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BABCOCK INTERNATIONAL GROUP PLC

Half year report

For the six months ended 30 September 2012

Financial highlights

Continuing operations† - underlying	September 2012	September 2011	Change
Revenue*	**£1,556.7m**	£1,472.0m	+ 6%
Operating profit**	**£174.0m**	£155.2m	+ 12%
Profit before tax***	**£142.7m**	£126.3m	+ 13%
Basic earnings per share****	**32.40p**	28.52p	+ 14%
Continuing and discontinued operations basic earnings per share ****	**32.62p**	29.79p	+ 9%

Continuing operations† - statutory			
Revenue	**£1,450.3m**	£1,383.9m	+ 5%
Operating profit	**£108.8m**	£94.1m	+ 16%
Profit before tax	**£101.9m**	£77.8m	+ 31%
Basic earnings per share	**24.70p**	19.64p	+ 26%
Continuing and discontinued operations basic earnings per share	**19.86p**	20.25p	– 2%

Net debt	**£581.1m**	£678.8m
Net debt/ebitda annualised (per financial covenants)	**1.7 x**	2.0 x
Half year dividend	**6.30p**	5.70p
Order book	**£12.5bn**	£12bn

† Continuing operations – following the disposal of VT Services Inc., its results are reported as discontinued and the comparatives restated.
* Underlying revenue includes the Group's share of joint venture and associates revenue.
** Underlying operating profit includes IFRIC 12 investment income and joint ventu re and associates operating profit but is before amortisation of acquired intangibles and exceptional items.
*** Underlying profit before tax is inclusive of pre- tax joint venture and associates income but before amortisation of acquired intangibles and exceptional items
****Underlying basic earnings per share is before amortisation of acquired intangibles, exceptional items and before the related tax effects and before the effect of UK tax rate changes.

Operational highlights

- Strong underlying organic growth in revenue and profit
  - 7.3% organic growth in underlying revenue (excluding the effect of foreign exchange movements)
  - 13.3 % organic growth in underlying operating profit (excluding the effect of foreign exchange movements)
- Order book £12.5 billion (2011: £12 billion) providing excellent visibility of future revenue streams
- Bid pipeline increased to over £13 billion during first half (15 May 2012: £9.5 billion)
  - new outsourcing opportunities in bid support long-term growth prospects
- Cash conversion of 113%, net debt reduced to £581.1million
- Strong first half performance and confidence in growth prospects reflected in 10.5% increase in half year dividend to 6.30p per share

"Babcock's strong first half performance reflects our leadership in UK engineering support services, the continuing growth in our major markets and our increasing international presence. We achieved double-digit growth in underlying profit and earnings and we further strengthened our balance sheet by sustaining our track record of excellent cash conversion. As a result, we have once again been able to increase returns to our shareholders. The strength of our order book and bid pipeline underpin our confidence in the future."

Peter Rogers, Chief Executive

Introduction

Babcock is the UK's leading engineering support services company. We have made excellent progress in the first half of the 2012/13 financial year, delivering strong financial results and continued organic growth in both revenue and profit.

The Group has maintained its secure financial position. Cash generation across the business has remained strong and we have continued our track record of debt reduction.

These results reflect the strength and stability of our underlying business and the significant capability we offer in our market sectors. Babcock is now well positioned to deliver long-term growth by realising the opportunities we have created through the consistent focus on our strategy.

These opportunities are reflected in the strength of our order book and bid pipeline. In addition, with markets remaining buoyant, we continue to track a number of opportunities in the UK and overseas, that have not yet come to market.

Financial review

***Continuing operations** – following the disposal of VT Services Inc., its results are reported as discontinued and the comparatives restated. Underlying results are based on the results from continuing businesses only.*

***Underlying** - 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 the Group's financial performance.

Income statement

Revenue for the first half increased to £1,556.7 million (2011: £1,472.0 million), resulting in an organic growth rate for the combined business of 7.3%, excluding the effects of changes in exchange rates (principally the South African Rand). The main contributor to this growth was the Support Services division, which delivered organic growth of 18% as contract awards in the second half of the 2011/12 financial year became operational. The Marine and Technology division delivered 5% organic growth, as expected, as international operations continue to expand.

Statutory to underlying reconciliation

		Joint ventures and associates							
	Continuing operations - statutory £m	Revenue and operating profit £m	Finance cost £m	Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Change in UK tax rate £m	**Exceptional items £m**	**Continuing operations - underlying £m**
30 September 2012									
Revenue	**1,450.3**	106.4							**1,556.7**
Operating profit	**108.8**	10.6			19.6	32.4		2.6	**174.0**
Share of profit from jv	**6.7**	(10.6)	16.8	2.7	(18.7)	3.1			-
Investment income	**0.9**				(0.9)				-
Net finance costs	**(14.5)**		(16.8)						**(31.3)**
Profit before tax	**101.9**	–	–	2.7	–	35.5	–	2.6	**142.7**
Tax	**(10.9)**			(2.7)		(8.5)	(1.3)	(0.7)	**(24.1)**
Profit after tax	**91.0**	–	–	–	–	27.0	(1.3)	1.9	**118.6**
30 September 2011									
Revenue	**1,383.9**	88.1							**1,472.0**
Operating profit	**94.1**	4.6			12.9	38.7		4.9	**155.2**
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	**77.8**	–	–	1.8	–	41.8	–	4.9	**126.3**
Tax	**(6.7)**			(1.8)		(10.9)	(2.7)	(1.3)	**(23.4)**
Profit after tax	**71.1**	–	–	–	–	30.9	(2.7)	3.6	**102.9**

Financial review continued

Underlying operating profit increased to £174.0 million (2011: £155.2 million). Organic growth for the combined business, excluding the effect of foreign exchange movements, was 13.3%. The South African business reported 54% growth in profits in local currency, as a result of increased demand for crane hire and equipment as well as improved operational gearing across the business.

The Group operating margin increased to 11.2% (2011: 10.5%). Operating margins for the Marine and Technology division were 12.8%, broadly flat on last year (2011: 12.5%). The Defence and Security division's margins increased to 13.0%, in line with expectations (2011: 11.5%), as milestones within the Future Strategic Tanker Aircraft (FSTA) joint venture contract were achieved. In line with guidance at the full year, the Support Services margin fell to 9.3% (2011: 9.8%) as a result of significant new long-term contracts starting during the period.

Total net finance costs were £31.3 million (2011: £28.9 million) with the Group's interest on net debt reducing to £14.5 million (2011: £18.4 million) as a result of both reducing debt and reduced interest rates paid. The Group's share of joint venture net interest expense increased to £16.8 million (2011: £10.5 million). As highlighted at the full year, joint venture finance costs are primarily related to financing structures on the FSTA and the Military Flying Training System (MFTS) Private Finance Initiative (PFI) contracts and these will increase as the PFI delivers assets into service for the customer. During 2011/12 operating bases for both FSTA and MFTS were delivered and the first tanker aircraft was brought into service with the related non-recourse debt drawn down under the PFI.

Profit before tax increased to £142.7 million (2011: £126.3 million), an increase of 13%. Taxation charges were £24.1 million, including the Group's share of joint venture income tax.

The Group's effective rate of income tax based on underlying profit before tax was 18% (2011: 19%).

Earnings per share

Underlying earnings per share for the first half year was 32.40 pence (2011: 28.52 pence) an increase of 14% over last year. Basic continuing earnings per share as defined by IAS 33 was 24.70 pence (2011: 19.64 pence).

Exceptional items and discontinued

Exceptional items of £2.6 million were incurred in the first half in respect of the VT synergy cost programme which will end within this financial year. The cumulative VT synergy costs at 30 September 2012 were £26 million.

A loss of £17.4 million from discontinued operations arose principally in relation to the sale of VT Services Inc following movement in the disposal balance sheet and provision for other disposal costs.

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 6.30 pence per share (2011: 5.70 pence per share), an increase of 10.5% over last year. This will be paid on 11 January 2013 to shareholders on the register at 14 December 2012.

Cash flow and net debt

Cash generated from operations was £142.1 million (2011: £157.7 million) resulting in a conversion rate of underlying operating profit to cash of 113% (2011: 117%). Cash collection remained strong during the first six months but certain contract based repayments to customers remained outstanding at the period end, which are increasingly likely to be settled in the second half of the year. As highlighted last year, a major IT transformation project is being undertaken across the business. Expenditure on the project totalled £7.7 million in the first half of this year and total capital expenditure for the Group was £26.3 million (including leases, intangibles and PPE) (2011: £23.8 million). After tax, interest and dividend payments totalling £101.6 million (2011: £88.3 million), less disposal proceeds of £57.7 million, net cash flow was £60.0 million (2011: £50.2 million). Net debt reduced to £581.1 million (30 September 2011: £678.8 million; 31 March 2012: £641.1 million) and we expect the key performance indicator of net debt to earnings before interest tax depreciation and amortisation (ebitda) to approach 1.5 times by 31 March 2013.

Pensions

Accounting valuations

The volatility created by uncertainty in financial markets makes mark-to-market valuations particularly unhelpful when looking at the very long-term liabilities represented by defined benefit pension schemes. A reduction in discount rates and depressed asset values have been offset by a reduction in the expected level of inflation, such that the value of the IAS 19 accounting deficit on the Group's combined defined benefit pension schemes was the same as at 30 September 2011 but up from £266 million at 31 March 2012. The net deficit, pre-tax, at 30 September was £318 million (September 2011: £317 million).

As at 30 September 2012, the key assumptions used in valuing pension liabilities were

Discount rate	4.4% (31 March 2012: 4.8%)
Inflation rate	2.2% (31 March 2012: 2.7%)

Funding valuations

Cash contributions by the Group to the combined schemes during the first half of the year were £26 million with a further approximately £54 million expected to be paid in the period to 31 March 2013.

Order book and bid pipeline

The order book has reduced slightly to £12.5 billion from £13 billion at the beginning of the financial year (2011: £12 billion), pending a number of bid announcements. It continues to benefit from a steady flow of orders, extensions and scope enhancements balancing conversion into revenue.

The changing market environment in which we operate and the trend to outsource activities to achieve both financial and operational efficiency is reflected in the strength of our bid pipeline as well as the further significant opportunities we are tracking.

The bid pipeline now stands in excess of £13 billion (30 September 2011: £9 billion) increasing from £9.5 billion at the beginning of the financial year. During the first half, new opportunities in civil and defence markets in the UK and overseas have come into the pipeline. 67% of the pipeline comprises bids with a total contract value of over £100 million and rebids and extensions make up only 11% of the pipeline.

Building on the strength of our current operations, we have been in discussion with customers about a number of significant future outsourcing opportunities which we expect to come to market over the next two years, particularly in the UK and international defence training and equipment support markets. In addition we are exploring a number of opportunities in civil markets to build on the key elements of our strategy.

Outlook

Babcock is well positioned to help our customers develop cost efficient support solutions and we believe the current economic climate will continue to create significant medium and long-term growth opportunities, both in the UK and overseas.

The strength of the order book continues to provide excellent visibility of future revenue streams across the Group. As a result we entered the second half with around 90% of the 2012/13 financial year's anticipated revenue currently contracted and over 50% for the 2013/14 financial year. Since the beginning of the financial year this position has been further supported by growth in the bid pipeline and new opportunities coming into the tracking pipeline.

The Board therefore remains confident of meeting its expectations for this financial year and delivering strong progress on last year.

Operational review

Defence markets

Since the Strategic Defence and Security Review in October 2010, the Ministry of Defence (MoD) has been considering a range of options to reduce overall costs whilst maintaining operational efficiency and balancing the current and future requirements of the armed forces. This has resulted in a number of significant change programmes being implemented across the MoD and the armed forces.

In May 2012 The Secretary of State for Defence announced that the MoD's budget was in balance and its focus will now be on building a platform for the 'Future Force 2020'. As a result we expect a number of the initiatives we have been discussing with our customer over the past few years will start to come to market, and we have seen some evidence of this during the first half.

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.

The outlook for defence outsourcing in Canada, Australia, Brazil and the Middle East remains positive as governments seek to strengthen their defence forces and find improved equipment and infrastructure support solutions as well as training delivery.

Marine and Technology

		30 Sept 2012	30 Sept 2011	Change
Revenue	total	**£564.3m**	£538.0m	+ 5%
Operating profit	total	**£72.5m**	£67.4m	+ 8%
Operating margin	total	**12.8%**	12.5%	

Financial review

The Marine and Technology division has delivered a solid first half with 5% organic revenue growth, benefiting in particular from continued growth overseas. International revenue, including exports, in the first half increased by 43% compared with the same period last year and now accounts for c19% of the division.

Operating profit increased by 8% to £72.5 million, benefiting from strong contract performance within the Technology business units and the division's international operations. Operating margins for the division at 12.8% remained broadly similar to the same period last year and to the full year 2012 margin of 12.5%.

Operational review

Under the Terms of Business Agreement (ToBA), our long-term partnership with the MoD, we continue to benefit from predictable and long-term programmes of work in submarine and warship deep maintenance and support, as well as a continuing role as the MoD's partner at HMNB Devonport and Clyde. In return the MoD will benefit from delivery of significant cost reductions over the period of the ToBA, which are currently running ahead of the agreed plan.

We are making good progress on discussions with the MoD about the introduction of the Maritime Support Delivery Framework. This will replace the current Warship Support Modernisation Initiative (WSMI) contract for delivery of services at HMNB Devonport and Clyde. Under the framework of the ToBA, this contract will provide a platform for further development of our role in both naval bases.

Throughout the first half we have continued to provide through-life support to the UK's submarine fleet with a significant position in the Submarine Enterprise Performance Programme (SEPP), where we are seeking to build on our engineering and integration expertise to broaden and deepen our involvement. Good progress is being made in the early stages of HMS Vengeance's Long Overhaul Period (refuel) (LOP (R)), currently being undertaken at Devonport. At Faslane, we are supporting HMS Astute's continuing sea trials before becoming fully operational in 2013. HMS Ambush has now arrived at Faslane to start her sea-trials and commissioning activities.

We have increased our involvement in the engineering and design support for the Successor future submarine programme with a new role that supports our long-term, Tier 1 engineering involvement in the programme. We will be using our expertise as through-life support partners to the Royal Navy to ensure the design of the new submarines adequately considers their in-service availability and performance.

Through the Surface Ship Support Alliance (SSSA) we have successfully undertaken a number of refit projects at both Devonport and Rosyth dockyards during the period and also at Rosyth, as part of the Aircraft Carrier Alliance (ACA), the Queen Elizabeth class aircraft carrier project continues to make good progress.

Our naval base management contracts continue to perform well at both HMNB Devonport and Clyde. We are now working closely with the MoD to transfer support for the Strategic Weapons System at the UK Strategic Weapons Facility Coulport to the ABL Alliance (AWE, Babcock and Lockheed Martin). This is due to be completed by January 2013.

Operational review continued

Equipment support activities, delivering engineering support for a range of key assets as well as procurement and logistics support, have performed well during the first half and we continue to discuss future options for equipment support with the MoD.

Our international in-service submarine and weapons handling and launch system (WHLS) support operations in Canada and Australia, as well as our involvement in future submarine programmes in Australia, Spain and South Korea, all continue to progress well.

In Australia the Anzac class frigate support contract, our first warship support contract outside the UK, is still in its transition phase, which runs until December 2012. Good progress is being made with supply chain agreements and maintenance planning for HMAS Stuart and HMAS Perth, the first vessels scheduled to come into the programme.

We continue to strengthen our market positions in Australia and Canada where we are pursuing a range of opportunities to increase our existing warship and submarine support activities. We are also exploring opportunities to enter the Brazilian naval support market where we can build on the strength of our UK position.

Divisional outlook

The strength of the division's current market positions and the excellent visibility of future revenue through long-term agreements and alliances with the Royal Navy and MoD create an extremely secure outlook. This is further supported by significant opportunities, both in the bidding pipeline and being tracked, to deliver long-term growth in the UK and increasingly overseas.

Defence and Security

		30 Sept 2012	30 Sept 2011	Change
Revenue	group	**£339.9m**	£338.6m	–
	jv	**£55.5m**	£58.7m	– 5%
	total	**£395.4m**	£397.3m	–
Operating profit	group	**£29.2m**	£33.4m	– 13%
	jv	**£22.2m**	£12.4m	+ 79%
	total	**£51.4m**	£45.8m	+ 12%
Operating margin	group	**8.6%**	9.9%	
	jv	**40.0%**	21.1%	
	total	**13.0%**	11.5%	

In order to achieve closer alignment of our operational businesses with our customers' requirements, the defence related elements of our Infrastructure business unit, previously reported as part of the Support Services division, were moved to the Defence and Security division during the first half and its results are included in the division's financial results for this period and for the comparative period last year.

The division now provides essential support to all three armed services, with major roles on programmes delivering, infrastructure, equipment and training support.

Financial review

The Defence and Security division's total revenue was broadly flat on last year, benefiting from increased volumes in vehicle fleet management contracts and scope increases within the Regional Prime contracts offsetting some reduction in naval training activities.

Total operating profit, including the division's share of joint venture profit, increased by 12%, benefiting from good contract performance within the Infrastructure business, as well as additional joint venture profit from the Future Strategic Tanker Air (FSTA) and Military Flying Training System (MFTS) programmes. As previously indicated, the division's operating margin increased to 13.0% (2011: 11.5%) as milestones within the FSTA joint venture contract were achieved.

Operational review

Both the South West and East Regional Prime contracts have performed well during the first half with significant levels of additional out-of-scope works being managed within both contracts.

Our contract to support the military estate in Germany continues to mature and develop well, with the team actively involved in supporting the Army in its draw down programme and the associated reconfiguration of the residual estate in Germany.

The contract to maintain the estate and infrastructure owned by the MoD Defence Support Group has been extended for a further three years.

The Defence Infrastructure Organisation continues to progress its Next Generation Estates contracts. Babcock is the only organisation to have been down selected to bid on all six contracts. The Tranche One bids (Scotland and Northern Ireland, Training Estate and Housing) have been submitted and are being evaluated by the DIO and tender documents for Tranche Two (South West, South East and Central) have been received. The programme has been extended slightly but is progressing according to the revised timetable.

Our aircraft maintenance and support contracts continue to perform in line with our expectations. During the period we were successful in our rebid for the RAF Cosford multi activity contract. The new contract will become operational in December 2012 and is for a further 4 years valued at £8 million.

Our support of the flypast in celebration of the Queen's Diamond Jubilee involved assuring the availability of significant numbers of Hawk and Tucano aircraft from multiple sites to enable the successful '60' and 'EIIR' formations to be flown. Our engineering effort received widespread praise.

The two joint ventures FSTA and MFTS are now both established in the operational delivery phase. We have achieved all milestones associated with the fit out of facilities at RAF Brize Norton to support FSTA. Through MFTS we are anticipating beginning the formal competition phase for the delivery of fixed wing flying training. We will be bidding into the programme with our partners BAE Systems, Pilatus and GAMA.

With our partners Bond, we have submitted our proposal to the Department of Transport for the future delivery of the UK's Search and Rescue capability. The programme is expected to be awarded in the first half of the 2013 calendar year.

Our vehicle fleet management contracts are performing well. Project Phoenix (formerly Whitefleet) has achieved full operational capability and the service roll-out programme across all sites has been agreed with the customer. As part of the contract, we provided over 100 coaches, drivers and mechanical support to the MoD during the London 2012 Olympics. This enabled the troops to deliver their support to the event and earned Babcock customer praise for our flexible and co-operative approach to delivering this critical service.

Operational review continued

We continue to focus on delivering the highest standards of training for the Army and Royal Navy. At the Royal School of Military Engineering we have successfully moved the Defence Explosive Munitions and Search School from Chatham to Bicester.

We are entering the competitive phase for the Defence College of Electro-Mechanical Engineering. Babcock has been the incumbent for both the Army and Navy for delivery of this training for over a decade and we believe our preparations for the bid leave us well placed to compete for the new service.

The new naval training contract covering 800 courses at HMS Collingwood, HMS Excellent, HMS Raleigh and at Britannia Royal Naval College Dartmouth has been implemented to plan. All the required naval training outputs have been delivered from day 1, demonstrating strong performance for our customer.

Our contract at Bovington to provide training, maintenance and support services to the Royal Armoured Corps has now been extended for a further three years through to 2016 at a value of £22 million. This leaves us well placed to support our customer with its drive to improve training delivery and will enable us to enhance the efficiency of the services we deliver.

During the summer we have seen progress in a series of significant MoD business opportunities that we have been tracking. This has included our participation in two market testing initiatives; the first, an assessment by the MoD as to the appetite of industry to purchase the Defence Support Group; and the second, a market interest assessment in the services currently delivered by the Defence Fire Risk Management Organisation. We have also seen the Minister for Defence Equipment, Support and Technology confirm the MoD's commitment to the Logistics and Commodities Services Transformation with the launch of the Assessment Phase of the programme. It is anticipated that this will conclude during the summer of 2013 and lead to a competition for the service.

In addition to tracking significant equipment and training support opportunities within the MoD, the division continues to review opportunities overseas where it can leverage its UK expertise and capabilities.

Divisional outlook

With an excellent track record of delivering operational and financial efficiencies through its current contracts, the Defence and Security division is well placed to compete for future tri-service outsourcing programmes that the MoD is progressing. In addition the division has identified further international opportunities, where it can build on its UK expertise and capabilities.

Support Services markets

For the Support Services division, the ongoing constraint on public and private sector budgets continues to provide a positive trading environment as customers seek alternative, value for money support solutions. The division's business model is based on delivering cost-effective, 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 manage delivery of key services, including the delivery of large investment programmes to upgrade or life-extend critical infrastructures and assets, 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 and Mobile Assets.

Support Services

		30 Sept 2012	30 Sept 2011	Change
Revenue	group	**£403.0m**	£355.8m	+ 13%
	jv	**£50.9m**	£29.4m	+ 73%
	total	**£453.9m**	£385.2m	+ 18%
Operating profit	group	**£35.0m**	£34.1m	+ 3%
	jv	**£7.1m**	£3.8m	+ 87%
	total	**£42.1m**	£37.9m	+ 11%
Operating margin	group	**8.7%**	9.6%	
	jv	**13.9%**	12.9%	
	total	**9.3%**	9.8%	

Financial review

Following the start-up of a number of significant contract wins during the second half of the last financial year, revenue for the division has increased by 18%. These included the Dounreay decommissioning contract (c £800 million over 10-13 years), London Fire Brigade training (c £500 million over 25 years), Devon County Council schools effectiveness (c £100 million over 7 years). In addition the division benefited from a 65% increase in revenue from the Mobile Asset business.

Operating profit increased by 11%, in part supported by growth within the Nuclear and Civil Infrastructure business units. As previously highlighted, with a number of new contracts starting during the period, the operating margin for the division reduced to 9.3%.

Operational review

The Nuclear business has seen steady progress in the civil nuclear decommissioning market as the delivery of major projects at Sellafield and Magnox enter the later detailed design and implementation phases. The Design Services Alliance contract, a potential 15 year major specialist design, engineering and safety case assessment contract that was won last year is starting to gain momentum and we are confident that this will continue in the second half of the year.

Through our major project role and our long term alliance contract we believe we are well placed to compete for other upcoming major engineering projects and services that are to be undertaken at Sellafield and the wider Nuclear Decommissioning Authority (NDA) estate.

The Babcock Dounreay Partnership consortium took over management of the Dounreay site on 1 April 2012. The contract has started well and we are now putting in place the ambitious decommissioning programme and the teams to implement it in order to achieve the accelerated end closure state. The NDA will achieve an estimated £1 billion saving to its budgets and the UK economy through this competitive process.

The Babcock Fluor Partnership (BFP) submitted the Magnox/RSRL Parent Body Organisation (PBO) competition pre-qualification questionnaire (PQQ) on 12 October. Our team brings together a wealth of international nuclear decommissioning experience, focussed on proven UK delivery, providing value for money to the taxpayer. Currently the BFP team is preparing for the next phase of the competitive dialogue process, due to start on 3 December 2012.

On 30 October 2012, we announced that we had signed an MoU to join with Hitachi Ltd to plan and deliver its new nuclear reactors in the UK following its acquisition of Horizon Nuclear Power. Under the terms of the agreement we will discuss with Hitachi how our skills and capabilities can be best used to support the delivery of Hitachi's nuclear new build programme in the UK.

We continue to bid new build work for EDF at Hinkley Point and the Babcock Boccard Partnership submitted a tender to EDF on 1 October for the Balance of Nuclear Island Mechanical Installation. This is the first stage in a two stage tender with preferred bidder announcement currently expected in the second half of the next financial year.

This team brings together the experience and competency of Boccard SA, who is designing, fabricating and installing this same mechanical installation for EDF at Flamanville 3 in France, with Babcock's workforce who have completed similar types of installation for the marine market in the UK. The team will deliver a proven supply chain solution and low risk implementation to EDF, providing value for money and on time delivery.

Babcock continues to provide specialist fuel route support to EDF's existing UK reactor fleet and we are working with them to help deliver their target of an average 7 year life extension for their AGR stations.

The Education and Training business has performed well across its range of automotive, engineering and service training contracts. The schools effectiveness contract for Surrey County Council continues to perform well. The new contracts to deliver education and inclusion support and improvement services to Devon County Council and training services to the London Fire Brigade have started well and continue to make good progress.

The business is reviewing a number of further opportunities to build on its existing contracts, particularly in the Emergency Services markets. The business has withdrawn from the Staffordshire County Council schools effectiveness competition, as the customer's requirements would have conflicted with some of our existing contracts.

The Mobile Asset business has had a strong first half. It continues to make good progress with Lafarge in North America where the contract is working well as it approaches its first anniversary. The next phase of delivery for the Aggregates and Cement businesses is expected to go live in the second half of the year. Progress also continues to be made in Europe.

Our emergency service fleet management contracts performed extremely well during the first half. We received recognition from our emergency services customers for the high level of support we provided through the Olympic and Paralympic Games. This included 24/7 support for the Metropolitan Police Service's fleet, procurement and cover of Highways Agency vehicles on Olympic routes, and providing dedicated resources to support the New Dimension vehicles and equipment that shadowed the Olympic Torch Relay.

Building on the strength of its current operations, the Mobile Asset business is engaged in outsourcing discussions on its ALCAMiE through-life support model with other organisations in the mining and construction and emergency services sectors as well as others who own and operate complex vehicle fleets.

Elsewhere in the division, we continue to experience strong demand for our high voltage overhead powerline business and we recently won the competition for the Beauly to Denny works for Scottish Power.

Our baggage handling and ground support activities at Heathrow are performing well. Our baggage handling operations worked extremely well during both the Olympics and Paralympics and were highly praised by BAA. The business is currently submitting a rebid for its existing baggage operations as well as a further bid to extend its current operations to new terminals. The business is also currently rebidding its British Airways ground support equipment contract with an announcement expected by the end of this calendar year.

The Rail business continued to perform well with good demand for its track renewal, power and signalling operations. The business is delivering excellent standards of track renewal for its customer and is Network Rail's 'Supplier of the Year'.

Divisional outlook

The pressure on our customers to deliver services within restricted budgets continues to create growth opportunities across the Support Services division's operations. The depth of our technical knowledge and experience and our track record of managing complex projects and activities cost-effectively places us in a strong position for further outsourcing.

International

		30 Sept 2012	30 Sept 2011	Change
Revenue	total	**£143.1m**	£151.5m	– 6%
Operating profit	total	**£11.1m**	£9.1m	+ 22%
Operating margin	total	**7.8%**	6.0%	

South Africa

Financial review

On a local currency basis, the South African operations have seen good growth in revenue which increased by 13% although the impact of exchange rate movement has reduced revenue by 6% for the International division as a whole. The South African operations benefited from record sales of equipment in the first half and strong demand for the crane hire business.

Operating profit increased by 22% including the effect of foreign exchange rates and by 54% excluding foreign exchange effects. This has been driven by strong margins within the crane hire operations as well as some improvement in the Volvo equipment market.

Operational review

The first half has seen strong demand for mining and construction equipment; however as slowdowns in Europe and the US impact China there is a slowing demand for South African resources. In addition, as union action within the platinum mines spreads, customers could postpone orders for new equipment. The business has already taken actions to reduce operational costs to limit the impact of a potential slowdown in the equipment market.

Eskom has continued to delay outages and planned maintenance during the winter months but we expect it to try and catch up with required maintenance works over the local summer period.

The investment in infrastructure in South Africa continues and as a result there has been strong demand for our plant hire operations. We expect this to continue during the second half of the year.

Outlook

As global economic trends begin to affect the demand for South Africa's mineral resources we may see revenue from the equipment business slow. We expect the strong demand for plant hire to offset some of this reduction and previous actions to mitigate any further financial impact.

We continue to explore a number of opportunities to develop our current businesses into new geographies and markets. In addition, we are exploring opportunities for new business streams where we can build on expertise elsewhere in the Group.

Middle East

We continue to see the Middle East as an attractive market and are focusing our business development activities on the United Arab Emirates, Kuwait and Oman. In these markets the drive for economic diversification away from oil is creating an increased focus on vocational training, in both civil and defence sectors, as well as a rising investment in education and infrastructures. This supports our belief that these markets will provide the Group with significant growth opportunities.

We continue to make good progress in pursuing these opportunities, although, as anticipated, the process is taking time. We have signed strategic partnership agreements with two local organisations to progress the opportunities we have identified. We believe these opportunities are in areas where we can exploit the capabilities across the Group, as well as our successful track record of delivery.

Peter Rogers
Group Chief Executive

Bill Tame
Group Finance Director

Income statement

For the six months ended 30 September 2012

Year ended 31 March 2012 £m		Note	£m	Six months ended 30 September 2012 £m	£m	Six months ended 30 September 2011 (restated) £m
3,070.4	**Total revenue**	2		1,556.7		1,472.0
222.0	Less: joint venture and associate revenue			106.4		88.1
2,848.4	**Group revenue**			1,450.3		1,383.9
	Group					
290.2	Operating profit before amortisation of acquired intangibles and exceptional items	2	143.8		137.7	
(77.3)	Amortisation of acquired intangibles	3	(32.4)		(38.7)	
(10.9)	Exceptional items	3	(2.6)		(4.9)	
202.0	**Group operating profit**			108.8		94.1
	Joint ventures and associates					
11.0	Share of operating profit		10.6		4.6	
25.6	Investment income		18.7		11.6	
(6.2)	Amortisation of acquired intangibles	3	(3.1)		(3.1)	
(19.4)	Finance costs		(16.8)		(10.5)	
(6.7)	Income tax (expense)/credit		(2.7)		(1.8)	
4.3	**Share of results of joint ventures and associates**			6.7		0.8
	Group and joint ventures and associates					
301.2	Operating profit before amortisation of acquired intangibles and exceptional items		154.4		142.3	
27.8	Investment income		19.6		12.9	
329.0	Underlying operating profit*	2	174.0		155.2	
(83.5)	Amortisation of acquired intangibles		(35.5)		(41.8)	
(10.9)	Exceptional items		(2.6)		(4.9)	
(2.2)	Group investment income		(0.9)		(1.3)	
(19.4)	Joint venture and associate finance costs		(16.8)		(10.5)	
(6.7)	Joint venture and associate income tax expense		(2.7)		(1.8)	
206.3	**Group operating profit plus share of joint ventures and associates**			115.5		94.9
	Finance costs					
2.2	Investment income		0.9		1.3	
(46.0)	Finance costs		(19.2)		(23.0)	
10.5	Finance income		4.7		4.6	
(33.3)				(13.6)		(17.1)
173.0	**Profit before tax**	2		101.9		77.8
(15.8)	Income tax expense	4		(10.9)		(6.7)
157.2	**Profit for the period from continuing operations**			91.0		71.1
	Discontinued operations					
(53.1)	(Loss)/profit for the year from discontinued operations attributable to owners of the parent			(17.4)		2.2
104.1	**Profit for the period**			73.6		73.3
	Attributable to:					
100.8	Owners of the parent			71.3		72.5
3.3	Non-controlling interest			2.3		0.8
104.1				73.6		73.3
	Earnings per share from continuing operations	5				
42.93p	– Basic			24.70p		19.64p
42.76p	– Diluted			24.50p		19.62p
	Earnings per share from continuing and discontinued operations	5				
28.11p	– Basic			19.86p		20.25p
28.01p	– Diluted			19.70p		20.23p

*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 2012

Year ended 31 March 2012 £m		**Six months ended 30 September 2012 £m**	Six months ended 30 September 2011 £m
104.1	Profit for the period	**73.6**	73.3
	Other comprehensive income		
(6.2)	Currency translation differences	**0.9**	(8.1)
4.3	Fair value adjustment of interest rate and foreign exchange hedges	**(0.2)**	6.3
0.5	Tax on fair value adjustment of interest rate and foreign exchange hedges	**0.1**	(0.2)
(65.1)	Fair value adjustment of joint venture and associate derivatives	**(30.4)**	(43.3)
16.9	Tax on fair value adjustment of joint venture and associate derivatives	**7.4**	11.3
(106.9)	Net actuarial loss in respect of pensions	**(71.5)**	(97.7)
27.8	Tax on net actuarial loss in respect of pensions	**17.1**	25.4
(5.7)	Impact of change in UK tax rates	**(3.5)**	(3.4)
(134.4)	**Other comprehensive income, net of tax**	**(80.1)**	(109.7)
(30.3)	**Total comprehensive loss**	**(6.5)**	(36.4)
	Total comprehensive income attributable to:		
(33.3)	Owners of the parent	**(8.3)**	(36.7)
3.0	Non-controlling interests	**1.8**	0.3
(30.3)	**Total comprehensive loss**	**(6.5)**	(36.4)

Statement of changes in equity

For the six months ended 30 September 2012

	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 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**
At 1 April 2012	**215.5**	**873.0**	**30.6**	**(160.9)**	**(41.9)**	**(4.9)**	**911.4**	**8.6**	**920.0**
Total comprehensive income	–	–	–	13.4	(23.1)	1.4	(8.3)	1.8	(6.5)
Shares issued in the period	0.7	–	–	–	–	–	0.7	–	0.7
Dividends	–	–	–	(61.0)	–	–	(61.0)	(1.4)	(62.4)
Share-based payments	–	–	–	4.6	–	–	4.6	–	4.6
Tax on share-based payments	–	–	–	3.6	–	–	3.6	–	3.6
Acquisition of non-controlling interests	–	–	–	–	–	–	–	19.8	19.8
Disposal of non-controlling interests	–	–	–	–	–	–	–	0.4	0.4
Transactions with non-controlling interests	–	–	–	(4.6)	–	–	(4.6)	(8.7)	(13.3)
Own shares and other	–	–	–	(1.3)	–	–	(1.3)	–	(1.3)
Net movement in equity	0.7	–	–	(45.3)	(23.1)	1.4	(66.3)	11.9	(54.4)
At 30 September 2012	**216.2**	**873.0**	**30.6**	**(206.2)**	**(65.0)**	**(3.5)**	**845.1**	**20.5**	**865.6**

Balance sheet

As at 30 September 2012

As at 31 March 2012 £m		Note	As at 30 September 2012 £m	As at 30 September 2011 £m
	Assets			
	Non-current assets			
1,540.9	Goodwill		**1,543.8**	1,621.7
347.2	Other intangible assets		**319.6**	434.3
213.7	Property, plant and equipment		**239.3**	216.0
19.3	Investments in joint ventures and associates	7	**2.0**	30.2
24.9	Loans to joint ventures and associates	7	**31.0**	25.4
10.2	Retirement benefits	11	**11.9**	10.3
1.8	Trade and other receivables		**1.2**	2.8
23.1	IFRIC 12 financial assets		**23.2**	25.4
20.1	Other financial assets		**24.2**	39.8
31.3	Deferred tax asset		**46.7**	18.2
2,232.5			**2,242.9**	2,424.1
	Current assets			
81.6	Inventories		**89.2**	88.1
476.9	Trade and other receivables		**514.2**	515.5
–	Income tax recoverable		**–**	2.7
3.3	Other financial assets		**5.3**	3.7
100.3	Cash and cash equivalents	10	**101.7**	122.2
662.1			**710.4**	732.2
103.0	Assets held for sale		**–**	–
2,997.6	**Total assets**		**2,953.3**	3,156.3
	Equity and liabilities			
	Equity attributable to equity holders of the parent			
215.5	Share capital		**216.2**	215.5
873.0	Share premium		**873.0**	873.0
(16.2)	Capital redemption and other reserves		**(37.9)**	(0.5)
(160.9)	Retained earnings		**(206.2)**	(160.9)
911.4			**845.1**	927.1
8.6	Non-controlling interest		**20.5**	8.2
920.0	**Total equity**		**865.6**	935.3
	Non-current liabilities			
757.3	Bank and other borrowings	10	**699.3**	822.0
8.9	Trade and other payables		**8.6**	11.8
–	Other financial liabilities		**14.6**	–
276.1	Retirement liabilities	11	**329.8**	327.7
117.2	Provisions for other liabilities		**121.0**	133.8
1,159.5			**1,173.3**	1,295.3
	Current liabilities			
4.2	Bank and other borrowings	10	**7.7**	18.8
819.5	Trade and other payables		**868.3**	854.9
10.0	Income tax payable		**1.0**	22.8
8.2	Other financial liabilities		**10.6**	4.9
27.8	Provisions for other liabilities		**26.8**	24.3
869.7			**914.4**	925.7
48.4	Liabilities held for sale		**–**	–
2,077.6	**Total liabilities**		**2,087.7**	2,221.0
2,997.6	**Total equity and liabilities**		**2,953.3**	3,156.3

Cash flow statement

For the six months ended 30 September 2012

Year ended 31 March 2012 £m		Note	Six months ended 30 September 2012 £m	Six months ended 30 September 2011 £m
	Cash flows from operating activities			
260.7	**Cash generated from operations**	8	**142.1**	157.7
(28.0)	Income tax paid		**(24.5)**	(16.3)
(47.4)	Interest paid		**(19.3)**	(25.1)
10.3	Interest received		**4.6**	5.0
195.6	**Net cash flows from operating activities**		**102.9**	121.3
	Cash flows from investing activities			
5.7	Disposal of subsidiaries, joint ventures and associates, net of cash disposed	13	**57.7**	–
6.6	Dividends received from joint ventures and associates		**0.8**	3.7
2.7	Proceeds on disposal of property, plant and equipment		**0.3**	1.5
(42.7)	Purchases of property, plant and equipment		**(21.0)**	(19.8)
(6.0)	Purchases of intangible assets		**(5.3)**	(4.0)
(2.7)	Investment in and loans to joint ventures and associates		**(5.4)**	(3.0)
(1.7)	Transactions with non-controlling interests	14	**1.3**	–
0.2	Acquisition of subsidiaries net of cash acquired	12	**(0.8)**	–
(37.9)	**Net cash flows from investing activities**		**27.6**	(21.6)
	Cash flows from financing activities			
(71.4)	Dividends paid		**(61.0)**	(50.9)
(2.0)	Finance lease principal payments		**(2.8)**	(1.0)
(305.6)	Bank loans repaid		**(65.9)**	(263.6)
251.0	Loans raised		**–**	251.0
(2.1)	Dividends paid to non-controlling interests		**(1.4)**	(1.0)
0.4	Net proceeds on issue of shares		**0.7**	–
0.2	Movement on own shares		**(1.3)**	0.4
(129.5)	**Net cash flows from financing activities**		**(131.7)**	(65.1)
28.2	**Net increase in cash, cash equivalents and bank overdrafts**		**(1.2)**	34.6
72.7	**Cash, cash equivalents and bank overdrafts at start of period**		**98.4**	72.7
(2.5)	Effects of exchange rate fluctuations		**(1.1)**	(2.6)
98.4	**Cash, cash equivalents and bank overdrafts at end of period**	10	**96.1**	104.7

Notes to the consolidated half year financial statements

For the six months ended 30 September 2012

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 2012 (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 12 (amendment), 'Income taxes'
IFRS 7 (amendment), 'Financial instruments; disclosures'

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 half year report for the six months ended 30 September 2012 was approved by the Directors on 5 November 2012. 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). The defence infrastructure business, formerly reported under Support Services, has been moved and is now reported under Defence and Security and the comparatives restated. The VT US defence business formerly included in International is now under Discontinued operations.

						Continuing operations	Discontinued operations	Total
2012	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total continuing operations £m	International £m	Group total £m
Continuing operations								
Total revenue	564.3	395.4	453.9	143.1	–	1,556.7	38.9	1,595.6
Joint venture and associate revenue	–	55.5	50.9	–	–	106.4	–	106.4
Group revenue	564.3	339.9	403.0	143.1	–	1,450.3	38.9	1,489.2
Operating profit – Group	72.5	28.7	34.6	11.1	(3.1)	143.8	1.1	144.9
IFRIC 12 investment income – Group	–	0.5	0.4	–	–	0.9	–	0.9
Share of operating profit – joint ventures and associates	–	7.6	3.0	–	–	10.6	–	10.6
Share of IFRIC 12 investment income – joint ventures and associates	–	14.6	4.1	–	–	18.7	–	18.7
Underlying operating profit	72.5	51.4	42.1	11.1	(3.1)	174.0	1.1	175.1
Share of interest - joint ventures and associates	–	(12.4)	(4.4)	–	–	(16.8)	–	(16.8)
Share of tax - joint ventures and associates	–	(2.1)	(0.6)	–	–	(2.7)	–	(2.7)
Acquired intangible amortisation – Group	(5.2)	(6.0)	(21.2)	–	–	(32.4)	–	(32.4)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.9)	(0.2)	–	–	(3.1)	–	(3.1)
Net finance costs – Group	–	–	–	–	(14.5)	(14.5)	–	(14.5)
Exceptional items	–	–	–	–	(2.6)	(2.6)	(18.2)	(20.8)
Group profit before tax	67.3	28.0	15.7	11.1	(20.2)	101.9	(17.1)	84.8

Notes to the consolidated half year financial statements continued

2. Segmental analysis (continued)

2011	Marine and Technology £m	Defence and Security (restated) £m	Support Services (restated) £m	International (restated) £m	Unallocated £m	Total continuing operations (restated) £m	International (restated) £m	Group total £m
	Continuing operations						Discontinued operations	Total
Continuing operations								
Total revenue	538.0	397.3	385.2	151.5	–	1,472.0	115.9	1,587.9
Joint venture and associate revenue	–	58.7	29.4	–	–	88.1	–	88.1
Group revenue	538.0	338.6	355.8	151.5	–	1,383.9	115.9	1,499.8
Operating profit – Group	67.4	32.5	33.7	9.1	(5.0)	137.7	6.5	144.2
IFRIC 12 investment income – Group	–	0.9	0.4	–	–	1.3	–	1.3
Share of operating profit – joint ventures and associates	–	4.0	0.6	–	–	4.6	–	4.6
Share of IFRIC 12 investment income – joint ventures and associates	–	8.4	3.2	–	–	11.6	–	11.6
Underlying operating profit	67.4	45.8	37.9	9.1	(5.0)	155.2	6.5	161.7
Share of interest - joint ventures and associates	–	(7.3)	(3.2)	–	–	(10.5)	–	(10.5)
Share of tax - joint ventures and associates	–	(1.7)	(0.1)	–	–	(1.8)	–	(1.8)
Acquired intangible amortisation – Group	(6.5)	(6.3)	(25.9)	–	–	(38.7)	(3.9)	(42.6)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.9)	(0.2)	–	–	(3.1)	–	(3.1)
Net finance costs – Group	–	–	–	–	(18.4)	(18.4)	–	(18.4)
Exceptional items	–	–	–	–	(4.9)	(4.9)	–	(4.9)
Group profit before tax	60.9	27.6	8.5	9.1	(28.3)	77.8	2.6	80.4

3. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	Six months ended 30 September 2012 £m	Six months ended 30 September 2011 £m	**Six months ended 30 September 2012 £m**	Six months ended 30 September 2011 £m	**Six months ended 30 September 2012 £m**	Six months ended 30 September 2011 £m
Continuing operations						
Reorganisation and rationalisation costs	**2.6**	4.9	**–**	–	**2.6**	4.9
Exceptional items	**2.6**	4.9	**–**	–	**2.6**	4.9
Acquired intangible amortisation	**32.4**	38.7	**3.1**	3.1	**35.5**	41.8
Continuing operations	**35.0**	43.6	**3.1**	3.1	**38.1**	46.7
Discontinued operations						
Acquired intangible amortisation	**–**	3.9	**–**	–	**–**	3.9
Loss on disposal of subsidiaries	**18.2**	–	**–**	–	**18.2**	–
Discontinued total	**18.2**	3.9	**–**	–	**18.2**	3.9

Exceptional items are those items which are exceptional in nature or size.

Loss on disposal of subsidiaries relates to the VT US disposal. £5 million reflects recycling of exchange rate fluctuations from date of acquisition to completion of sale. The balance relates to movement in the disposal balance sheet and provision for other disposal costs.

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 £1.3 million (2011: £2.7 million) exceptional tax credit arose on the change in UK tax rates.

Notes to the consolidated half year financial statements continued

4. Income taxes

The charge for taxation has been based on the estimated effective tax rate of18.1% on profit before amortisation of acquired intangibles and exceptional items for the full year ended 31 March 2013, together with a prior year credit of £1.6 million. (For September 2011, the charge for tax was based on an estimated effective tax rate of 19% for the full year ended 31 March 2012). An additional tax credit of £8.5 million relates to acquired intangible amortisation of which £0.7 million is included in share of profit from joint ventures and associates; and a further tax credit of £0.6 million relates to exceptional items.

5. Earnings per share

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

	Six months ended 30 September 2012	Six months ended 30 September 2011
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	358,740,182	358,456,519
Effect of dilutive potential ordinary shares: share options	3,004,109	398,320
Weighted average number of ordinary shares for the purpose of diluted EPS	361,744,291	358,854,839

Earnings

	Six months ended 30 September 2012			Six months ended 30 September 2011		
	Earnings £m	Basic per share pence	Diluted per share pence	Earnings £m	Basic per share pence	Diluted per share pence
Continuing operations						
Earnings from continuing operations	88.7	24.70	24.50	70.3	19.64	19.62
Add back:						
Amortisation of acquired intangible assets, net of tax	27.0	7.52	7.46	30.9	8.62	8.61
Exceptional items and other, net of tax	1.9	0.54	0.54	3.6	1.01	1.01
Impact of change in UK tax rate	(1.3)	(0.36)	(0.36)	(2.7)	(0.75)	(0.75)
Earnings before discontinued operations, amortisation, exceptional items and other	116.3	32.40	32.14	102.1	28.52	28.49
Discontinued operations						
Earnings from discontinued operations	(17.4)	(4.84)	(4.80)	2.2	0.61	0.61
Add back:						
Amortisation of acquired intangible assets, net of tax	–	–	–	2.4	0.66	0.66
Exceptional items and other, net of tax	18.2	5.06	5.00	–	–	–
Earnings from discontinued operations before amortisation, exceptional items and other	0.8	0.22	0.20	4.6	1.27	1.27
Continuing and discontinued operations						
Earnings from continuing and discontinued operations	71.3	19.86	19.70	72.5	20.25	20.23
Add back:						
Amortisation of acquired intangible assets, net of tax	27.0	7.52	7.46	33.3	9.28	9.27
Exceptional items and other, net of tax	20.1	5.60	5.54	3.6	1.01	1.01
Impact of change in UK tax rate	(1.3)	(0.36)	(0.36)	(2.7)	(0.75)	(0.75)
Earnings before amortisation, exceptional items and other	117.1	32.62	32.34	106.7	29.79	29.76

6. Dividends

An interim dividend of 6.30 pence per 60 pence ordinary share (2011: 5.70 pence per 60 pence ordinary share) was declared after the balance sheet date and will be paid on 11 January 2013 to shareholders registered on 14 December 2012.

Notes to the consolidated half year financial statements continued

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 2012 £m	Six months ended 30 September 2011 £m	**Six months ended 30 September 2012 £m**	Six months ended 30 September 2011 £m	**Six months ended 30 September 2012 £m**	Six months ended 30 September 2011 £m
At 1 April	**19.3**	64.9	**24.9**	22.1	**44.2**	87.0
Investments in joint ventures and associates	**(0.2)**	0.2	**–**	–	**(0.2)**	0.2
Loans to/(repayments from) joint ventures and associates	**–**	–	**7.6**	3.4	**7.6**	3.4
Share of profits	**6.7**	0.8	**–**	–	**6.7**	0.8
Dividends received	**(0.8)**	(3.7)	**–**	–	**(0.8)**	(3.7)
Interest accrued	**–**	–	**0.5**	0.5	**0.5**	0.5
Interest received	**–**	–	**(2.0)**	(0.6)	**(2.0)**	(0.6)
Fair value adjustment of derivatives	**(30.4)**	(43.3)	**–**	–	**(30.4)**	(43.3)
Tax on fair value adjustment of derivative	**7.4**	11.3	**–**	–	**7.4**	11.3
Total	**2.0**	30.2	**31.0**	25.4	**33.0**	55.6

8. Reconciliation of operating profit to cash generated from operations

Year ended 31 March 2012 £m		**Six months ended 30 September 2012 £m**	Six months ended 30 September 2011 £m
	Cash flows from operating activities		
290.2	Operating profit before amortisation of acquired intangibles and exceptional items	**143.8**	137.7
(88.2)	Amortisation of acquired intangibles and exceptional items	**(35.0)**	(43.6)
(53.1)	(Loss)/profit from discontinued operations	**(17.4)**	2.2
1.3	Tax on (loss)/profit from discontinued operations	**0.3**	0.4
150.2	**Operating profit**	**91.7**	96.7
33.6	Depreciation of property, plant and equipment	**18.7**	16.5
90.3	Amortisation of intangible assets	**34.8**	44.4
2.2	Investment income	**0.9**	1.3
5.0	Equity share-based payments	**4.6**	2.5
(1.9)	Loss/(profit) on disposal of subsidiaries	**18.2**	–
58.5	Impairment of goodwill	**–**	–
(0.8)	Profit on disposal of property, plant and equipment	**(0.2)**	(0.2)
0.2	Loss on disposal of intangible assets	**–**	–
337.3	**Operating cash flows before movement in working capital**	**168.7**	161.2
8.6	(Increase)/decrease in inventories	**(11.6)**	0.3
23.3	(Increase)/decrease in receivables	**(42.2)**	16.8
(26.4)	Increase/(decrease) in payables	**54.0**	(8.8)
(16.0)	Decrease in provisions	**(7.2)**	(6.3)
(66.1)	Retirement benefit payments in excess of income statement	**(19.6)**	(5.5)
260.7	**Cash generated from operations**	**142.1**	157.7

Notes to the consolidated half year financial statements continued

9. Movement in net debt

Year ended 31 March 2012 £m		Six months ended 30 September 2012 £m	Six months ended 30 September 2011 £m
28.2	(Decrease)/increase in cash in the period	**(1.2)**	34.6
56.6	Cash flow from the decrease in debt and lease financing	**68.6**	13.6
84.8	Change in net funds resulting from cash flows	**67.4**	48.2
–	Loans and finance leases acquired with subsidiaries	**(6.3)**	–
3.1	Foreign currency translation differences and other	**(1.1)**	2.0
87.9	Movement in net debt in the period	**60.0**	50.2
(729.0)	Net debt at the beginning of the period	**(641.1)**	(729.0)
(641.1)	Net debt at the end of the period	**(581.1)**	(678.8)

10. Changes in net debt

	At 1 April 2012 £m	Cash flow £m	Acquisitions and disposals £m	Exchange movement /other £m	At 30 September 2012 £m
Cash and bank balances	100.3	1.9	1.2	(1.7)	**101.7**
Bank overdrafts	(1.9)	(4.3)	–	0.6	**(5.6)**
Cash, cash equivalents and bank overdrafts at end of period	98.4	(2.4)	1.2	(1.1)	**96.1**
Debt	(757.8)	65.9	-	(4.2)	**(696.1)**
Finance leases	(1.8)	2.7	(6.3)	0.1	**(5.3)**
	(759.6)	68.6	(6.3)	(4.1)	**(701.4)**
Net debt before derivatives	(661.2)	66.2	(5.1)	(5.2)	**(605.3)**
Net debt derivative	20.1	–	–	4.1	**24.2**
Net debt including derivative	(641.1)	66.2	(5.1)	(1.1)	**(581.1)**

11. Pensions

Analysis of movement in the balance sheet

	Six months ended 30 September 2012 £m	Six months ended 30 September 2011 £m
Fair value of plan assets		
At 1 April	**2,782.7**	2,579.9
Transfers in	**3.9**	–
Expected return	**84.2**	86.0
Actuarial loss	**(6.6)**	(158.1)
Change in reimbursement rights	**52.6**	13.6
Employer contributions	**26.4**	15.0
Employee contributions	**2.5**	3.0
Benefits paid	**(68.8)**	(66.7)
Exchange differences	**–**	0.1
At 30 September	**2,876.9**	2,472.8
Present value of benefit obligations		
At 1 April	**3,039.9**	2,794.6
Transfers in	**3.9**	–
Service cost	**22.5**	22.7
Interest cost	**68.6**	72.8
Employee contributions	**2.5**	3.0
Actuarial loss/(gain)	**126.1**	(45.6)
Benefits paid	**(68.8)**	(66.7)
Exchange differences	**–**	0.1
At 30 September	**3,194.7**	2,780.9
Present value of unfunded obligations	**(0.1)**	(0.1)
IFRIC 14 adjustment	**–**	(9.2)
Net deficit at 30 September	**(317.9)**	(317.4)
Net deficit at 31 March 2012	(265.9)	(225.1)

Analysis of charge to income statement

	Six months ended 30 September 2012 £m	Six months ended 30 September 2011 £m
Current service cost	**(22.5)**	(22.7)
Interest on obligations	**(68.6)**	(72.8)
Expected return on plan assets	**84.2**	86.0
Total included within operating profit	**(6.9)**	(9.5)

As at 30 September 2012 the key assumptions used in valuing pension liabilities were:

Discount rate	4.4% (31 March 2012: 4.8%)
Inflation rate	2.2% (31 March 2012: 2.7%)

12. Acquisition

On 1 June 2012 the Group acquired a controlling interest of 52% of Target Cranes (Pty) Limited (Target Cranes) a company based in South Africa involved in the rental of mobile cranes. The transaction was made via an exchange of shares and with Target also acquiring the assets and liabilities of the Plant division of Babcock Africa.

The goodwill arising on the acquisition derives from the market position of the entities involved.

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

	Target Cranes £m	Other £m	**Total £m**
Cost of acquisition			
Cash paid	–	2.0	**2.0**
Deemed consideration	19.8	–	**19.8**
Purchase consideration	19.8	2.0	**21.8**
Fair value of assets acquired (see below)	16.7	2.0	**18.7**
Goodwill	3.1	–	**3.1**

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

	Target Cranes		Other		**Total**	
	Book value of assets acquired £m	Provisional fair value acquired £m	Book value of assets acquired £m	Provisional fair value acquired £m	**Book value of assets acquired £m**	**Provisional fair value acquired £m**
Acquired intangibles*	–	–	–	2.0	**–**	**2.0**
Property, plant and equipment	23.3	25.6	–	–	**23.3**	**25.6**
Deferred tax	(4.6)	(5.5)	–	–	**(4.6)**	**(5.5)**
Income tax	0.1	(0.2)	–	–	**0.1**	**(0.2)**
Cash, cash equivalents and bank overdrafts	1.2	1.2	–	–	**1.2**	**1.2**
Finance leases	(6.3)	(6.3)	–	–	**(6.3)**	**(6.3)**
Inventory	0.1	0.1	–	–	**0.1**	**0.1**
Current assets	3.0	2.3	–	–	**3.0**	**2.3**
Current and non current liabilities	(0.5)	(0.5)	–	–	**(0.5)**	**(0.5)**
Net assets acquired	16.3	16.7	–	2.0	**16.3**	**18.7**

* Acquired intangibles represents customer relationships which are in part contracted (order book) and in part non contracted.

Cash outflow to acquire business net of cash acquired:

	Target Cranes £m	Other £m	**Total £m**
Purchase consideration paid in cash	–	2.0	**2.0**
Cash, cash equivalents and bank overdrafts acquired	(1.2)	–	**(1.2)**
Cash outflow/(inflow) in period	(1.2)	2.0	**0.8**

The revenue and operating profit of Target Cranes since the date of acquisition and as if they had been acquired on 1 April 2012 are:

	Since date of acquisition £m	For full six months £m
Revenue	4.6	6.8
Operating profit	1.3	1.9

13. Disposals

In July 2012 the Group completed the disposal of its holding in VT Services Inc (the US defence business), the net assets of which had been disclosed as held for sale at 31 March 2012.

Details of final assets disposed of are as follows:

	VT Services Inc. £m
Held for sale assets and liabilities	62.2
Cash, cash equivalents and bank overdrafts	2.6
Non-controlling interest	0.4
Translation adjustments recycled from translation reserve	4.9
Assets sold	70.1
Other disposal costs	8.9
Sale proceeds	(60.8)
Loss on disposal of subsidiaries	**18.2**

Costs of £0.5 million have been settled since the completion date.

Included in the results to September 2011 is revenue of £6.2 million and operating profit of £1.1 million relating to Babcock Eagleton Inc, which was sold in December 2011.

14. Transactions with non-controlling interests

The following are the transactions for the period:

	Increase/ (decrease) in retained earnings £m	Increase/ (decrease) in non-controlling interests £m	Cash outflow/ (inflow) £m
Following the acquisition of Target Cranes, a further 12.4% of shares were purchased, in cash, from the non-controlling interest for £5.1 million. This resulted in a net gain on non-controlling interest of £4.0 million.	4.0	(9.1)	5.1
Following the acquisition of Target Cranes, an agreement was reached for a Put Option providing certain non-controlling interest shareholders the right to force the Group to purchase further shares. The option exercise price is a multiple of EBITDA. The Put Option liability is shown as non current Other financial liabilities on the balance sheet.	(14.6)	–	–
The non-controlling interest in one of the Group's subsidiaries has been acquired with the vendor paying £6.4 million.	6.0	0.4	(6.4)
Transactions with non-controlling interests	(4.6)	(8.7)	(1.3)

15. Related party transactions

Related party transactions in the half year to 30 September 2012 are; sales to joint ventures and associates amounting to £130.7 million (2011: £92.3 million), purchases from joint ventures and associates amounting to £19.9 million (2011: £27.6 million) and sales to companies with common directors amounting to £4.7 million (2011: £5.4 million).

16. 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 2012 were approved by the Board on 14 May 2012 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 Directors consider that the principal risks and uncertainties affecting the Group remain unchanged from those described in the 2012 Annual Report and are those arising from: reliance on large contracts with a relatively limited number of major clients, including clients affected by political and public spending decisions; operations carrying significant health, safety and environmental risks; the need for experienced management resource and skilled employees, who can sometimes be in short supply; IT and cyber-security risks; and the risk of exposure to significant defined benefit pension schemes. These risks, and mitigating actions taken in respect of them, are explained and described in more detail on pages 40 to 43 of the 2012 Annual Report, a copy of which is available at www.babcockinternational.com. This half year report also includes comments on the outlook for the Group for the remaining six months of the financial year.

The Directors have considered the Financial Reporting Council's guidance to heightened country and currency risk in interim financial reports but the Group is not directly exposed to significant overseas sovereign and currency risks, although it is exposed indirectly to increased counter party risk. The Group attempts to mitigate risk by counter party monitoring and the avoidance of concentrations of counter party risk. The significant Group risks remain those referred to above.

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

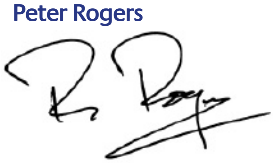
This half-year report is the responsibility of the Directors who confirm that, to the best of their knowledge

- 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 interim management report herein includes a fair review of the information required by
  - Rule 4.2.7 of the Disclosure and Transparency Rules (indication of the important events during the first six months, and their impact on the condensed set of financial statements, and a description of principal risks and uncertainties for the remaining six months of the year) and
  - Rule 4.2.8. of the Disclosure and Transparency Rules (disclosure of related parties' transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the entity during that period; and any changes in the related parties transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.).

The names and functions of each of the Directors of Babcock International Group PLC are as listed in its 2012 Annual Report, save that, since its publication, Anna Stewart has joined the board as a Non-Executive Director with effect from 1 November 2012. A copy of the Annual Report can be found, and a list of current Directors is maintained, on the Group's website: www.babcockinternational.com.

Approved by the Board and signed on its behalf by

Peter Rogers



Group Chief Executive

Bill Tame

Group Finance Director

5 November 2012

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babcock