assets	178.6	165.3	0.2	0.2	178.8	165.5
Current and non current liabilities	(175.4)	(201.6)	–	–	(175.4)	(201.6)
Provisions	(55.7)	(126.8)	(3.8)	(3.8)	(59.5)	(130.6)
Non-controlling interest	(2.9)	(3.6)	–	–	(2.9)	(3.6)
Net assets acquired	486.0	397.6	(2.3)	2.2	483.7	399.8

* Acquired intangibles are: customer relationships and order book.

13. Related party transactions

Related party transactions in the half year to 30 September 2011 are; sales to joint ventures and associates amounting to £92.3 million (2010: £95.2 million), purchases from joint ventures and associates amounting to £27.6 million (2010: £12.1 million) and sales to companies with common directors amounting to £5.4 million (2010: £1.9 million).

14. 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. Statutory accounts for the year ended 31 March 2011 were approved by the Board on 16 May 2011 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

Risks and uncertainties

The principal risks and uncertainties affecting the Group remain those detailed on pages 39 to 45 of the 2011 Annual Report, a copy of which is available at www.babcock.co.uk. The principal risks identified are; health safety and environmental issues, reliance on a small number of large customers and contracts, bid process and bid success, contractual performance, political and regulatory environment, people retention and development, acquisitions and disposals, information technology, pensions, ethical and reputational risk, contingent liabilities, financial reporting, accounting controls and treasury. This half year report also includes comments on the outlook for the Group for the remaining six months of the financial year.

Forward-looking statements

Certain statements in this half year report 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 half year report 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 half year report. Except as required by law, Babcock is under no obligation to update or keep current the forward-looking statements contained in this half year report or to correct any inaccuracies which may become apparent in such forward-looking statements.

Statement of Directors' responsibilities

Each of the Directors (as detailed below) confirms that to the best of his/her knowledge:

- this condensed set of financial statements has been prepared in accordance with IAS 34 (Interim Financial Reporting) as adopted by the European Union; and
- the half year management report herein includes a fair review of the information required by
  - DTR 4.2.7 (indication of the important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year) and
  - DTR 4.2.8. (disclosure of related parties' transactions and changes therein).

The Directors of Babcock International Group PLC are currently Mike Turner (Chairman), Peter Rogers, Bill Tame, Archie Bethel, Kevin Thomas, John Rennocks*, Sir Nigel Essenhigh*, Justin Crookenden *,Sir David Omand*, Ian Duncan* and Kate Swann*. A list of the current Directors is maintained on the Babcock International Group website www.babcock.co.uk. (* Non-Executive Director)

By order of the Board and for and on behalf of each of the Directors

Peter Rogers
Group Chief Executive

7 November 2011

Bill Tame
Group Finance Director

7 November 2011