

# Delivering engineering excellence.



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## Financial highlights

	September 2010 (unaudited)	September 2009 (unaudited)	Change
<b>Underlying</b>			
Revenue*	<b>£1,221.2m</b>	£934.9m	+ 31%
Operating profit**	<b>£113.7m</b>	£82.4m	+ 38%
Profit before tax***	<b>£90.9m</b>	£71.8m	+ 27%
Continuing earnings per share****	<b>24.56p</b>	24.97p	- 2%
<b>Statutory</b>			
Revenue	<b>£1,182.0m</b>	£923.0m	+ 28%
Operating profit	<b>£58.7m</b>	£76.1m	- 23%
Profit before tax	<b>£41.1m</b>	£66.1m	- 38%
Continuing earnings per share	<b>11.48p</b>	23.17p	- 50%

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

\*\*Underlying operating profit includes IFRIC 12 investment income and joint venture operating profit but is before amortisation of acquired intangibles of £30.6 million (2009: £5.7 million) and operating profit exceptional items of £17.0 million (2009: £nil)

\*\*\*Underlying profit before tax is inclusive of pre-tax joint venture income but before amortisation of acquired intangibles of £31.6 million (2009: £5.7 million), exceptional items and other of £18.3 million (2009: £nil)

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## Highlights

**Acquisition of VT Group plc drives further strong underlying revenue and profit growth – new divisional structure in place and integration proceeding to plan**

**Underlying operating margin of 9.3%**

**Excellent cash generation and financial position – net debt £796 million – ahead of VT acquisition plan, net debt to ebitda 2.8 times**

**Interim dividend increased by 8% to 5.20p reflecting confidence in enlarged Group performance and prospects**

**Strong order book maintained at around £12 billion with healthy bid pipeline of around £5 billion**

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**“The first half of this year was a momentous period for Babcock. We completed the acquisition of VT Group and thereby established ourselves as the UK’s leading engineering support services company. VT has been integrated smoothly and rapidly into Babcock’s existing business to create a powerful springboard for future growth.**

**The enlarged group’s operations have a proven track record of substantially reducing costs for our customers while improving quality of service. These attributes leave us well positioned to meet our customers’ need for cost-efficiency and reliability, and to maintain our strong track record of increasing shareholder value.”**

Peter Rogers, Chief Executive

## Introduction

During the first half the Group has continued to make strong progress, benefiting from the acquisition of VT Group plc (VT), as well as a good ongoing performance from the existing Babcock businesses. The Group’s financial position remains secure and a strong focus on cash generation has reduced net debt to below the level expected at the time of the acquisition. The order book is stable at around £12 billion and the pipeline of opportunities currently being bid has remained healthy at £5 billion.

The acquisition of VT, completed during the first half, fulfilled our strategy to become the leading engineering support services company in the UK and has strengthened our positions in our principal markets. By bringing together two complementary businesses we have broadened our range of skills and capabilities enabling us to work in closer partnership with our customers.

Following completion of the acquisition the Group has been reorganised into four new reporting divisions to reflect the key markets and business streams of the Group. The new structure has been adopted in this report. We are currently undertaking a review of our business portfolio as part of the strategic planning process which may lead to further changes to the structure. The Waste operation is considered not to be a strategic growth opportunity for the Group and exit options are being reviewed.

The Comprehensive Spending Review (CSR) and the UK Strategic Defence and Security Review (SDSR) have now been completed and published. We welcome the resolution of the uncertainty that surrounded a number of projects with which we are involved. Consultation with the government is ongoing but we have already identified a number of opportunities where savings can be achieved on existing contracts as well as through new outsourcing initiatives.

We believe our ability to offer a broad range of through-life or end-to-end services and our track record of delivering cost efficient solutions will present significant additional opportunities for the Group in the medium to long-term in both 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 from continuing operations, before amortisation of acquired intangibles, exceptional items and other. Revenue, operating profit, operating margins and net finance costs also include the Group’s share of equity accounted joint ventures (jv). Operating profit and operating margin include investment income arising under IFRIC 12 (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. A reconciliation of statutory to underlying results is set out below. We feel that the underlying figures aid comparison and understanding of Group financial performance.*

The financial results of the Group for the six months to 30 September 2010 include the trading results of the former VT businesses from the date of acquisition of 8 July 2010. Results for the six months to 30 September 2009, included for comparison purposes, are those of Babcock only without any contribution from the VT businesses.

### Income statement

Total revenue (including the Group’s share of equity accounted joint ventures) for the period was up 31% to £1,221.2 million (2009: £934.9 million), including £255.7 million from VT. Marine revenue increased by 8% to £502.4 million (2009: £464.0 million), with strong performance from overseas operations and higher activity levels in warships as well as £10 million from former VT activities. The Defence and Security division generated revenue of £154.9 million (2009: £41.6 million) with revenues from Future Strategic Tanker Aircraft and Military Flying Training Systems benefitting from the hangar facilities construction phases nearing completion. VT acquired revenue in this division was £103.0 million. Revenue in Support Services at £391.7 million (2009: £341.5 million) included £81.6 million from VT with Critical Assets and Education and Training performing strongly. Revenue from International businesses increased by £84.4 million to £172.2 million (2009: £87.8 million), including £61.5 million from VT businesses, with African operations benefitting significantly from the recovery in the South African mining sector.

Operating profit increased by 38% to £113.7 million (2009: £82.4 million), including a £27 million contribution from the VT businesses and represented an operating margin of 9.3%, up from 8.8% last year. Margin improvements in Defence and Security to 15.2% (2009: 9.9%) and Support Services to 6.6% (2009: 5.8%) were diluted by decreases in Marine to 11.9% (2009: 12.0%) and in International to 5.7% (2009: 7.2%) with the addition of the lower margin VT US business.

Amortisation of intangible assets increased significantly to £30.6 million (2009: £5.7 million) following the capitalisation of intangibles arising on the acquisition of VT of £464.9 million.

Similarly, exceptional items totalling net £17.0 million (2009: £nil) were incurred during the period, principally in respect of the acquisition and integration of VT. An analysis of exceptional costs and income is set out at note 3 to the half year financial statements.

After amortisation, exceptional items and other operating profit was £58.7 million (2009: £76.1 million).

Net finance costs including the Group’s share of interest costs in joint ventures were £22.8 million (2009: £10.6 million) on net debt which increased by £494 million from 31 March 2010 following the acquisition of VT in July. Net debt, excluding joint venture debt, was £796 million at 30 September 2010 compared to £302 million at 31 March 2010.

## Financial review continued

## Statutory to underlying reconciliation

	Statutory £m	Revenue from joint ventures £m	Operating profit £m	Interest cost £m	Tax £m	IFRIC 12 income £m	Amortisation £m	Exceptional items £m	Underlying £m
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	0.0		(2.6)	4.5	(0.1)	(4.1)	1.0	1.3	0.0
Investment income	0.7					(0.7)			0.0
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)				(0.6)		(8.8)	(2.7)	(18.6)
Profit after tax	34.6	-	-	-	(0.7)	-	22.8	15.6	72.3

Underlying profit before tax was £90.9 million (2009: £71.8 million). Income tax expense based on an effective rate of tax of 20.5% (2009: 19%) was £18.6 million on underlying profit before tax, or £6.5 million after tax credits arising on amortisation, exceptional items and other. Statutory profit after tax was therefore £34.6 million (2009: £54.0 million). Based on a weighted average number of shares in issue during the period, basic underlying earnings per share was 24.56 pence (2009: 24.97 pence). Basic earnings per share, after amortisation of acquired intangibles, exceptional items and other, was 11.48 pence (2009: 23.17 pence).

## Cash flow and net debt

The Group's cash flow was particularly strong during the period with cash generated from operations of £143.3 million (2009: £86.4 million). This represented a cash flow conversion rate (the ratio of cash flow from operations to operating profit) of 189% (2009: 114%). Cash flow benefited from payments received in advance of revenue, which were higher than anticipated and from lower than planned capital expenditure, some of which will reverse in the second half of the financial year.

The strong cash performance reduced net debt significantly from the date of acquisition of VT to £796 million on 30 September 2010, which brought the key leverage ratio of net debt to ebitda to 2.8 times, substantially better than our acquisition planning assumptions.

## Acquisition of VT Group plc

The Group acquired VT on 8 July 2010 for a total cost of £1.5 billion financed by the issue of 128.7 million Babcock ordinary shares and cash. An analysis of the price paid and net assets acquired is set out in note 12 to the half year financial statements.

The cash element of the consideration was sourced from the existing £600 million bank revolving credit facility and a new £400 million bridge finance facility. Total facilities available to the Group are £1.1 billion including US Private Placement loan notes of £100 million. Debt maturities are as follows:

- Revolving Credit Facility £600 million 2012
- Bridge Facility £400 million October 2011
- US Private Placement £100 million 2017/2020

We expect to refinance before the end of this financial year.

Integration of the former VT businesses into Babcock is progressing well. Merger benefits identified at the time of the acquisition were £50 million per annum (pre-tax) plus £8 million (post-tax) of financial efficiencies. Our current estimates indicate that we will achieve an annualised runrate of £11.0 million in annualised merger benefits by 31 March 2011, in line with our planning assumptions. Annualised financial efficiencies of £8 million will be delivered in full by 31 March 2011. Costs of integration and synergy realisation were estimated at the time of acquisition at £45 million. As at 30 September 2010 £7.5 million had been expensed to the Income statement within exceptional costs and an analysis of these can be found at note 3 to the half year financial statements.

## Interim dividend

The Board's confidence in the enlarged Group's performance and prospects is reflected in its approval of the payment of an interim dividend of 5.20 pence per share (2009: 4.8 pence) an increase of 8%. This will be paid on 14 January 2011 to shareholders on the register at 17 December 2010.

## Pensions

IAS 19 pension fund pre-deferred tax deficits at 30 September 2010 totalled £356.4 million (31 March 2010: £324.0 million) which includes deficits of £54 million relating to former VT pension schemes. Plan assets at 30 September were £2.47 billion (March 2010: £1.98 billion) and plan liabilities £2.83 billion (March 2010: £2.30 billion).

The discount rate applied in valuing scheme liabilities decreased further in the six months to 30 September to 5.0% (March 2010: 5.5%) in line with the fall in yields on AA corporate bonds. The negative effect of this on liabilities has been partially offset by a corresponding decrease in the estimated future inflation rate from 3.4% to 2.8%. For those schemes where pension inflation is linked to a general inflation index and as a result of the UK Government's move to the use of the Consumer Prices Index (CPI) from the Retail Prices Index (RPI) for public sector pension schemes, a number of the Group's IAS 19 valuations have now adopted CPI in place of RPI, which has also reduced liabilities relative to March 2010.

Cash payments into Group pension schemes in the six months to 30 September totalled £21.3 million, including £3.9 million to former VT schemes. Cash payments for the 12 months to 31 March 2011 are expected to be £48 million.

## Operational review

### Marine

		30 September 2010	30 September 2009
Revenue	total	<b>£502.4m</b>	£464.0m
Operating profit	total	<b>£59.6m</b>	£55.9m
Operating margin	total	<b>11.9%</b>	12.0%

The Marine division has been largely unaffected by the acquisition of VT with only the New Zealand naval base, submarine communication and Astute training contracts now additionally included in the divisional results. In total these contracts account for less than 5% of annual divisional revenue.

The division has continued to perform strongly across all its business streams benefiting from its position as the Royal Navy's key support partner.

We welcome the commitment in the SDSR to complete the building of the two new aircraft carriers HMS Queen Elizabeth and HMS Prince of Wales, and to confirm the UK's commitment to a submarine launched deterrent. These decisions have removed potential uncertainties relating to future business.

As the Royal Navy's major warship refit partner we continue to benefit from the long-term programme of scheduled refit work. The announcement that the surface fleet will be reduced from 23 to 19 frigates and destroyers and that some vessels may be put in 'extended readiness' could have some limited impact on future refit revenues. However, we believe there could be upside benefit from refitting vessels prior to possible overseas sale.

The submarine programme has been unaffected by the SDSR with a commitment to build seven Astute class submarines and the unique infrastructures within the division are vital for the ongoing support for the submarine fleet. The division's current involvement in the future deterrent programme is limited and will be largely unaffected by the announcement to delay the programme. We expect our role to increase as detailed design work starts later this year. In addition, we continue to work on the Vanguard class life extension project which, following publication of SDSR, is now expected to include three additional Long Overhaul Periods at a cost, estimated by the Secretary of State for Defence, to be in the order of £1.3 billion.

The Royal Navy has confirmed that both naval bases at Devonport and Clyde will be retained. Under the Terms of Business Agreement (ToBA) we will continue to seek efficiencies through our management and waterfront support contracts at both sites.

Our international submarine support presence continues to develop. In Canada, the extended docking work period on HMCS Chicoutimi is progressing well. In Australia, South Korea and Spain we continue to develop our presence on new programmes by leveraging from our weapons handling systems expertise and our wider maritime support capabilities in the UK.

The naval support markets in which we operate are robust and the strength of our reputation and the expertise within our business provide us with opportunities for growth both in the UK and overseas. The division benefits from excellent long-term visibility, through existing orders and the scheduled programme of maintenance and refits across the UK fleet. In addition, the division is in a strong position from which to benefit as the MoD and Royal Navy explore and implement the detail of the SDSR.

### Defence and Security

		30 September 2010	30 September 2009
Revenue	group	<b>£130.1m</b>	£36.4m
	jv	<b>£24.8m</b>	£5.2m
	total	<b>£154.9m</b>	£41.6m
Operating profit	group	<b>£18.1m</b>	£3.7m
	jv	<b>£5.5m</b>	£0.4m
	total	<b>£23.6m</b>	£4.1m
Operating margin	group	<b>13.9%</b>	10.2%
	jv	<b>22.2%</b>	7.7%
	total	<b>15.2%</b>	9.9%

The Defence and Security division is a combination of the VT Defence division and Babcock's Defence division excluding the Infrastructure Services and Airport business units which are now included in the Support Services division. Therefore the comparative results for 2009 relate only to the Babcock Defence Services business unit and the Royal School of Military Engineering (RSME) contract.

During the period there has been little change to market conditions for the division. Its major customer, the MoD, continues to seek the most cost efficient support solutions as it focuses limited resource on front line operations.

The SDSR highlighted no significant areas where there would be any immediate adverse impact on the division's operations. We await the detail of the review but have already identified a number of areas where we can assist the MoD in driving efficiencies as they seek to rationalise their estate, equipment support and training provision.

The division's joint ventures continue to perform in line with expectations. In both the Future Strategic Tanker Aircraft (FSTA) programme and the UK Military Flying Training System (UKMFTS) projects, our role as provider of services during the construction and mobilisation phases of the hangar facilities will move towards completion during this financial year. As anticipated, the division's 2010/11 results will benefit significantly from this phase of the contract. However our margins on these projects will reduce quite materially as we move into the operational phase in the 2011/12 financial year.

Elsewhere in the division, rebids are progressing well on contracts we expected to be relet during the next calendar year. Following the SDSR there could be extensions to some of these contracts as the MoD considers alternative solutions. We believe our broad range of capabilities and the scale of our operations places us in a strong position from which to benefit from these changes.

## Operational review continued

We continue to deliver high standards of training for the Army at RSME and at Bordon and Arborfield for the Royal Electrical and Mechanical Engineers as well as for the Royal Navy through the Flagship contract. As the largest provider of military training in the UK, the cancellation of DTR 1 will enable us to pursue a number of opportunities we have already identified where we can assist the MoD to deliver significant long-term efficiencies in its training programmes.

The airfield and operational support contracts continue to perform well achieving both their operational KPIs and anticipated financial performance.

Integration across the division is now well advanced. New organisational structures are in place which has resulted in a rationalisation of divisional offices and facilities. As part of the integration process, in line with the approach outlined in the SDSR, we are looking at a number of ways in which our presence and track record of working with all three armed forces can be used to deliver broader and more cost efficient long-term solutions for our major customer as well as the targeted acquisition synergy savings.

We believe the market for the division remains healthy and we are confident that there will be a number of significant growth opportunities in the medium to long-term.

## Support Services

		30 September 2010	30 September 2009
Revenue	group	<b>£377.3m</b>	£334.8m
	jv	<b>£14.4m</b>	£6.7m
	total	<b>£391.7m</b>	£341.5m
Operating profit	group	<b>£24.5m</b>	£19.6m
	jv	<b>£1.2m</b>	£0.3m
	total	<b>£25.7m</b>	£19.9m
Operating margin	group	<b>6.5%</b>	5.9%
	jv	<b>8.3%</b>	4.5%
	total	<b>6.6%</b>	5.8%

The Support Services division provides technical expertise to support and manage a range of critical assets and infrastructures and is the UK's largest provider of vocational training and school improvement services. The division is also responsible for managing the Group's regional Prime contracts for Defence Estates.

During the first half the markets across the division have been broadly stable as the current economic climate continues to constrain both public and private sector budgets. The CSR was broadly positive for the division and highlighted a number of areas in which we operate, where spending will be protected or prioritised focusing on achieving greater efficiencies or improvements in services.

In the civil nuclear market spending on decommissioning activities remains flat and revenue growth has been limited. However, the requirement to decommission and clean up the UK's redundant nuclear sites has not changed. As a result of the CSR, we welcome the Nuclear Decommissioning Authority's undertaking to deliver a significant programme of reform to achieve savings and drive efficiencies. We are well positioned at Sellafield and Dounreay to support this programme.

The Education and Training business unit performed well, achieving significantly improved standards on a number of contracts. Provisional educational results confirm that Surrey schools continue to perform well above the national average at all key stages and that Waltham Forest achieved the highest ever increase in Key Stage 4 results, and exceeded the national average for the first time in key stage 2. The engineering apprentice training business achieved Grade 1 ratings across all elements in a recent OFSTED inspection, a level achieved by very few other private training providers. As part of the CSR the government announced an increase of £250 million a year by 2014/15 for adult apprenticeships to support its drive to create a skilled workforce delivering economic growth and productivity. We are market leaders in this field and continue to pursue a number of opportunities where we can transfer our training expertise to new customers both in the UK and overseas.

Our vehicle asset management contracts for the Metropolitan Police, British Airways and the Department for Communities and Local Government (New Dimensions) also performed well and delivered significant savings and improved availability for our customers. We believe there are a number of opportunities where we can deliver a broader range of services to existing customers or provide similar services to new customers in this market. As part of the CSR Police funding will be reduced and savings and efficiencies will need to be made in support functions so that limited resources can be focused on front-line services.

In the power transmission business, the framework contract with UK Power Networks (formerly EDF) has been extended by five years and the business has won its first three year framework contract with Central Networks. Over their time frames, these contracts are estimated to be worth around £100 million and £30 million respectively.

The existing Regional Prime contracts were unaffected by the SDSR. There has been limited growth in these contracts ahead of the SDSR although we are now starting to see some additional work coming through. The division is well placed as the MoD seeks to rationalise its estate and management organisations such as Defence Estates (DE) and Defence Equipment and Support (DE&S).

Integration across the division is proceeding smoothly and a number of opportunities have been identified where we can use the increased breadth of capabilities within the new division to help provide through-life support or end-to-end services for public and private sector customers.

We remain confident in the long-term growth prospects for the division. Supported by positive outcomes from both the SDSR and CSR we believe there are significant opportunities in the markets in which we operate.

## International

		30 September 2010	30 September 2009
Revenue	total	<b>£172.2m</b>	£87.8m
Operating profit	total	<b>£9.8m</b>	£6.3m
Operating margin	total	<b>5.7%</b>	7.2%

The International division comprises Babcock's South African business and small US pipeline operation, VT's US Defence division and support contracts in Oman and Kuwait.

## Operational review continued

In South Africa commodity prices have increased and there are some encouraging signs that the economic environment is steadily improving.

We have seen continuing growth in demand for Volvo equipment although the market remains competitive. The business has retained a tight control on overheads and cost efficiency which has provided some support to margins.

The power generation support and Powerlines markets are steady but have been affected by the financial constraints affecting our customer, Eskom, which have recently been resolved. We continue to work closely with Eskom as they put together new support contracts for their power stations.

In the US, the defence business has performed in line with expectations. Base operation support remains competitive with the political 'favoured status' policy for SMEs eroding volume and margins. As previously highlighted, we are reducing our exposure to these lower margin contracts. The logistics and readiness and communications support markets are better suited to our business model and we have an established position in these higher margin areas. We expect the business to continue the trend of moving into higher margin operations and contracts.

During the first half we completed the acquisition of Evergreen Unmanned Systems for \$14 million with a further \$6 million deferred over a two year period. The acquisition represents a first move into the fast growing Unmanned Aerial Systems (UAS) support market and strengthens the division's existing fixed and rotary wing aircraft support services.

In Oman and Kuwait, our air force support contracts continue to perform well. We remain confident that there are a number of opportunities in the Middle East where we can build on these contracts and our UK expertise and track record to provide infrastructure, engineering and training support in both defence and civil markets.

Although the markets in which the division operates remain competitive, there remain opportunities to exploit the enhanced capabilities of the Group to deliver reasonable levels of revenue and margin growth.

### VT integration

The integration of the VT businesses into Babcock was extremely well planned ahead of completion and has progressed speedily and efficiently. At the time of completion the new divisional structure was announced and new divisional management teams were then put in place. The business units within the divisions are now focused on maximising the opportunities created by the acquisition and this has resulted in further streamlining of overheads and facilities. All corporate functions were fully integrated by the end of the first half. We remain confident of achieving the merger benefits of £50 million (pre-tax), both in total and in line with expected timing, along with £8 million (post-tax) of financial efficiencies by the end of the 2013 financial year.

### Order book and bid pipeline

The Group's order book has remained stable during the first half and is currently worth around £12 billion. The majority of this year's revenue is already contracted and we continue to increase the proportion of contracted revenue for 2011/12. During this period we have had no contracts cancelled.

As previously highlighted, and in common with peer companies, we have experienced some slowdown in the number of new contracts coming out to tender during the first half. This was a result of the Government's preparations for the CSR and SDSR. It is too early to identify a reversal of this trend but we do not expect the outcome of these reviews to have any long-term negative effect on our pipeline.

The pipeline of opportunities currently being bid remains healthy at around £5 billion and is supported by considerable opportunities at the tracking stage.

### Outlook

The Group's key markets remain attractive with a number of significant long-term growth opportunities. In addition, we believe that following the CSR and SDSR significant new outsourcing opportunities will be created. The scale of the enlarged Group's operations, our expertise and track record will place us in a strong position from which to benefit from these.

Pressure on Government spending has led to short-term delays in outsourcing programmes but we would expect this to ease during the 2011/12 financial year. During this period earnings will benefit from both synergy savings and improving contract margins in the Support Services and International divisions.

The strength of the order book and bid pipeline, our involvement in long-term programmes and proven ability to deliver efficiencies gives us confidence in the outlook for 2010/11 and thereafter.



**Peter Rogers**  
Group Chief Executive



**Bill Tame**  
Group Finance Director

## Income statement

For the six months ended 30 September 2010

Year ended 31 March 2010 Total (audited) £m	Note	Six months ended 30 September 2010			Six months ended 30 September 2009		
		Before exceptional items and other (unaudited) £m	Exceptional items and other (unaudited) £m	Total (unaudited) £m	Before exceptional items and other (unaudited) £m	Exceptional items and other (unaudited) £m	Total (unaudited) £m
1,923.4		<b>1,221.2</b>	–	<b>1,221.2</b>	934.9	–	934.9
27.9		<b>39.2</b>	–	<b>39.2</b>	11.9	–	11.9
1,895.5		<b>1,182.0</b>	–	<b>1,182.0</b>	923.0	–	923.0
148.1		<b>106.3</b>	<b>(47.6)</b>	<b>58.7</b>	81.8	<b>(5.7)</b>	76.1
(0.5)	2	<b>1.6</b>	<b>(1.6)</b>	–	(0.1)	–	(0.1)
–		<b>0.7</b>	–	<b>0.7</b>	–	–	–
(21.8)		<b>(22.1)</b>	–	<b>(22.1)</b>	(11.5)	–	(11.5)
3.4		<b>3.8</b>	–	<b>3.8</b>	1.6	–	1.6
129.2		<b>90.3</b>	<b>(49.2)</b>	<b>41.1</b>	71.8	<b>(5.7)</b>	66.1
(20.8)	4	<b>(18.0)</b>	<b>11.5</b>	<b>(6.5)</b>	(13.7)	1.6	(12.1)
108.4		<b>72.3</b>	<b>(37.7)</b>	<b>34.6</b>	58.1	<b>(4.1)</b>	54.0
106.0				<b>33.1</b>			53.0
2.4				<b>1.5</b>			1.0
108.4				<b>34.6</b>			54.0
46.29	5			<b>11.48p</b>			23.17p
46.10				<b>11.45p</b>			23.04p
148.1		<b>106.3</b>	<b>(47.6)</b>	<b>58.7</b>	81.8	<b>(5.7)</b>	76.1
–		<b>0.7</b>	–	<b>0.7</b>	–	–	–
0.5		<b>2.6</b>	<b>(1.0)</b>	<b>1.6</b>	0.6	–	0.6
–		<b>4.1</b>	–	<b>4.1</b>	–	–	–
148.6		<b>113.7</b>	<b>(48.6)</b>	<b>65.1</b>	82.4	<b>(5.7)</b>	76.7

## Statement of comprehensive income

For the six months ended 30 September 2010

Year ended 31 March 2010 (audited) £m		Six months ended 30 September 2010 (unaudited) £m	Six months ended 30 September 2009 (unaudited) £m
108.4	Profit for the period	34.6	54.0
	<b>Other comprehensive income</b>		
10.7	Currency translation differences	(1.1)	5.4
	– Fair value adjustment of interest rate and foreign exchange hedges	(0.2)	1.5
	– Fair value adjustment of joint venture derivatives	(13.3)	–
	– Tax on fair value adjustment of joint venture derivatives	3.7	–
(403.5)	Net actuarial gains/(loss) in respect of pensions	17.7	(337.8)
113.0	Tax on net actuarial (gains)/loss in respect of pensions and hedges	(8.0)	94.2
(279.8)	<b>Other comprehensive income, net of tax</b>	<b>(1.2)</b>	<b>(236.7)</b>
(171.4)	<b>Total comprehensive income</b>	<b>33.4</b>	<b>(182.7)</b>
	<b>Total comprehensive income attributable to:</b>		
(174.4)	Equity holders of the parent	31.8	(184.1)
3.0	Minority interest	1.6	1.4
(171.4)		<b>33.4</b>	<b>(182.7)</b>

## Statement of changes in equity

For the six months ended 30 September 2010

	Share capital £m	Share premium £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Shareholder equity £m	Minority interests £m	Total equity £m
<b>At 1 April 2009</b>	<b>137.7</b>	<b>148.2</b>	<b>30.6</b>	<b>(16.0)</b>	<b>(10.7)</b>	<b>(1.4)</b>	<b>288.4</b>	<b>4.4</b>	<b>292.8</b>
Shares issued in the period	0.1	–	–	–	–	–	0.1	–	0.1
Total comprehensive income	–	–	–	(190.2)	1.0	5.1	(184.1)	1.4	(182.7)
Dividends	–	–	–	(23.8)	–	–	(23.8)	(1.1)	(24.9)
Share-based payments	–	–	–	1.4	–	–	1.4	–	1.4
Tax on share-based payments	–	–	–	0.7	–	–	0.7	–	0.7
Own shares and other	–	–	–	(1.9)	–	–	(1.9)	–	(1.9)
Net movement in equity	0.1	–	–	(213.8)	1.0	5.1	(207.6)	0.3	(207.3)
<b>At 30 September 2009</b>	<b>137.8</b>	<b>148.2</b>	<b>30.6</b>	<b>(229.8)</b>	<b>(9.7)</b>	<b>3.7</b>	<b>80.8</b>	<b>4.7</b>	<b>85.5</b>
<b>At 1 April 2010</b>	<b>137.8</b>	<b>148.3</b>	<b>30.6</b>	<b>(234.2)</b>	<b>(10.7)</b>	<b>8.8</b>	<b>80.6</b>	<b>5.2</b>	<b>85.8</b>
Shares issued in the period	77.3	722.9	–	–	–	–	800.2	–	800.2
Total comprehensive income	–	–	–	42.8	(9.8)	(1.2)	31.8	1.6	33.4
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
Minority interest acquired	–	–	–	–	–	–	–	1.9	1.9
Acquisition costs	–	–	–	(2.0)	–	–	(2.0)	–	(2.0)
Net movement in equity	77.3	722.9	–	15.3	(9.8)	(1.2)	804.5	2.2	806.7
<b>At 30 September 2010</b>	<b>215.1</b>	<b>871.2</b>	<b>30.6</b>	<b>(218.9)</b>	<b>(20.5)</b>	<b>7.6</b>	<b>885.1</b>	<b>7.4</b>	<b>892.5</b>

## Balance sheet

As at 30 September 2010

As at 31 March 2010 (audited) £m	Note	As at 30 September 2010 (unaudited) £m	As at 30 September 2009 (unaudited) £m
<b>Assets</b>			
<b>Non-current assets</b>			
548.3		1,593.2	535.1
80.2		531.4	62.4
149.3		212.1	147.4
1.0	7	43.0	0.5
13.3	7	21.5	13.0
–		0.4	–
–		39.6	–
0.4		1.4	0.2
84.9		23.8	89.0
877.4		2,466.4	847.6
<b>Current assets</b>			
84.2		90.8	94.6
330.9		467.6	309.1
1.9		14.3	–
1.1		0.5	0.6
189.6	10	138.7	189.3
607.7		711.9	593.6
1,485.1		3,178.3	1,441.2
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the parent</b>			
137.8		215.1	137.8
148.3		871.2	148.2
28.7		17.7	24.6
(234.2)		(218.9)	(229.8)
80.6		885.1	80.8
5.2		7.4	4.7
85.8		892.5	85.5
<b>Non-current liabilities</b>			
329.1	10	838.5	346.3
12.3		14.4	10.8
–		22.9	–
0.2		0.2	–
324.0	11	356.4	287.3
37.1		126.3	35.1
702.7		1,358.7	679.5
<b>Current liabilities</b>			
162.8	10	96.3	156.9
498.1		760.9	484.3
6.9		34.4	13.3
15.7		5.2	13.4
13.1		30.3	8.3
696.6		927.1	676.2
1,399.3		2,285.8	1,355.7
1,485.1		3,178.3	1,441.2

## Cash flow statement

For the six months ended 30 September 2010

Year ended 31 March 2010 (audited) £m	Note	Six months ended 30 September 2010 (unaudited) £m	Six months ended 30 September 2009 (unaudited) £m
<b>Cash flows from operating activities</b>			
170.3	8	<b>143.3</b>	86.4
<b>Cash generated from operations</b>			
(1.7)		<b>(5.6)</b>	(0.6)
(22.3)		<b>(20.1)</b>	(11.6)
3.8		<b>3.8</b>	1.1
150.1		<b>121.4</b>	75.3
<b>Cash flows from investing activities</b>			
–		<b>2.2</b>	–
1.3		<b>0.5</b>	0.2
(16.8)		<b>(8.7)</b>	(8.7)
(3.2)		<b>(0.7)</b>	(0.6)
–		<b>(0.5)</b>	–
(37.9)		<b>(486.9)</b>	–
(56.6)		<b>(494.1)</b>	(9.1)
<b>Cash flows from financing activities</b>			
(34.7)		<b>(29.4)</b>	(23.8)
(1.4)		<b>(1.2)</b>	(0.4)
(130.5)		<b>(60.8)</b>	(10.4)
100.0		<b>513.3</b>	–
(2.2)		<b>(1.3)</b>	(1.1)
0.2		<b>–</b>	0.1
(2.1)		<b>–</b>	(1.9)
(70.7)		<b>420.6</b>	(37.5)
22.8		<b>47.9</b>	28.7
6.3		<b>29.0</b>	6.3
(0.1)		<b>0.1</b>	(0.7)
29.0	10	<b>77.0</b>	34.3

# Notes to the consolidated half year financial statements

For the six months ended 30 September 2010

## 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 2010 (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:

- IFRS 3 (revised), 'Business combinations': as a consequence of which £12.4 million of acquisition costs are included in exceptional costs which would have previously been a cost of investment and included in goodwill.
- IAS 27 (revised), 'Consolidated and separate financial statements'. This does not have a significant impact on the Group.

On the acquisition of VT Group plc IFRIC 12 'Service concessions arrangements' is now a significant accounting policy for the Group. IFRIC 12 addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. None of the IFRIC interpretations issued since the year end have had a material impact on the Group.

The half year report for the six months ended 30 September 2010 was approved by the Directors on 8 November 2010. The half year report has not been audited or reviewed by auditors.

## 2. Segmental analysis

Following the acquisition of VT Group plc the segments have changed to reflect the new business structure announced on 12 July 2010. The segments reflect the accounting information reviewed by the Chief Operating Decision Maker (CODM). The Marine segment includes the Group's UK and International marine business, the Defence and Securities segment is the remainder of the UK defence business with the exception of certain infrastructure contracts within Support Services. Support Services includes Education and Training, Nuclear, Rail, Infrastructure and Critical Assets. International includes the US, South African and Middle East businesses.

	Marine £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Group total £m
<b>2010</b>						
<b>Continuing operations</b>						
Total revenue	502.4	154.9	391.7	172.2	–	1,221.2
Joint venture 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
Operating profit – share of joint ventures	–	2.4	0.2	–	–	2.6
IFRIC 12 investment income – share of joint venture	–	3.1	1.0	–	–	4.1
<b>Underlying operating profit</b>	59.6	23.6	25.7	9.8	(5.0)	113.7
Joint venture share of interest	–	(3.4)	(1.1)	–	–	(4.5)
Joint venture share of tax	–	(0.6)	–	–	0.7	0.1
Acquired intangible amortisation – group	(6.2)	(2.9)	(19.5)	(2.0)	–	(30.6)
Acquired intangible amortisation – share of joint ventures	–	(0.9)	(0.1)	–	–	(1.0)
Net finance costs	–	–	–	–	(18.3)	(18.3)
Exceptional items	–	–	–	–	(18.3)	(18.3)
<b>Group profit before tax</b>	53.4	15.8	5.0	7.8	(40.9)	41.1
	Marine (restated) £m	Defence and Security (restated) £m	Support Services (restated) £m	International (restated) £m	Unallocated (restated) £m	Group total (restated) £m
<b>2009</b>						
<b>Continuing operations</b>						
Total revenue	464.0	41.6	341.5	87.8	–	934.9
Joint venture revenue	–	5.2	6.7	–	–	11.9
Group revenue	464.0	36.4	334.8	87.8	–	923.0
Operating profit – group	55.9	3.7	19.6	6.4	(3.8)	81.8
Operating profit – share of joint ventures	–	0.4	0.3	(0.1)	–	0.6
<b>Underlying operating profit</b>	55.9	4.1	19.9	6.3	(3.8)	82.4
Joint venture share of interest	–	(0.6)	(0.1)	–	–	(0.7)
Acquired intangible amortisation – group	(3.7)	–	(2.0)	–	–	(5.7)
Net finance costs	–	–	–	–	(9.9)	(9.9)
<b>Group profit before tax</b>	52.2	3.5	17.8	6.3	(13.7)	66.1

Notes to the consolidated half year financial statements continued

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

	Group		Joint venture		Total	
	Six months ended 30 September 2010 (unaudited) £m	Six months ended 30 September 2009 (unaudited) £m	Six months ended 30 September 2010 (unaudited) £m	Six months ended 30 September 2009 (unaudited) £m	Six months ended 30 September 2010 (unaudited) £m	Six months ended 30 September 2009 (unaudited) £m
<b>Exceptional items and other</b>						
Profit on disposal of subsidiaries	(2.9)	–	–	–	(2.9)	–
Reorganisation costs	7.5	–	–	–	7.5	–
Interest	–	–	1.3	–	1.3	–
Acquisition costs	12.4	–	–	–	12.4	–
<b>Exceptional items and other</b>	<b>17.0</b>	–	<b>1.3</b>	–	<b>18.3</b>	–
Acquired intangible amortisation	30.6	5.7	1.0	–	31.6	5.7
Joint venture tax	–	–	(0.7)	–	(0.7)	–
	<b>47.6</b>	5.7	<b>1.6</b>	–	<b>49.2</b>	5.7

Exceptional items are those items which are exceptional in nature or size. These include material acquisition costs, reorganisation costs and where material, the movement in the fair value of ineffective interest rate hedges (as defined by IAS 39) within PFI contracts. In order to aid understanding, ineffective hedges within PFI contracts are always included within exceptional items and other.

Acquisition costs above relate to the acquisition of VT Group plc (see note 12).

Reorganisation costs relate to the integration of Babcock international Group PLC and VT Group plc.

Interest cost above is the movement in the fair value of the ineffective hedges within PFI joint ventures.

**4. Income taxes**

The charge for taxation has been based on the estimated effective tax rate of 20.5% before exceptional items for the full year ended 31 March 2011. (For September 2009, the charge for tax was based on an estimated effective tax rate of 19% for the full year ended 31 March 2010). An additional tax credit of £8.8 million relates to acquired intangible amortisation of which £0.4 million is included in share of profit/(loss) from joint ventures; and a further tax credit of £2.7 million relates to exceptional items. (For September 2009 an additional tax credit of £1.6 million related to acquired intangible amortisation).

**5. Earnings per share**

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

	Six months ended 30 September 2010	Six months ended 30 September 2009
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	288,413,115	228,869,847
Effect of dilutive potential ordinary shares: share options	992,527	1,243,695
Weighted average number of ordinary shares for the purpose of diluted EPS	289,405,642	230,113,542

**Earnings**

	Six months ended 30 September 2010			Six months ended 30 September 2009		
	Earnings £m	Basic per share pence	Diluted per share pence	Earnings £m	Basic per share pence	Diluted per share pence
<b>Earnings per share from continuing operations</b>	<b>33.1</b>	<b>11.48</b>	<b>11.45</b>	53.0	23.17	23.04
Add back:						
Amortisation of acquired intangible assets, net of tax	22.8	7.89	7.86	4.1	1.80	1.79
Exceptional items and other, net of tax	14.9	5.19	5.17	–	–	–
<b>Earnings before amortisation, exceptional items and other</b>	<b>70.8</b>	<b>24.56</b>	<b>24.48</b>	57.1	24.97	24.83

**6. Dividends**

An interim dividend of 5.20 pence per 60 pence ordinary share (2009: 4.80 pence per 60 pence ordinary share) was declared after the balance sheet date and will be paid on 14 January 2011 to shareholders registered on 17 December 2010.

## Notes to the consolidated half year financial statements continued

**7. Investments in and loans to joint ventures**

	Investment in joint ventures		Loans to joint ventures		Total	
	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended
	30 September 2010 (unaudited) £m	30 September 2009 (unaudited) £m	30 September 2010 (unaudited) £m	30 September 2009 (unaudited) £m	30 September 2010 (unaudited) £m	30 September 2009 (unaudited) £m
<b>At 1 April</b>	<b>1.0</b>	1.5	<b>13.3</b>	12.0	<b>14.3</b>	13.5
Acquisition of subsidiaries	<b>50.8</b>	–	<b>8.5</b>	–	<b>59.3</b>	–
Investments in joint ventures	<b>0.2</b>	–	<b>–</b>	–	<b>0.2</b>	–
Loans repaid	<b>–</b>	–	<b>(0.2)</b>	–	<b>(0.2)</b>	–
Interest accrued	<b>–</b>	(1.0)	<b>0.5</b>	1.1	<b>0.5</b>	0.1
Fair value adjustment of derivatives, net of tax	<b>(9.6)</b>	–	<b>–</b>	–	<b>(9.6)</b>	–
Share of operating profit	<b>6.7</b>	0.6	<b>–</b>	–	<b>6.7</b>	0.6
Share of interest	<b>(5.2)</b>	(0.6)	<b>(0.6)</b>	(0.1)	<b>(5.8)</b>	(0.7)
Share of tax	<b>0.1</b>	–	<b>–</b>	–	<b>0.1</b>	–
Acquired intangible amortisation	<b>(1.0)</b>	–	<b>–</b>	–	<b>(1.0)</b>	–
<b>Total</b>	<b>43.0</b>	0.5	<b>21.5</b>	13.0	<b>64.5</b>	13.5

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

Year ended 31 March 2010 (audited) £m		Six months ended 30 September 2010 (unaudited) £m	Six months ended 30 September 2009 (unaudited) £m
	<b>Cash flows from operating activities</b>		
148.1	Operating profit before exceptional items	<b>75.7</b>	76.0
–	– Exceptional items	<b>(17.0)</b>	–
148.1	Operating profit	<b>58.7</b>	76.0
22.3	Depreciation of property plant and equipment	<b>13.2</b>	10.8
18.9	Amortisation and impairment of intangible assets	<b>32.3</b>	6.9
–	– Investment income	<b>0.7</b>	–
2.7	Equity share-based payments	<b>2.6</b>	1.4
–	– Profit on disposal of subsidiaries	<b>(2.9)</b>	–
(0.4)	Loss/(profit) on disposal of property, plant and equipment	<b>0.4</b>	0.3
191.6	<b>Operating cash flows before movement in working capital</b>	<b>105.0</b>	95.4
22.7	Decrease in inventories	<b>8.4</b>	7.1
23.6	(Increase)/decrease in receivables	<b>(16.1)</b>	31.9
(72.4)	Increase/(decrease) in payables	<b>50.1</b>	(46.3)
4.8	(Decrease)/increase in provisions	<b>(4.1)</b>	(1.7)
170.3	<b>Cash generated from operations</b>	<b>143.3</b>	86.4

**9. Movement in net debt**

Year ended 31 March 2010 (audited) £m		Six months ended 30 September 2010 (unaudited) £m	Six months ended 30 September 2009 (unaudited) £m
22.8	Increase in cash in the period	<b>47.9</b>	28.7
31.9	Cash flow from the (increase)/decrease in debt and lease financing	<b>(451.5)</b>	10.8
54.7	Change in net funds resulting from cash flows	<b>(403.6)</b>	39.5
–	– Loans acquired and disposed of with subsidiaries	<b>(90.3)</b>	–
(5.0)	New finance leases	<b>–</b>	(1.1)
(0.5)	Foreign currency translation differences	<b>0.1</b>	(0.8)
49.2	Movement in net debt in the period	<b>(493.8)</b>	37.6
(351.5)	Net debt at the beginning of the period	<b>(302.3)</b>	(351.5)
(302.3)	Net debt at the end of the period	<b>(796.1)</b>	(313.9)

Notes to the consolidated half year financial statements continued

**10. Changes in net debt**

	At 1 April 2010 (audited) £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange movement £m	At 30 September 2010 (unaudited) £m
Cash and bank balances	189.6	(241.9)	191.6	–	(0.6)	<b>138.7</b>
Bank overdrafts	(160.6)	98.2	–	–	0.7	<b>(61.7)</b>
<b>Cash, cash equivalents and bank overdrafts at end of period</b>	<b>29.0</b>	<b>(143.7)</b>	<b>191.6</b>	<b>–</b>	<b>0.1</b>	<b>77.0</b>
Debt	(325.1)	(452.7)	(79.7)	–	–	<b>(857.5)</b>
Finance leases	(6.2)	1.2	(10.6)	–	–	<b>(15.6)</b>
	<b>(331.3)</b>	<b>(451.5)</b>	<b>(90.3)</b>	<b>–</b>	<b>–</b>	<b>(873.1)</b>
<b>Total</b>	<b>(302.3)</b>	<b>(595.2)</b>	<b>101.3</b>	<b>–</b>	<b>0.1</b>	<b>(796.1)</b>

**11. Pensions**

Analysis of movement in the Balance sheet.

	Six months ended 30 September 2010 (unaudited) £m	Six months ended 30 September 2009 (unaudited) £m
<b>Fair value of plan assets</b>		
<b>At 1 April 2010</b>	<b>1,979.8</b>	1,702.9
Acquisitions	<b>432.6</b>	–
Expected return	<b>72.2</b>	56.7
Actuarial gain	<b>19.1</b>	239.6
Change in reimbursement rights	<b>1.2</b>	(102.1)
Employer contributions	<b>21.3</b>	8.2
Employee contributions	<b>3.0</b>	1.6
Benefits paid	<b>(57.2)</b>	(51.8)
Exchange differences	<b>(0.4)</b>	(0.2)
<b>At 30 September 2010</b>	<b>2,471.6</b>	1,854.9
<b>Present value of benefit obligations</b>		
<b>At 1 April 2010</b>	<b>2,303.8</b>	1,652.2
Acquisitions	<b>483.6</b>	–
Service cost	<b>21.2</b>	11.4
Interest cost	<b>64.6</b>	53.7
Employee contributions	<b>3.0</b>	1.6
Actuarial loss	<b>1.5</b>	475.4
Benefits paid	<b>(57.2)</b>	(51.8)
Exchange differences	<b>(0.2)</b>	(0.3)
<b>At 30 September 2010</b>	<b>2,820.3</b>	2,142.2
<b>Present value of unfunded obligations</b>	<b>(0.2)</b>	–
<b>IFRIC 14 adjustment</b>	<b>(7.5)</b>	–
<b>Net deficit at 30 September 2010</b>	<b>(356.4)</b>	(287.3)
Net (deficit)/surplus at 31 March 2010	(324.0)	50.7

## Notes to the consolidated half year financial statements continued

**11. Pensions (continued)**

Analysis of charge to Income statement

	Six months ended 30 September 2010 (unaudited) £m	Six months ended 30 September 2009 (unaudited) £m
Service cost	(21.2)	(11.4)
Expected return on assets	72.2	56.7
Interest on obligations	(64.6)	(53.7)
<b>At 30 September 2010</b>	<b>(13.6)</b>	<b>(8.4)</b>

As at 30 September 2010 the key assumptions used in valuing pension liabilities were:

Discount rate	5.0% (31 March 2010: 5.5%)
Inflation rate	2.8% (31 March 2010: 3.4%)

**12. Acquisition**

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 £1,467.9 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 arises from the experience, knowledge and location of the workforce along with the market position of the entities involved along with expected synergies.

Details of assets acquired and the goodwill are as follows:

	VT Group plc £m	Evergreen £m	Total £m
<b>Cost of acquisition</b>			
Cash paid	664.0	8.9	672.9
128,730,720 shares issued	803.9	–	803.9
Purchase consideration	1,467.9	8.9	1,476.8
Fair value of assets acquired (see below)	431.3	0.4	431.7
<b>Goodwill</b>	<b>1,036.6</b>	<b>8.5</b>	<b>1,045.1</b>

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

	VT Group plc		Evergreen		Total	
	Book value of assets acquired (unaudited) £m	Provisional fair value acquired (unaudited) £m	Book value of assets acquired (unaudited) £m	Provisional fair value acquired (unaudited) £m	Book value of assets acquired (unaudited) £m	Provisional fair value acquired (unaudited) £m
Goodwill	302.9	–	–	–	302.9	–
Intangible assets	13.3	13.3	–	–	13.3	13.3
Acquired intangibles*	115.9	464.9	–	4.5	115.9	469.4
Property, plant and equipment	74.6	69.2	0.9	0.9	75.5	70.1
Investment in and loans to joint ventures	16.0	59.3	–	–	16.0	59.3
Other investments	0.4	0.4	–	–	0.4	0.4
Retirement liabilities	(84.8)	(58.1)	–	–	(84.8)	(58.1)
Deferred tax	(14.1)	(90.2)	–	(1.8)	(14.1)	(92.0)
Cash, cash equivalents and bank overdrafts	191.3	191.3	0.4	0.4	191.7	191.7
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	178.3	162.5	0.2	0.2	178.5	162.7
Current and non-current liabilities	(181.2)	(195.0)	–	–	(181.2)	(195.0)
Provisions	(49.2)	(106.6)	(3.8)	(3.8)	(53.0)	(110.4)
Minority shareholders	(2.9)	(1.9)	–	–	(2.9)	(1.9)
<b>Total</b>	<b>483.7</b>	<b>431.3</b>	<b>(2.3)</b>	<b>0.4</b>	<b>481.4</b>	<b>431.7</b>

\* Acquired intangibles are: customer relationships, order book and know-how.

## Notes to the consolidated half year financial statements continued

**12. Acquisition (continued)**

Cash outflow to acquire businesses net of cash acquired:

	VT Group plc £m	Evergreen £m	Total £m
Purchase consideration	1,467.9	8.9	<b>1,476.8</b>
Cash, cash equivalents and bank overdrafts	(191.3)	(0.4)	<b>(191.7)</b>
Acquisition costs accrued in prior year	2.0	–	<b>2.0</b>
	1,278.6	8.5	<b>1,287.1</b>
Less: issue of shares net of costs	800.2	–	<b>800.2</b>
<b>Cash outflow this period</b>	<b>478.4</b>	<b>8.5</b>	<b>486.9</b>

The revenue and operating profit of the acquired businesses since the date of acquisition and as if they had been acquired on 1 April 2010 are:

	Since date of acquisition £m	For full six months £m
<b>Revenue – group</b>		
VT Group plc	233.3	510.5
Evergreen	–	2.0
	<b>233.3</b>	<b>512.5</b>
<b>Operating profit (before amortisation of acquired intangibles)</b>		
VT Group plc	20.3	30.2
Evergreen	–	0.2
	<b>20.3</b>	<b>30.4</b>
<b>Underlying profit (including investment income and share of joint venture underlying profit)</b>		
VT Group plc	27.1	40.6
Evergreen	–	0.2
	<b>27.1</b>	<b>40.8</b>

**13. Related party transactions**

Related party transactions in the half year to 30 September 2010 are sales to joint ventures amounting to £95 million (2009: £102 million). Purchases from joint ventures amounted to £12 million (2009: £nil).

**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 2010 were approved by the Board of Directors on 10 May 2010 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.

**15. Communication**At our Annual General Meeting on 13 July 2007 our shareholders unanimously agreed to proposals to allow us to use electronic communications with them as allowed for under the Companies Act 2006. For shareholders who agreed, or who are treated as having agreed, to receive electronic communications, the Company website is now the main way for them to access shareholder information. These shareholders will be sent a 'notice of availability' notifying them that this report is available on the Company website: [www.babcock.co.uk](http://www.babcock.co.uk). Hard copies of the half year report will be distributed to those shareholders who have requested or subsequently request them. Additional copies are also available from the Company's registered office: 33 Wigmore Street, London W1U 1QX.

## Risks and uncertainties

The principal risks and uncertainties affecting the Group remain those detailed on pages 42 to 45 of the 2010 Annual Report, a copy of which is available at [www.babcock.co.uk](http://www.babcock.co.uk). The principal risks identified are; health safety and environmental issues, reliance on a small number of large customers and contracts, bid process and bid success, contractual performance, political and regulatory environment, people retention and development, acquisitions and disposals, information technology, pensions, ethical and reputational risk, contingent liabilities, financial reporting, accounting controls and treasury. The risks within VT Group plc were of a similar nature. This half year report also includes comments on the outlook for the Group for the remaining six months of the financial year.

## Forward-looking statements

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

## Statement of Directors' responsibilities

The Directors confirm that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the half year management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8.

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

By order of the Board



**Peter Rogers**  
Group Chief Executive

8 November 2010



**W Tame**  
Group Finance Director

8 November 2010

## Shareholder information

### Financial calendar

Half year year end	30 September 2010
Half year results announced	9 November 2010
Record date	17 December 2010
Last day for Dividend Reinvestment Plan election	20 December 2010
Interim dividend payment date	14 January 2011
End of financial year	31 March 2011

### Registered office and Company number

33 Wigmore Street  
London W1U 1QX

Registered in England  
Company number 2342138

### Registrars

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield HD8 0GA

Tel: 0871 664 0300 (calls cost 10p per minute plus network extras – lines are open 8.30 am to 5.30 pm Monday to Friday)  
Tel (from overseas): +44 20 8639 3399  
Email: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)  
[www.babcock-shares.com](http://www.babcock-shares.com)

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

### Independent auditors

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

### Principal UK bankers

The Royal Bank of Scotland plc  
135 Bishopsgate  
London EC2M 3UR

The Lloyds Banking Group  
Level 7 Bishopsgate Exchange  
155 Bishopsgate  
London EC2M 3YB

### Stockbrokers and Investment bankers

JPMorgan Cazenove  
10 Aldermanbury  
London EC2V 7RF

### Share dealing services

Capita Share Dealing Services provide Babcock shareholders with a quick and easy way to buy or sell Babcock International Group PLC ordinary shares. Commission starts from £20 if you deal online and £25 if you deal by phone.

In addition, stamp duty, currently 0.5%, is payable on purchases.

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

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

These services are offered on an execution-only basis and are subject to terms and conditions which are available on request or at [www.capitadeal.com](http://www.capitadeal.com).

Capita Share Dealing Services is a trading name of Capita IRG Trustees Limited, which is authorised and regulated by the Financial Services Authority.

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

### Dividend Reinvestment Plan (DRIP)

This is a convenient way, if you wish to do so, to build up your shareholding by using your cash dividends to buy more shares in the Company. If you would prefer to receive shares for your next dividend instead of cash, please complete an application form online at [www.babcock-shares.com](http://www.babcock-shares.com) or call Capita IRG Trustees Limited on 0871 664 0381 (calls cost 10p per minute plus network extras, lines are open 9.00 am to 5.30 pm Monday to Friday) from UK or +44 208 639 3402 from overseas. Terms and conditions apply to the DRIP.

### ShareGift

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

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Tel +44(0)20 7355 5300  
Fax +44 (0)20 7355 5360  
[www.babcock.co.uk](http://www.babcock.co.uk)



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