Babcock International Group PLC
full year results for the year ended 31 March 2012

15 May 2012

Excellent financial results with positive outlook supported by continued growth in order book and bid pipeline

Financial Highlights

Continuing operations† - underlying	March 2012	March 2011	Change
Revenue*	**£3,070.4m**	£2,703.2m	+ 14%
Operating profit**	**£329.0m**	£275.4m	+ 19%
Profit before tax***	**£274.1m**	£216.7m	+ 26%
Basic earnings per share****	**61.47p**	52.50p	+ 17%
Continuing and discontinued operations basic earnings per share ****	**64.33p**	55.03p	+ 17%
Continuing operations† - statutory			
Revenue	**£2,848.4m**	£2,564.5m	+ 11%
Operating profit	**£202.0m**	£153.2m	+ 32%
Profit before tax	**£173.0m**	£111.1m	+ 56%
Basic earnings per share	**42.93p**	30.14p	+ 42%
Continuing and discontinued operations basic earnings per share	**28.11p**	31.28p	– 10%
Full year dividend	**22.7p**	19.4p	17%

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

Operational Highlights

- Business model and strategy driving underlying revenue and profit growth
  - 5.6% organic growth in underlying continuing revenue
  - 15% organic growth in underlying continuing operating profit
  - continuing underlying operating margin increased to 10.7% (2011: 10.2%)
- Agreement reached on sale of VT US defence business for $98.75 million (£61 million)
- Order book for continuing operations increased to £13 billion (2011: £12 billion) supporting positive outlook
- Positive market environment continues to create opportunities
  - bid pipeline for continuing operations increased to £9.5 billion (2011: £7.0 billion)
- Cash conversion of 111%, net debt reduced to £641.1 million; net debt:ebitda 1.8 x
- Well positioned for further growth both in the UK and overseas

Peter Rogers, Chief Executive commented

"Babcock delivered record results last year. From our position as the UK's leading engineering support services group, we grew in all three of our target areas – existing contracts, existing customers and new customers. We increased our double-digit operating margin while achieving good organic top-line growth and further improving our strong financial position. As a result of these successes and our confidence in the future, we have maintained our record of increasing returns to our shareholders.

"Our key markets remain strong and the current economic climate is favourable to the further growth of our business. We have excellent forward visibility with our long-term contracts, strong order book and bid pipeline. Therefore, the Board expects the Group to make further strong progress in 2012/13 and for earnings to be ahead of its previous expectations."

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A meeting for investors and analysts will be held today at 9:00 am at RBS, 250 Bishopsgate, London EC2M 4AA. A webcast of the presentation will be available at www.babcock.co.uk from mid afternoon on 15 May 2012.

Introduction

As expected, 2011/12 has been an exciting year for Babcock during which we were able to deliver a further set of excellent results and make considerable progress securing our long-term future.

At the beginning of the year we could see a number of new opportunities ahead of us, both in the UK and overseas. While our financial results reflect the strength of our underlying business, the growth we have reported in our order book and in our bidding pipeline over this year reflects our progress realising the opportunities we have been able to create for ourselves in the UK and overseas, by delivering on our strategy.

Last year we set out that we would seek to achieve growth by:

- growing existing contracts – using current arrangements to deliver additional services
- growing existing customers – building on existing relationships and using the depth and breadth of skills across the Group to offer a broader range of services
- growing new customers – transferring existing capabilities to new customers.

After a hiatus in new opportunities coming to market during 2010, driven by our customers' imperative to operate within the constraints imposed by the current economic climate. We understood that our customers would have to look for alternative delivery models if they were to achieve the level of savings and efficiencies required to meet their budgets. Babcock is well positioned to help our customers formulate cost efficient support solutions and benefit from further outsourcing opportunities that will come to market.

Order book and bid pipeline

During the second half of the year we were successful in winning new contracts and contract extensions with a value of around £2 billion. These contracts bring us new customers as well as reinforce relationships with existing customers, extend and strengthen our market positions and demonstrate our ability to drive both operational and financial efficiencies. The order book for continuing operations currently stands at £13 billion (2011: £12 billion) and provides us with excellent visibility of future revenues. We currently have over 70% of anticipated revenue contracted for 2012/13 and over 45% for 2013/14.

The bid pipeline for continuing operations has also increased to £9.5 billion (2011: £7 billion) and consists of opportunities in the UK and overseas as well as in both our civil and defence markets. 69% of the pipeline comprises bids with a value in excess of £100 million, only three of which are rebids where current contracts will not run out until 2014.

In addition to formal competitions currently in the bid pipeline we are tracking and are discussing with customers a number of significant future outsourcing programmes, particularly in the defence training and equipment support markets. All of these opportunities are supported by and build on the key elements of our strategy.

Dividend

The Board is focussed on ensuring our shareholders share in the financial success of our business and we have a clear policy of maintaining dividend cover between 2.5 and 3 times. As we continue to strengthen our order book and bid pipeline, the Board remains confident in the long-term future of our business and is therefore recommending a final dividend of 17.0 pence per share. This will give a total dividend for the year of 22.7 pence per share, an increase of 17% (2011: total dividend 19.4 pence per share). The dividend will be paid on 7 August 2012 to shareholders on the register at close of business on 6 July 2012.

Strategic review

Following the acquisition of VT Group in 2010, the Board undertook a detailed review of all our businesses to ensure they met the Group's strategic requirements. As part of this process the US defence operations acquired with VT and the Babcock US pipeline operations were identified as non-core. During the course of last year, Eagleton, the US pipeline business was sold, and agreement has been reached for the sale of the US defence operations, subject to regulatory clearance. The Group is now focused on growing its core businesses, in line with its strategy, in both the UK and overseas.

Outlook

The key markets in which the Group operates remain strong and we believe that the current economic climate will continue to create significant medium and long-term growth opportunities, both in the UK and overseas.

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

The Group continues to benefit from excellent visibility of future revenue streams through its long-term contracts, strong order book and bid pipeline. Therefore, the Board expects the Group to make further strong progress in 2012/13 and for earnings to be ahead of its previous expectations.

Financial Review

In this review, unless otherwise stated, revenue, operating profit, operating margin, net finance costs, profit before tax and earnings per share refer to results before amortisation of acquired intangibles and exceptional items. Revenue, operating profit, operating margins and net finance costs also include the Group's share of equity accounted joint ventures (jv) and associates. 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 UK tax rate changes.

The underlying figures provide a consistent measure of business performance year to year thereby enabling comparison and understanding of Group financial performance.

Overview

This review encompasses the first full 12 month period following the acquisition of VT Group plc. During the course of the year we have reported a significant acceleration in activity and growth opportunities in our markets as well as a number of successes in high financial and strategic value contracts across a range of those markets. At the same time we have established a strong financial base from which to support an increasing number of significant growth opportunities; operating cash flow conversion has remained above 100%, net debt has further reduced to £641.1 million, representing 1.8 times EBITDA, on a covenanted basis, and operating margins have improved further to 10.7% of revenue.

At the time of our half year results published in November 2011, we reported organic growth in both revenue and operating profit and this has been sustained for the full year with continuing revenue up 5.6% and operating profit up 15%.

The former VT businesses have been fully integrated and the promised merger benefits of £50 million per annum have been identified and will be delivered slightly ahead of our planning assumptions. We have progressed the business portfolio review and agreement has been reached for the sale of VT Services Inc, subject to regulatory clearance. Consequently the results of VT Services Inc are reported as discontinued and the Group's investment in the business as an asset/ liability held for sale pending the completion of the sale. Comparatives have been restated to reflect the reporting of VT Services Inc as discontinued. Underlying results are based on the results from continuing businesses.

Income statement – continuing operations
Statutory to underlying reconciliation

		Joint ventures and associates							
	Continuing operations - statutory £m	Revenue and operating profit £m	Finance costs £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**
31 March 2012									
Revenue	**2,848.4**	222.0							**3,070.4**
Operating profit	**202.0**	11.0			27.8	77.3		10.9	**329.0**
Share of profit from jv	**4.3**	(11.0)	19.4	6.7	(25.6)	6.2			**-**
Investment income	**2.2**				(2.2)				**-**
Net finance costs	**(35.5)**		(19.4)						**(54.9)**
Profit before tax	**173.0**	--	–	6.7	–	83.5	–	10.9	**274.1**
Tax	**(15.8)**			(6.7)		(21.7)	(3.4)	(2.8)	**(50.4)**
Profit after tax	**157.2**	–	–	-	–	61.8	(3.4)	8.1	**223.7**
31 March 2011									
Revenue	**2,564.5**	138.7							**2,703.2**
Operating profit	**153.2**	9.3			16.0	76.6		20.3	**275.4**
Share of profit from jv	**6.1**	(9.3)	8.3	4.1	(13.8)	4.6			**–**
Investment income	**2.2**				(2.2)				**–**
Net finance costs	**(50.4)**		(8.3)						**(58.7)**
Profit before tax	**111.1**	–	–	4.1	–	81.2	–	20.3	**216.7**
Tax	**(10.1)**			(4.1)		(22.7)	(2.7)	(3.8)	**(43.4)**
Profit after tax	**101.0**	–	–	–	–	58.5	(2.7)	16.5	**173.3**

Financial review continued

Revenue The comparative numbers for 2010/11 include nine months of the financial results from the former VT Group businesses compared to a full 12 months for 2011/12 and consequently headline growth of 14% (2011: 41%) includes the effects of the additional three months' activity from VT. Adjusting for this and movements in foreign exchange rates, yields organic growth in revenue of 5.6%.

By division, Marine and Technology saw growth of over 6% driven by higher activity levels in the Submarine and Warship support programmes and continued growth overseas in the Technology business unit. New contract wins in Infrastructure, Nuclear and Rail helped to deliver year-on-year growth of 15% in the Support Services Division whilst the achievement of milestones in the FSTA (Future Strategic Tanker Air) programme and the RSME (Royal School of Military Engineering) construction phase contributed significantly to year-on-year growth in Defence and Security of 31%. In International, South Africa remained relatively buoyant with continued growth in the equipment and plant hire businesses.

Operating profit Whilst total revenue growth was a major driver of the increase in underlying operating profit to £329.0 million (2011: £275.4 million), an increase in **operating return on revenue** to 10.7% (2011: 10.2%) was also a significant contributor. Organic operating profit growth was 15% (2011: 5%). This was derived in part from cost synergy benefits delivered in the year in excess of those achieved last year, leaving an annualised run rate of £40 million at the end of this year - and in part from improved contract margins. Successful completion of the Long Overhaul Period (Refuel) (LOP(R)) contract for HMS Vigilant boosted margins in Marine and Technology whilst stronger performance in Nuclear and Rail took Support Service to 9.8% (2011: 8.4%). As flagged last year, return on revenue in Defence and Security reduced to 13.0% (2011: 15.6%) following completion of the Main Operating Base (MOB) facilities for FSTA and MFTS (Military Flying Training System) in 2010/11. Despite some weakness in its Power business the South African business overall improved as the equipment franchise continued to make progress and consequently, the International division return on revenue improved to 6.9% (2011: 6.8%).

Charges to continuing exceptional items were £10.9 million (2011: £20.3 million) and comprised the following items

	2011/12	2010/11
VT reorganisation costs	**12.8**	10.8
Profit on disposal of subsidiaries	**(1.9)**	(2.9)
Acquisition costs	-	12.4
Total	**10.9**	20.3

Reorganisation costs represent the costs of delivering the merger synergies and for which the cumulative expenditure at 31 March 2012 was c £24million out of a projected total of £45 million, as previously reported.

The profit on disposal arose from the sale of Babcock Eagleton.

Amortisation of acquired intangibles of £83.5 million (2011: £81.2 million) represents the amortisation of the value attributed on business acquisitions to customer relationships, both contractual and non-contractual. The value is amortised over the estimated useful life, which does not exceed ten years, by reference to the duration of contracts in hand at the time of acquisition and for non-contractual customer relationships, the risk adjusted value of potential future orders from existing customers with an average estimated duration.

Net finance costs of £54.9 million (2011: £58.7 million) including the Group's share of joint venture net interest expense of £19.4 million (2011: £8.3 million) represents a full twelve month period of interest charges on the post-acquisition of VT net debt compared to nine months last year. Joint venture finance costs are primarily related to financing structures on the FSTA and MFTS Private Finance Initiative (PFI) contracts and will increase as the PFI delivers assets into service for the customer. 2011/12 saw the delivery of both the FSTA and MFTS MOBs as well as the first tanker aircraft, with the related non-recourse debt drawn down under the PFI facilities. As further assets are constructed and delivered, this element of net finance costs will increase. During the period following the end of the construction phase and as the PFI debt is repaid over the long-term, finance costs will decline. Finance costs on the Group's own facilities decreased from £50.4 million to £35.5 million in line with the decrease in the amount drawn on the Group's revolving credit facility and improved financing terms.

Profit before tax before amortisation of acquired intangibles and exceptional charges increased to £274.1 million (2011: £216.7 million). The associated tax charge including the Group's share of joint venture tax of £8.3 million (2011: £5.4 million) totalled £50.4 million (2011: £43.4 million) representing an effective rate of tax of 19% (2011: 20.5%). The effective tax rate is calculated by reference to the Group's underlying profit before tax and therefore excludes the tax effect of prior year tax adjustments and of amortisation and exceptional charges.

Earnings per share

Underlying earnings per share on continuing operations for the year was 61.47 pence (2011: 52.50 pence) an increase of 17% on 2010/11. Continuing basic earnings per share as defined by IAS 33 was 42.93 pence (2011: 30.14 pence) per share.

Financial review continued

Discontinued operations

Following a review of our business portfolio post the acquisition of VT Group in 2010, the Board decided that the VT US business did not meet the strategic requirements of the Group. A review was undertaken to establish the most appropriate course of action including the possible divestment of the business. This review was completed during the year and following discussions with a number of parties the Board opted to divest the business. Agreement has now been reached for the sale of VT Services Inc, subject to regulatory clearance, as such, the business has been treated as discontinued.

Within discontinued operations an exceptional **impairment of goodwill** of £58.5 million is included in respect of VT Services Inc. This has been calculated by reference to the estimated final sale value of the business.

Cash flow and net debt

	2011/12 £m	2010/11 £m
Cash generated from operations	**260.7**	308.5
Capital expenditure (net)	**(46.0)**	(33.2)
Interest paid (net)	**(37.1)**	(50.0)
Taxation	**(28.0)**	(19.3)
Free cash flow	**149.6**	206.0
Acquisitions and disposals net of cash/debt acquired	**4.2**	(574.3)
Investments in joint ventures	**(2.7)**	0.2
Dividend received from joint ventures and associates	**6.6**	–
Own shares	**0.6**	(2.2)
Dividends paid	**(73.5)**	(51.5)
Exchange difference	**3.1**	(4.9)
Net cash inflow	**87.9**	(426.7)
Opening net debt	**(729.0)**	(302.3)
Closing net debt	**(641.1)**	(729.0)

2011/12 has been another successful year for cash generation and the pay down of debt and at 31 March 2012 net debt had reduced to £641.1 million from £729.0 million at the previous year end. The management of cash is at the core of our financial disciplines and we aim to convert 100% of operating profit to operating cash over the medium term.

Cash generated from operations was £260.7 million (2011: £308.5 million) and represents a conversion rate of 111% (2011: 146%). The increase in working capital in the year was £76.6 million which was primarily as a result of the unwind of prepayments from customers, the acceleration of pension contributions and the increase in contract activity levels.

Following the acquisition of VT in 2010, the Group began a major IT transformation project with a total value of approximately £25 million and a programme of upgrades to dockyard facilities at Devonport and Rosyth. These, together with other minor expenditure principally focussed on the South African business, formed part of the total Group capital expenditure in 2011/12 of £46.0 million (2011: £33.2 million). Expenditure on the IT project totalled £14.4 million and cumulatively stood at £18.6 million. Following slight slippage in the programme the balance is now expected to be spent in 2012/13. Dockyard facilities upgrades will also continue into 2012/13.

Net cash interest paid was £37.1 million (2011: £50.0 million) excluding that paid by joint ventures. The positive effect on interest arising from the reduction in drawn debt on the Group banking facility was to some extent offset by the additional three months of post VT debt funding including the new US Private Placement loan notes issued in early 2011.

After **taxation** payments of £28.0 million (2011: £19.3 million) free cash flow was £149.6 million (2011: £206.0 million) representing a free cash flow yield on 31 March 2012 of 5%. The disposal of Babcock Eagleton raised £5.7 million after costs. **Cash dividends** paid out in the year to shareholders totalled £71.4 million (2011: £48.0 million).

Group **net cash inflow** was £87.9 million (2011: outflow £426.7 million) reducing total net debt to £641.1 million (2011: £729.0 million). Leverage ratios have improved significantly from last year, both in the rapid pay down of debt and through increased profits attributable to shareholders.

		Covenant	2011/12	2010/11
Debt service cover	EBITDA/ net interest	> 4 x	**6.4 x**	5.3 x
Debt cover	Net debt/ EBITDA	< 3.5 x	**1.8 x**	2.4 x
Gearing	Net debt/ shareholders' funds	n/a	**54%**	59%

Whilst these ratios will inevitably 'peak' at the time of significant acquisitions they demonstrate a clear downward trend as we continue to focus on reducing net debt.

Return on invested capital (ROIC) is defined as underlying profit before interest and tax divided by shareholders funds (excluding pensions deficits or surpluses) plus debt. For the year 2011/12, ROIC was 18.0%, up from the relatively low level of 13.9% in 2010/11 - a low point following the take-on of significant additional capital for the acquisition of VT Group plc part way through the financial year. Measured against the current weighted average pre-tax cost of capital of 9.7% and the track record of performance, this year's return of 18.0% demonstrates the Group's ability to generate value enhancing rates of return today and in the long term.

Pensions

Cash contributions

The total cash contributions expected to be paid by the group into the defined benefit pension schemes in 2012/13 are £93 million. £20 million of this was paid prior to 31 March 2012. £56 million is in respect of the cost of future service accrual of which £27 million, for future service accrual in Marine and Technology, is recovered via contractual terms. Of the balance, £8 million of the contributions are in respect of the three longevity swaps transacted during 2009/10 to mitigate the financial impact of increasing longevity, leaving £36 million to be funded from other Group contracts.

Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £2.8 billion in comparison to a valuation of the liabilities based on AA corporate bond yields of £3.0 billion representing 93% funding level.

A summary of the key assumptions used to value the largest schemes is shown in the attached financial statements. The most significant assumptions that impact on the results are the discount rate, the rate of future pensionable salary increases and the expected rate of inflation. The impact of the longevity swaps transacted during 2009/10 has helped to mitigate the impact of increasing allowance for longevity.

The total accounting deficit, pre deferred tax, at 31 March 2012, was £265.9 million (2011: £225.1 million) and the expected IAS 19 service cost in 2012/13 is £46.1 million (2011/12: £44.5 million). The net IAS19 charge to the income statement after allowing for interest on liabilities and expected return on assets for 2012/13 is £15.2 million or £11.5 million after tax (2011/12: £18.1 million and £13.8 million). The application of the proposed revisions to IAS 19, which will apply to the year 2013/14, on a pro forma basis to 2012/13 would give a net charge to the income statement of £45 million.

Operational review

Marine and Technology

		31 March 2012	31 March 2011	Change +/-
Revenue	total	**£1,084.7m**	£1,019.5m	+ 6%
Operating profit	total	**£135.1m**	£119.3m	+ 13%
Operating margin	total	**12.5%**	11.7%	

Marine and Technology market

Our UK market has remained stable over the past 12 months with no significant change expected in the year to come. During the year, progress towards general MoD outsourcing of equipment support was slow, although we believe the changes proposed to the MoD's procurement organisation, Defence Equipment and Support (DES) are likely to create outsourcing opportunities for larger, more complex programmes well suited to the depth and breadth of our capabilities.

In Canada, through the Canada First Defence Strategy and the National Shipbuilding Procurement Strategy, progress is being made towards major naval surface fleet modernisation. With two submarines soon to return to service, recent budget allocations suggest a positive outlook for submarine support and enhancement.

In Australia, the government has an ambitious programme of investment in future naval programmes, the Rizzo Review and the Coles Review have been set up to review and identify improved support solutions for both surface ship and submarine fleets. Both these reviews create opportunities for our proven, value for money support capabilities.

Marine and Technology strategy

In the UK our strategy is to retain and develop our position as the leading support partner to the Royal Navy. In support of this we have focused on delivering our commitments under the Terms of Business Agreement (ToBA) as well as seeking to identify opportunities to enhance and expand the services we provide our customer while driving further efficiencies. We have a significant involvement in major UK alliance programmes, the Surface Ship Support Alliance (SSSA) and the Submarine Enterprise Performance Programme (SEPP), where we are building on our significant engineering and integration expertise and know-how to broaden and deepen our involvement. Our strategy to provide technology-led services across the full programme life-cycle has been supported by our growing role in the design development of the future nuclear deterrent submarine as well as the provision of specialist design support and system proposals for the UK naval ship programme.

We have a clear strategy to grow our international presence in naval support markets building on our UK position. In Australia, we have continued to grow our presence through the provision of technical support on both in-service and new programmes in line with our strategy to become a leading support provider to the Royal Australian Navy. Recent contract wins have demonstrated the value of our commitment to the Australian market. In Canada we have established an initial capability for submarine support and we are now seeking to deliver wider services drawing on our UK track record. In other overseas markets we continue to build on our design /build activity on the South Korean and Spanish submarine programmes and are also reviewing the potential for our complete naval asset management support models in other countries where Babcock's track record in delivering cost reduction and improvements in service delivery is recognised.

Financial review

The division reported revenue of £1,084.7 million (2011: £1,019.5 million), an increase of 6% benefiting from increased revenue on submarine and warship programmes, including the QE class carrier programme as well as continued growth from international revenue. Operating profit increased to £135.1 million (2011: £119.3 million) an increase of 13% which resulted in an operating return on revenue of 12.5% driven largely by completion of the main part of HMS Vigilant's LOP(R) and the continuing efficiencies which we share with our customers.

Operational review

Our ToBA with the MoD creates a long-term partnering arrangement that provides us with a predictable, long-term programme of work in submarine and warship deep maintenance as well as continuing our role as the MoD's partner at the naval bases in Devonport and Clyde. During the year we met all of our requirements under the ToBA including the delivery of significant cost reductions in excess of the required level.

We retain a strong market position in the through-life support of the UK submarine fleet as sole provider of both deep and in-service maintenance. We are working with the MoD, BAE Systems and Rolls Royce on SEPP to ensure maximum availability of the UK submarine fleet whilst delivering on going reductions in operating costs.

HMS Vigilant successfully completed the main element of its LOP(R), which involved 160 capability upgrades, the removal and overhaul of 26,500 components and the defueling and refuelling of the nuclear reactor. As HMS Vigilant returned to HMNB Clyde for sea trials and contract acceptance, HMS Vengeance arrived at Devonport to begin her three and a half year, c £350 million LOP(R).

We continue to provide specialist systems and services for the Astute-class submarine programme as well as specialist training for submarine crews. HMS Astute is now included in the Babcock led in-service engineering management organisation and is continuing sea-trials before becoming fully operational in 2013. HMS Ambush is expected at Faslane in the summer of 2012 and procurement activities are already underway for the fifth submarine in the class. On the Successor future deterrent submarine programme, activities continue to progress. Babcock has involvement in the long-term technical engineering support and has secured the role as provider of the key tactical weapons launch system and we continue to invest in capability to deliver further elements of the programme.

The MoD is progressing its proposals for the Submarine Dismantling Programme (SDP) and has completed the public consultation process at Devonport and Rosyth, the sites identified for the dismantling phase of the programme. We expect the results of the consultation to be published in the summer of 2012 with the MoD's currently stated preference being for dismantling activities to take place in parallel on both sites.

During the year we have successfully delivered deep maintenance periods for a number of warships as part of the SSSA. The recently signed Phase 2 Agreement brings all of the remaining classes of warship currently in-service into the class management arrangements developed for SSSA. Work is also underway to develop Phase 3 of the SSSA covering future classes of warships providing Babcock with a potentially enhanced support role in future years.

As part of the Aircraft Carrier Alliance, with significant roles in both the design and build of the new vessels, we continue to make excellent progress and the programme remains on schedule with costs remaining in line with forecast. The first superblock is in place in the dock at Rosyth following delivery of lower and upper hull blocks and their assembly using the new Goliath crane.

We have been successfully managing the delivery of services at HMNBs Devonport and Clyde under the Warship Support Modernisation Initiative (WSMI) for the past 10 years. Under the framework of the ToBA, we are in active discussion with the MoD to introduce a replacement contract under the Maritime Support Delivery Framework. This new contract will provide a platform for further development of our role in both naval bases and provide a mechanism for us to deliver scope expansion.

In our broader equipment support operations, where we provide engineering support for a range of key assets as well as procurement and logistics support, we have consistently achieved or exceeded our customer's operational KPIs. During this year, our approach to demand management for a wide range of defence spares has enabled us to win additional, competitively tendered, procurement packages. In addition, we expect the MoD will, over time, transition to substantial outsourcing of equipment management services, roles where we can demonstrate industry leading capabilities.

Our international activities continue to progress well and now account for over 10% of the division's revenue. In Australia we have successfully tested our torpedo launchers and weapons handling systems for the new Hobart class Air Warfare Destroyers. We have also been selected, with our partners UGL, to provide in-service support for the Royal Australian Navy's fleet of eight Anzac class frigates. The contract worth £200 million over the initial five year period, establishes a new model of long-term support arrangements delivering benefits to the customer and industry. We have also been down-selected to tender for future packages of warship support which are expected to come to market by mid 2013.

With the Australian government committed to progressive reform of its naval support activities, which has included an in-depth review of its submarine support activities, we believe we are well place with distinctive capabilities and credentials.

Operational review continued

On the Canadian submarine programme, the Navy successfully trialled Babcock systems on HMCS Victoria, their first submarine to come back into service during 2012. We have taken control of HMCS Corner Brook ahead of refit activities and with HMCS Chicoutimi progressing through a refit, we continue to build our capability in Canada for an increasing future workload. The recent budget in Canada confirmed the government's commitment to the submarine fleet and high level agreements have been put in place for major surface fleet renewal. We expect these programmes to progress in the medium-term and bring a range of growth opportunities for us.

In Spain, significant deliveries of Babcock systems have been made throughout the year in support of the Spanish S-80 submarine programme and these are being integrated into the first of class build programme.

Divisional outlook

In the UK, as a result of our ToBA and our position on a number of key programmes we have excellent visibility of future revenues. We are well positioned, with unrivalled depth and breadth of expertise within each of our business units, to assist the MoD and Royal Navy as they seek to achieve maximum availability and increased financial efficiency as well as supporting them as further programmes are outsourced.

In our international markets, we continue to build our presence and are now well positioned as governments seek to achieve better value for money for naval equipment and infrastructure support and improved availability for their submarine and warship fleets.

We believe the outlook for the Marine and Technology division is extremely secure, with a number of opportunities to deliver further growth in both the UK and overseas.

Defence and Security

		31 March 2012	31 March 2011	Change + / -
Revenue	group	**£446.0m**	£381.9m	+ 17%
	jv	**£167.3m**	£87.3m	+ 92%
	total	**£613.3m**	£469.2m	+ 31%
Operating profit	group	**£51.7m**	£54.4m	– 5%
	jv	**£27.9m**	£18.8m	+ 48%
	total	**£79.6m**	£73.2m	+ 9%
Operating margin	group	**11.6%**	14.2%	
	jv	**16.7%**	21.5%	
	total	**13.0%**	15.6%	

Defence and Security markets

The key focus of the Defence and Security division is military training and equipment support primarily for the UK MoD with over £1.5 billion of MoD spend within our core capabilities. Through our 4,500 people in over 70 locations we have extensive experience across all three UK Armed Services, in leading the provision of training and equipment support services to operationally critical defence activities. Our success is built on our commitment to a safe working environment for our people, our depth of engineering and technical expertise and the ability to establish long-term partnering relationships with our customers.

In the UK the £38 billion shortfall in the Defence Budget over the next 10 years is being addressed through a comprehensive review of existing and planned programmes and personnel requirements. As a result, radical organisational change is proposed within the MoD together with significant reductions in equipment spending and in uniformed and civilian MoD staff. Within this context we expect the increasing pressure on budgets and manpower will drive greater outsourcing and the short-term potential for the extension of existing contract services in support of MoD legacy assets.

Defence and Security strategy

During the year our key focus has been to secure the rebids and extensions essential to maintaining our business capabilities and to build on our leading market positions in military training and equipment support to ensure we are well placed for future outsourcing opportunities. In support of these activities we remain focused on ensuring we are able to deliver the most cost efficient solution for our customer on current, as well as potential future, activities.

We have a demonstrable track record of delivery which has been sustained despite the current challenging economic and operational environment. This is recognised by the MoD through our excellent SRT (Supplier Relations Team) scores which reflect our strong relationship and our on-going commitment to the identification and sharing of efficiency savings.

Overseas, in selected markets where defence operational requirements are similar to those in the UK, we have been reviewing opportunities to exploit our expertise in developing long-term contracting support solutions. We believe our current Group position in the Australian and Middle East markets will provide an attractive growth opportunity.

Financial review

Revenue for the year including the Group's share of joint ventures for the Defence and Security division increased to £613.3 million (2011: £469.2 million) an increase of 31% mainly resulting from a full year of revenue from former VT operations. Organic growth for the division was 4%. The division's share of revenue from its joint venture projects including FSTA and MFTS was £167.3 million (2011: £87.3 million). With a long term commitment and a role as shareholder in both projects, we expect them to continue to contribute significantly to the division's revenue. The securing of the MoD's new Phoenix framework for the management of its white fleet of vehicles will underpin the division's revenue into next year. Both training and equipment support businesses performed well. Operating profit was £79.6 million (2011: £73.2 million) and, as previously indicated, operating return on revenue reduced to 13.0% (2011: 15.6%) following completion of the construction phase of both the joint ventures and the change in mix between new and mature contracts.

Operational review

Throughout the year our operational performance supporting the RAF has been strong. Following successful completion of the Main Operating Base and the communications and information systems for the Future Strategic Tanker Aircraft (FSTA) project, our focus has now moved to the through-life service delivery phase for the remaining 23 years of the programme. Under the UK Military Flight Training System (UKMFTS) programme we are now delivering the first training packages in support of RAF Advanced Jet Training at RAF Valley and Rear Crew Training at RAF Barkston Heath and RNAS Culdrose.

Our airfield and operational support contracts have performed well. We delivered 39,000 flying hours on the Light Aircraft Flying Task using our fleet of 119 Grob 115e Tutor aircraft across 15 MoD sites and 17,000 flying hours on 52 aircraft through the Tucano in Service Support Contract at RAF Linton-on-Ouse. We continue to provide engineering manpower support to the Sea King Integrated Operational Support (SKIOS) Search and Rescue service which is expected to continue until the Sea King out-of-service date in 2016.

We continue to develop our contract for engineering support to the fleet of 67 Hawk T1 aircraft in advanced flying training and engineering support to BAE Systems for the introduction to service of the Hawk T2 at RAF Valley – in aggregate support to 15,000 Hawk flying hours.

In our Land business we have continued to expand our training and equipment support capabilities. During the year we won a four year contract as the service provider for the MoD's new Phoenix framework. We have also signed a contract to provide continuity of service and incremental replacement for over 14,000 vehicles (ranging from cars to coaches and articulated trucks) previously provided through the White Fleet contract. We expect the overall Phoenix contract to be worth c £400 million to September 2016. To help the MoD to meet its challenging budget constraints, we have enhanced our service offering by incorporating telematic monitoring and on-line booking systems to improve fleet optimisation.

Throughout the year, our ALC joint venture contract with Amey has successfully provided and managed the MoD's fleet of 2,000 construction vehicle worldwide and has successfully and consistently delivered services in support of Urgent Operational Requirements. We are working closely with the MoD to identify further savings opportunities through more effective use of this contractual arrangement.

Our fleet management capability is also evidenced through our strong performance as a service provider on the Allenby Connaught programme where we provide maintenance and fleet management services to the MoD Green Fleet and have delivered in excess of 66,000 transport tasks during the year.

We expect the MoD to launch its competition for the Logistics and Commodities Service Transformation programme during 2012 and in preparation for this we have entered into a teaming agreement with DHL to bid, and if successful, operate this programme jointly.

At Bovington, our contract to provide training, maintenance and support services to the Royal Armoured Corps had delivered over 45,000 man training days to 1,900 students and provides us with a further opportunity to extend our role in both training and equipment support solutions until 2016.

We continue to focus on delivering the highest standards of training for both the Army and Royal Navy (RN). Following the cancellation of the Defence Training Rationalisation programme in 2010 the MoD is reviewing its long-term requirements and this will determine the scale and timing of future outsourcing opportunities. In the interim, our successful delivery record in training has enabled us to secure a £40 million, two year contract extension to 2014, for our activities at Bordon and Arborfield for the Royal Electrical and Mechanical Engineers.

At The Royal School of Military Engineering (RSME) we provide technical trade and professional engineering training as well as infrastructure and facilities management services. The construction and refurbishment programme is now 60% complete and 40 new and refurbished training assets have been handed over to the Royal Engineers during the year. New accommodation and specialist training facilities are planned at the Defence Explosives Munitions and Search School at Bicester during 2012 and this will deliver a step change in training capability in counter IED (Improvised Explosive Device) activities. We continue to work with the RSME in the transformation of engineering training and we remain on target to optimise the delivery of all trade courses by 2015.

We have had continued success in the winning and delivery of services to the RN. During the year we were awarded a six year c £90 million contract for the training requirement of the Fleet Outsourced Activities Project. This contract offers the RN significant improvements in efficiency and service delivery through innovative training and support processes and has options for the customer to extend to 15 years. Following a successful transition from the previous Flagship contract service delivery commenced in January 2012.

In support of our services to the RN training establishments we were awarded a contract extension until 2013 for the delivery of soft facilities management services. A competition is underway for the provision of these services from 2013 and we are actively engaged in that process.

In August 2011 we started delivery of training at the Royal Navy Maritime Composite Training System facility at HMS Collingwood where our team enables state-of-the-art training on synthetic training equipment. This £20 million, seven year contract is with BAE Systems who have developed the system in support of the Maritime Synthetic Training programme.

In the Security sector our ten year strategic partnering relationship with a Government Agency for the provision of engineering and procurement services continues to operate successfully and we continue to work with our customer to identify further savings opportunities within their operations, as they arise.

Divisional outlook

Following our success during the year in securing new vehicle support and training contracts for the Army and Royal Navy, our short-term focus is on service delivery and ensuring we maintain our track record of delivering efficiencies to the MoD. As these new contracts become operational we continue to seek opportunities to increase the scope of these services and participate in new MoD outsourcing programmes.

Our fleet availability contracts and engineering support activities leave us well placed to compete for future programmes. We expect that the pace of outsourcing across MoD will accelerate particularly in relation to:

- the proposed disposal of the Defence Support Group (DSG) which provides routine and depth maintenance on the Army's vehicle fleet
- MoD Logistics Commodities and Service Transformation – the outsourcing of elements of the Joint Supply Chain
- Tri-Service training packages in technical, collective and sponsored reserve training
- support of front line aircraft.

Overseas we aim to leverage our UK expertise and capabilities in selected markets where defence operational requirements are similar and opportunities arise to exploit our experience in developing long-term contracting models.

Support Services

		31 March 2012	31 March 2011	Change + / -
Revenue	group	**£1,037.7m**	£895.2m	+ 16%
	jv	**£54.7m**	£51.4m	+ 6%
	total	**£1,092.4m**	£946.6m	+ 15%
Operating profit	group	**£98.0m**	£75.3m	+ 30%
	jv	**£8.7m**	£4.3m	+ 102%
	total	**£106.7m**	£79.6m	+ 34%
Operating margin	group	**9.4%**	8.4%	
	jv	**15.9%**	8.4%	
	total	**9.8%**	8.4%	

Support Services market

The Support Services division operates predominantly in a range of UK public sector, MoD, regulated and commercial markets, targeting various elements of the c £200 billion market for outsourced services.

Since the 2010 Comprehensive Spending Review, aggregated customer output and spend has reduced across our markets, however that spend which is addressable to Babcock has, in most cases, grown or remained flat, influenced by a range of factors. These include a transformation in our customers' operating models towards a commissioner of services, and hence increased reliance on private sector partners, such as in our local authority, schools, police and fire and rescue markets.

Equally, the mission critical nature of the engineering assets managed on behalf of our civil nuclear, MoD, power and telecoms customers typically encourages longer-term planning and procurement cycles.

Finally, and in response to the challenging economic climate, as well as the Cabinet Office's push for alternative provision of service delivery, Babcock has been working with customers in our government property, mining and construction and local authority markets on innovative models of asset ownership and finance and service provision that has unlocked spend that might otherwise not be available.

Support Services strategy

The division has continued to develop its strategy, in line with the Group's strategic objectives, and is focused on taking responsibility for our customers' complex and critical assets, providing technical expertise and improving service delivery at reduced cost to give our customers the confidence to focus on their core operations and strategic direction. Our business units have developed their strategies to ensure they are in a strong position to compete within their specific markets.

In particular, we have strengthened our approach to account management for our key customers, developing specific propositions that are targeted at delivering additional value and strengthening our relationships. This approach is also providing a bridge between business units, allowing us to develop propositions that combine capabilities across the division.

With growth as our key priority, last year we identified a number of core growth sectors; nuclear, government property, education and training and mobile asset management. Good progress has been made throughout the year with a number of key contract wins and new competitions coming to market demonstrating progress.

The integration of ex-VT businesses has delivered substantial cost synergies arising from revised organisation structures and enhanced procurement activities. Revenue synergies are also being delivered, in particular in the Nuclear and Mobile Assets businesses, where the combination of Babcock and VT skills and capabilities have delivered innovative propositions and further improved our market positioning.

Financial review

The division's revenue, including the Group's share of joint ventures, increased by 15% to £1,092.4 million (2011: £946.6 million) of which c 5% was organic growth. Joint venture revenue was £54.7 million (2011: £51.4 million). All businesses showed revenue growth with Infrastructure and Nuclear benefiting from new contract wins as well as continued organic growth. Operating profit including jvs increased by 34% to £106.7 million, (2011: £79.6 million) which gave an operating return on revenue of 9.8% (2011: 8.4%) driven by both contract performance and additional cost synergy realisation.

Operational review continued

Operational review

Nuclear

Our Nuclear business continues to grow its reputation as a major player in the UK market with capabilities in the decommissioning and power generation sectors.

The key success during the year was at Dounreay, where the Nuclear Decommissioning Authority awarded the contract for the decommissioning and clean up of the Dounreay nuclear site to the Babcock Dounreay Partnership (a joint venture between Babcock, CH2M Hill and URS). This is a complex long-term contract to deliver the site to its interim end state by 2025, 16 years earlier than the previous plan. The total contract value is expected to be in the region of £1.6 billion, which represents a reduction of over £1 billion on previous estimates.

Dounreay is the first major closure project in the UK and is also the first target cost/incentive fee contract for this type of programme – a clear demonstration of Babcock's ability to create value for its customers.

We have continued to strengthen our position at Sellafield with involvement in a number of significant decommissioning programmes on the site. Core contracts awarded in 2010/11 have performed well and our position has been further reinforced by other major wins during this year; Phase 1 of the Silos Maintenance Facility, a key part of the hazard reduction programme and the Design Services Alliance framework agreement which will provide initial design works for decommissioning related projects on the site. Both these contracts have a potential total value of up to £150 million.

Elsewhere in the UK, Babcock has secured substantial decommissioning work at the Trawsfynydd Magnox site and the decommissioning of the A1 facility at AWE is progressing very well.

We continue to provide specialist fuel route support to EdF on the UK's current fleet of nuclear power stations. Looking forward, although we do not expect any contract awards until at least 2015, we have teamed with a major French contractor and are starting to prepare bids for future activities as part of EdF's new build programme at Hinkley Point and Sizewell.

Mobile Assets

As announced in September 2011, we are now managing and maintaining Lafarge's fleet of heavy mobile equipment in the UK, US and Canada worth a total of £150 million over a ten year period. The team continue to develop the next phases of the process with due diligence on going in further territories, where we expect some negotiations to be concluded in the first half of this financial year.

Our other fleet management contracts for the emergency services continue to perform well and our operations at Heathrow continue to expand as a result of a new contract with BAA to support their airfield operations vehicles at the world's busiest international airport.

We are now looking at a number of opportunities where our proven through-life management model could prove attractive to customers operating complex mixed vehicle fleets.

Infrastructure

For our Infrastructure business, the current reorganisation of the Defence Infrastructure Organisation (DIO) has created a number of opportunities. Our current regional prime contracts are performing well and have been extended to 2014 as the DIO prepares for the Next Generation Estate contracts to come to market. Babcock is the only organisation to have pre-qualified for all contracts being let under the first phase of this process; the Scotland and Northern Ireland Prime, the Housing Prime and the National Training Estate Prime contracts. The contract to support the British Forces in Germany is also performing well and we will remain proactive and responsive to the Military's needs as operations are wound down in Germany and forces are returned to the UK.

In addition, we are looking at other opportunities within the DIO, and other public and private sector customers to help them unlock value within their complex and critical property portfolios.

Education and Training

The training business has continued to perform strongly. We remain the UK's largest provider of vocational training, with c 45,000 learners on a programme at any one time. We work in partnership with over 6,000 employers drawn from a broad range of industries, predominantly in the engineering and services sectors.

During the year our training client base has continued to expand, most notably with a new 25 year contract with the London Fire Brigade (LFB) to support the training of all fire-fighters across London. Our contract will also entail the building of two dedicated fire training facilities in London and the refurbishment of facilities at a number of fire stations. The new contract started on 1 April 2012 following rapid mobilisation and is performing well.

In addition to new contracts, we also secured rebids with the Army and Network Rail and we hope to secure a rebid for the EdF technical training facility. These contracts along with the LFB success, clearly demonstrate our unparalleled position in the technical training sector.

Within the Education business, we have built on our successful partnership with Surrey Country Council, by winning a £125 million, seven year contract with Devon County Council to deliver education effectiveness services and learning support. This new contract will be delivered through a dedicated team of education professionals, working to create a regional and national centre of excellence to deliver savings and returns to the council of over £10 million over the life of the partnership. Babcock is now the leading provider of school effectiveness services to UK schools.

Outside the growth areas highlighted above, the division has had two major successes during the year retaining key contract and customer relationships.

We retained our position as a trusted partner for the BBC built up over the past 15 years with the win of the ten year, £200 million contract to continue providing the BBC World Service with transmission and distribution services for radio and television.

A major contract extension was awarded by National Grid to our Electricity Alliance contract with a further five year framework arrangement agreed to maintain and upgrade high voltage power lines across the UK. This extension also offers the exciting opportunity to proactively support our customer as it moves into the new RIIO regulatory framework being implemented by Ofgem with its focus on performance through incentives, innovation and output.

Divisional outlook

The pressure on the UK government and our private sector customers to deliver services within restricted budgets continues to create substantial growth opportunities for the Support Services Division. In addition investment and change is being driven through the UK's infrastructure, including the power transmission, rail and mobile communications networks where we can offer existing and new customers a differentiated engineering solution.

Our unique combination of market-leading positions: technical, management and analytical expertise and track record of improving service delivery and reducing costs for our customers, creates a compelling proposition and a strong platform for growth.

International

		31 March 2012	31 March 2011*	Change + / -
Revenue	total	**£280.0m**	£267.9m	+ 5%
Operating profit	total	**£19.3m**	£18.1m	+ 7%
Operating margin	total	**6.9%**	6.8%	

* restated

Following agreement being reached for the sale of the US defence business, subject to regulatory approval, which was previously reported with the results of the International division, the division's financial results have been restated to include only continuing operations. These comprise the South African operations and aircraft support contracts in Oman and Kuwait. The US business is reported as discontinued and as held for sale.

South Africa

South African market

In South Africa, the general economic environment has remained stable during 2011 and economic growth is forecast to continue. Our equipment markets continue to be supported by both the on going investment in infrastructure; for which the South African government announced a c ZAR800 billion programme of investment over the next three years in October 2011, and the increasing global demand for South African commodities, including coal, diamonds and copper. For our power generation support operations, as economies continue to grow across Southern Africa, demand for energy is increasing and is putting pressure on current generating capacity. We expect this to continue for the next 15-20 years.

Our strategy

Throughout the downturn, between 2008 – 2010, we took the opportunity to review and reshape our business and ensure we were well placed to take full advantage of the recovery which started during 2011. Our key priorities are to drive growth through our well-established equipment dealership networks and plant hire operations and build on our long-term relationship with Eskom in our power generation activities. We will also be seeking to build on Group-wide capabilities and expertise to develop new business streams and will be focusing on opportunities we have identified for automotive training and defence infrastructure and equipment support.

Financial overview

Continuing revenue for the division increased by 5% to £280.0 million (2011: £267.9 million) and operating profit increased by 7% to £19.3 million (2011: £18.1 million) which resulted in an operating return on revenue of 6.9% (2011: 6.8%). The growth in Volvo equipment and in the plant hire business has driven up profits year on year.

Operational overview

The equipment market has continued to experience steady growth throughout the year. We have seen good demand for Volvo equipment, benefiting in particular from the introduction of new ranges of trucks, and are planning for this to continue during 2012. Following the launch of the DAF truck franchise in 2010, sales have been steady throughout the first year and with the introduction of new customer finance packages we expect to see increased growth in the coming year.

With increased investment in infrastructure our plant hire operations have experienced strong demand for cranes and power generators. We expect growth in demand to increase significantly and we have increased our capacity to respond to this accordingly as well as creating opportunities to move into new geographies.

Eskom, South Africa's power generation company, continue to fall behind on their planned maintenance activities. However we have experienced good activity levels within our power generation support operations as we support Eskom meet increased demand for electricity. Powerlines activity has remained stable and although one or two international competitors have withdrawn from the market, competition remains stiff.

Operational review continued

Divisional outlook

In South Africa, the markets in which we operate are expected to remain strong for a number of years supported by significant investment programmes and global commodity requirements. We have restructured our business so we are in a strong position to benefit from these trends.

For our current operations we have a number of opportunities within our existing markets and we have identified opportunities to develop these businesses into new geographies and new markets. In addition, we have identified a number of opportunities in new markets and for additional business streams which we can access by building on expertise elsewhere in the Group.

Middle East

Despite the on going political unrest in parts of the Middle East a number of factors support our belief that the area will provide the Group with significant growth opportunities in future. In particular, the drive for economic diversification away from oil and the increased focus on vocational training, in both civil and defence sectors, to support this as well as the rising investment in education and infrastructures across the region.

We have continued to build our presence through our management team in Abu Dhabi and have been actively engaged in dialogue with a number of government departments and private organisations. As anticipated, this process is taking time but we are making steady progress. We have identified a number of areas where we can build on our current contracts in the region and exploit the capabilities across the Group and our successful track record of delivery.

Peter Rogers
Group Chief Executive

Bill Tame
Group Finance Director
14 May 2012

Principal risks

The risks and uncertainties shown below are those the Board considers to be of most direct relevance and greatest significance to Babcock as it stands today. They have the potential to materially and adversely affect Babcock's business, results of operations, revenue, profit, cash flow, assets and the delivery of its strategy.

For each risk there is a description of the general strategic response by the Company. The size, complexity and spread of Babcock's businesses and the continually changing environment in which the Group operates means, however, that the list below cannot be an exhaustive list of all significant risks that could affect the Group. For example, risks and uncertainties which affect or are likely to affect businesses in general are not set out below but Babcock, in common with other businesses, faces those risks too.

The Group's risk management and internal control systems can only seek to manage, not eliminate, the risk of failure to achieve business objectives, as any system can only provide reasonable, not absolute, assurance against material misstatement or loss.

Risk – reliance on large contracts with a relatively limited number of major clients, including clients affected by political and public spending decisions

Babcock's customers are mainly large, complex organisations, typically central or local government departments, other public sector bodies or commercially owned entities in sectors subject to specific regulation. Many of them rely, to a greater or lesser extent, on public funding.

Babcock's contracts are typically intended to last for five to seven years, but many for much longer than that.

Inevitably, reliance on a relatively limited number of large customers and contracts carries risks.

- National and local government policy changes and public spending constraints are potentially material risks for the Company as they could result in delays in placing work, pressure on pricing or margins, withdrawal of projects, early termination of contracts, lower contract spend than anticipated or adoption of less favourable contracting models.
- These customers set demanding criteria for eligibility for contracting with them, the cost of compliance with which can be significant; the failure to obtain or retain the necessary eligible status to contract with such customers could substantially impact entire business areas.
- A loss of reputation for any reason, either generally or with a specific major customer, could lead to a significant loss of existing or future business.
- Key reputational dependencies include health and safety performance, ethical conduct and contract performance.
- Bid success rate determines how much of a pipeline of opportunities is actually turned into growth.
- Bidding for large and complex contracts is time-consuming (it can take many months or even run into years) and is expensive – as can be mobilising on new contract wins.
- Unsuccessful bids or rebids can involve significant wasted bid costs.
- By their nature, large, longer-term contracts are irregular and relatively infrequent in coming to market;
- These factors together mean that lack of success in a new bid can represent a significant missed opportunity for growth, and losing rebids can mean the loss of a significant existing revenue and profit stream.

Strategic response

- The Company has extensive and regular dialogue with key customers, involving as appropriate, the Chief Executive, Divisional Chief Executives and other members of the senior management team.
- The Company actively monitors actual and potential political and other developments that might affect its customers.
- By these means, the Company seeks to maintain a clear understanding of customer needs, plans and constraints and to be able to respond to them.
- The Company aims to be innovative and responsive in helping customers meet their needs and challenges.

Risk - operations carrying significant health and safety or environmental risks

Many of Babcock's operations, if not properly managed and conducted, entail the risk of significant harm to employees, third parties or the environment. Apart from the adverse impact this could have on reputation and the willingness of customers to deal with Babcock (see above), this could lead to significant financial loss and claims for damages.

Strategic response

Health, safety and environmental performance are absolute priorities for Babcock and receive close and continuous attention and oversight from the senior management team as well as at the operational level.

Risk - need for experienced management resource and skilled employees, who can sometimes be in short supply

The Group needs, now and in the future, strong, experienced senior executive and management teams familiar with the Babcock culture, business model and customer base and who are capable of delivering its strategic development plans. Also, some of the Group's core engineering, technology and project management businesses are complex and demand skilled, suitably qualified personnel to deliver them operationally. The continuing success of the Group relies on Babcock's ability to attract, train and retain qualified and experienced management and business development executives and other specialist professionals, technicians, engineers and project management staff. The number of suitable candidates is limited and the market for them competitive. This can lead not only to increasing costs of recruitment and retention but also potential problems with resourcing contracts and pursuing bids and new business areas, which could in turn threaten the Company's growth and reputation.

Strategic response
High priority and significant resources are given to recruiting skilled professionals, apprentice and graduate recruitment programmes, training and development, succession planning and talent management generally.

Risk - IT and cyber-security
Like any business, Babcock depends on having reliable and secure IT systems and cyber-security is an increasing threat for all businesses. However, for Babcock this is also a critical customer concern.

Many customer contracts require the Group to operate contract-supporting IT either entirely within secure customer networks or to be able to interface reliably and securely with those systems, and the nature of Babcock's main customers is such that they and their suppliers are a prime target for cyber-security attacks.

The ability of Babcock to be able to deliver secure IT and other information assurance systems is, therefore, a key factor for the customer. If Babcock is unable to demonstrate continuing compliance with customer requirements in this area it could have a substantial impact on major business sectors.

Strategic response
Babcock has made a major investment – and will need to maintain significant investment – in updated, reliable, more secure and suitably accredited systems, under a centrally run IT management structure.

As a part of this investment programme a major project is underway to upgrade and further enhance security and information assurance controls and management.

Risk - the Group has significant defined benefit pension schemes
Defined benefit schemes provide for a specified level of pension benefit to members, the cost of which is met from both member and employer contributions paid into pension scheme funds and the investment returns made in those funds over time. The level of contributions required to meet pension obligations is actuarially determined based on various assumptions, which are subject to change, such as life expectancy of members, investment returns, inflation etc. If, based on the assumptions being used at any time, assets in the pension scheme are judged to be insufficient to meet the calculated cost of the pension obligations there can be a significant shortfall, which the scheme trustees may require to be made up or secured by increased contributions from employers and/or employees, additional cash payments from employers and/or guarantees or other security to be provided by employers. This may reduce the cash available to meet the Group's other obligations or business needs. The most significant impact can occur due to differences between the actual and assumed investment returns and changes in the assumption for life expectancy.

Also, the Group must comply with IAS 19 when accounting for its defined benefit schemes. IAS 19 requires corporate bond related discount rates to be used to value the pension liabilities. This is likely to lead to variations from year-to-year due to a mismatch with the investments held in the pension schemes and because of variations in the yields available on corporate bonds and inflationary expectations. This in turn can materially affect the pensions charge in the income statement in the Group's accounts from year-to-year as well as the value of the difference between the assets and the liabilities shown on the Group's balance sheet, leading to significant accounting volatility. Future accounting, regulatory and legislative changes may also adversely impact on valuations and costs.

Strategic response
Continuous strategic monitoring and evaluation by Group senior management of both the assets and liabilities of the pension scheme and, as appropriate, the execution of mitigation opportunities. The Company seeks to have a constructive and open relationship with the schemes' trustees with a view to working together to mitigate and manage these long-term risks.

Income statement

For the year ended 31 March 2012

	Note	£m	2012 Total £m	(restated) £m	2011 Total (restated) £m
Total revenue	2		3,070.4		2,703.2
Less: joint ventures and associates revenue			222.0		138.7
Group revenue			2,848.4		2,564.5
Group					
Operating profit before amortisation of acquired intangibles and exceptional items	2	290.2		250.1	
Amortisation of acquired intangibles	3	(77.3)		(76.6)	
Exceptional items	3	(10.9)		(20.3)	
Group operating profit			202.0		153.2
Joint ventures and associates					
Share of operating profit		11.0		9.3	
Investment income		25.6		13.8	
Amortisation of acquired intangibles	3	(6.2)		(4.6)	
Finance costs		(19.4)		(8.3)	
Income tax expense		(6.7)		(4.1)	
Share of results of joint ventures and associates			4.3		6.1
Group and joint ventures and associates					
Operating profit before amortisation of acquired intangibles and exceptional items		301.2		259.4	
Investment income		27.8		16.0	
Underlying operating profit*	2	329.0		275.4	
Amortisation of acquired intangibles		(83.5)		(81.2)	
Exceptional items		(10.9)		(20.3)	
Group investment income		(2.2)		(2.2)	
Joint ventures and associates finance costs		(19.4)		(8.3)	
Joint ventures and associates income tax expense		(6.7)		(4.1)	
Group operating profit plus share of joint ventures and associates			206.3		159.3
Finance costs					
Investment income		2.2		2.2	
Finance costs		(46.0)		(59.0)	
Finance income		10.5		8.6	
			(33.3)		(48.2)
Profit before tax	2		173.0		111.1
Income tax expense	4		(15.8)		(10.1)
Profit for the year from continuing operations			157.2		101.0
Discontinued operations					
(Loss) /profit for the year from discontinued operations attributable to owners of the parent			(53.1)		3.7
Profit for the year			104.1		104.7
Attributable to:					
Owners of the parent			100.8		101.1
Non-controlling interest			3.3		3.6
			104.1		104.7
Earnings per share from continuing operations	5				
– Basic			42.93p		30.14p
– Diluted			42.76p		30.03p
Earnings per share from continuing and discontinued operations					
– Basic			28.11p		31.28p
– Diluted			28.01p		31.17p

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

Statement of comprehensive income

For the year ended 31 March 2012

	2012 £m	2011 £m
Profit for the period	**104.1**	104.7
Other comprehensive income		
Currency translation differences	**(6.2)**	(7.7)
Fair value adjustment of interest rate and foreign exchange hedges	**4.3**	7.3
Tax on fair value adjustment of interest rate and foreign exchange hedges	**0.5**	(1.5)
Fair value adjustment of joint venture and associate derivatives	**(65.1)**	8.8
Tax on fair value adjustment of joint venture and associate derivatives	**16.9**	(2.4)
Net actuarial (loss)/gain in respect of pensions	**(106.9)**	103.5
Tax on net actuarial loss/(gain) in respect of pensions	**27.8**	(31.3)
Impact of change in UK tax rates	**(5.7)**	(2.7)
Other comprehensive income, net of tax	**(134.4)**	74.0
Total comprehensive (loss)/income	**(30.3)**	178.7
Attributable to:		
Owners of the parent	**(33.3)**	175.0
Non-controlling interest	**3.0**	3.7
Total comprehensive (loss)/income	**(30.3)**	178.7

Statement of changes in equity

For the year ended 31 March 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 interest £m	Total equity £m
At 1 April 2010	**137.8**	**148.3**	**30.6**	**(234.2)**	**(10.7)**	**8.8**	**80.6**	**5.2**	**85.8**
Total comprehensive income	–	–	–	170.6	12.2	(7.8)	175.0	3.7	178.7
Shares issued in the period	77.5	724.5	–	–	–	–	802.0	–	802.0
Dividends	–	–	–	(48.0)	–	–	(48.0)	(3.5)	(51.5)
Share-based payments	–	–	–	5.8	–	–	5.8	–	5.8
Tax on share-based payments	–	–	–	0.5	–	–	0.5	–	0.5
Own shares and other	–	–	–	(2.2)	–	–	(2.2)	–	(2.2)
Non-controlling interest acquired	–	–	–	–	–	–	–	3.5	3.5
Acquisition costs	–	–	–	(2.0)	–	–	(2.0)	–	(2.0)
Net movement in equity	77.5	724.5	–	124.7	12.2	(7.8)	931.1	3.7	934.8
At 31 March 2011	**215.3**	**872.8**	**30.6**	**(109.5)**	**1.5**	**1.0**	**1,011.7**	**8.9**	**1,020.6**
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 (loss)/ income	–	–	–	16.0	(43.4)	(5.9)	(33.3)	3.0	(30.3)
Shares issued in the period	0.2	0.2	–	–	–	–	0.4	–	0.4
Dividends	–	–	–	(71.4)	–	–	(71.4)	(2.1)	(73.5)
Share-based payments	–	–	–	5.0	–	–	5.0	–	5.0
Tax on share-based payments	–	–	–	(0.6)	–	–	(0.6)	–	(0.6)
Own shares and other	–	–	–	0.2	–	–	0.2	–	0.2
Non-controlling interest acquired	–	–	–	(0.6)	–	–	(0.6)	(1.2)	(1.8)
Net movement in equity	0.2	0.2	–	(51.4)	(43.4)	(5.9)	(100.3)	(0.3)	(100.6)
At 31 March 2012	**215.5**	**873.0**	**30.6**	**(160.9)**	**(41.9)**	**(4.9)**	**911.4**	**8.6**	**920.0**

Balance sheet

As at 31 March 2012

	Note	2012 £m	2011 (restated) £m
Assets			
Non-current assets			
Goodwill		1,540.9	1,622.2
Other intangible assets		347.2	473.4
Property, plant and equipment		213.7	205.8
Investments in joint ventures and associates	7	19.3	64.9
Loans to joint ventures and associates	7	24.9	22.1
Retirement benefits	11	10.2	12.2
Trade and other receivables		1.8	1.9
IFRIC 12 financial assets		23.1	38.2
Other financial assets	10	20.1	1.0
Deferred tax asset		31.3	3.3
		2,232.5	2,445.0
Current assets			
Inventories		81.6	96.6
Trade and other receivables		476.9	540.3
Income tax recoverable		–	2.7
Other financial assets		3.3	0.8
Cash and cash equivalents	10	100.3	104.3
		662.1	744.7
Assets held for sale	13	103.0	–
Total assets		2,997.6	3,189.7
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital		215.5	215.3
Share premium		873.0	872.8
Capital redemption and other reserves		(16.2)	33.1
Retained earnings		(160.9)	(109.5)
		911.4	1,011.7
Non-controlling interest		8.6	8.9
Total equity		920.0	1,020.6
Non-current liabilities			
Bank and other borrowings	10	757.3	799.0
Trade and other payables		8.9	13.6
Deferred tax		–	20.6
Retirement liabilities	11	276.1	237.3
Provisions for other liabilities		117.2	134.4
		1,159.5	1,204.9
Current liabilities			
Bank and other borrowings	10	4.2	35.3
Trade and other payables		819.5	877.8
Income tax payable		10.0	17.3
Other financial liabilities		8.2	4.1
Provisions for other liabilities		27.8	29.7
		869.7	964.2
Liabilities held for sale	13	48.4	–
Total liabilities		2,077.6	2,169.1
Total equity and liabilities		2,997.6	3,189.7

Cash flow statement

For the year ended 31 March 2012

	Note	2012 £m	2011 £m
Cash flows from operating activities			
Cash generated from operations	8	**260.7**	308.5
Income tax paid		**(28.0)**	(19.3)
Interest paid		**(47.4)**	(58.6)
Interest received		**10.3**	8.6
Net cash flows from operating activities		**195.6**	239.2
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates		**5.7**	2.2
Dividends received from joint ventures and associates		**6.6**	–
Proceeds on disposal of property, plant and equipment		**2.7**	1.0
Proceeds on disposal of intangible assets		**–**	0.2
Purchases of property, plant and equipment		**(42.7)**	(30.2)
Purchases of intangible assets		**(6.0)**	(4.2)
Investment in, loans to and interest received from joint ventures and associates		**(2.7)**	0.2
Acquisition of non-controlling interest		**(1.7)**	–
Acquisition of subsidiaries net of cash acquired		**0.2**	(486.2)
Net cash flows from investing activities		**(37.9)**	(517.0)
Cash flows from financing activities			
Dividends paid		**(71.4)**	(48.0)
Finance lease principal payments		**(2.0)**	(12.9)
Loans repaid		**(305.6)**	(457.5)
Loans raised		**251.0**	845.1
Dividends paid to non-controlling interest		**(2.1)**	(3.5)
Net proceeds on issue of shares		**0.4**	–
Movement on own shares		**0.2**	(2.2)
Net cash flows from financing activities		**(129.5)**	321.0
Net increase in cash, cash equivalents and bank overdrafts		**28.2**	43.2
Cash, cash equivalents and bank overdrafts at start of period		**72.7**	29.0
Effects of exchange rate fluctuations		**(2.5)**	0.5
Cash, cash equivalents and bank overdrafts at end of period	10	**98.4**	72.7

Notes to the consolidated financial statements

For the year ended 31 March 2012

1. Basis of preparation

The financial information has been extracted from the Annual Report, including the audited financial statements for the year ended 31 March 2012. They should be read in conjunction with the Annual Report for the year ended 31 March 2011, which has been prepared in accordance with IFRSs as adopted by the European Union. The accounting policies used and presentation of these consolidated financial statements are consistent with those in the Annual Report for the year ended 31 March 2011.

Standards, amendments and interpretations effective in 2011 with minimal or no impact on the Group:

- ☐ IAS 24 (revised), 'Related party discloses'.
- ☐ IFRS 1 (amendment), 'First time adoption' on financial instrument disclosure.
- ☐ IFRIC 14 (amendment), 'Prepayment of a minimum funding requirement'.
- ☐ IFRIC 19, Extinguishing financial liabilities with instruments;.
- ☐ 2010 Annual improvements

2. Segmental analysis

The segments reflect the accounting information reviewed by the Chief Operating Decision Maker (CODM). The Marine and Technology segment includes the Group's UK and International marine business, the Defence and Security segment is the remainder of the UK defence business with the exception of certain defence infrastructure contracts which fall within Support Services. Support Services also includes Education and Training, Rail, Infrastructure, Critical Assets and Mobile Assets. International includes the South African and Middle East businesses. The 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
Total revenue	1,084.7	613.3	1,092.4	280.0	–	3,070.4	202.1	3,272.5
Joint ventures and associates revenue	–	167.3	54.7	–	–	222.0	–	222.0
Group revenue	1,084.7	446.0	1,037.7	280.0	–	2,848.4	202.1	3,050.5
Operating profit* – Group	135.1	50.3	97.2	19.3	(11.7)	290.2	14.7	304.9
IFRIC 12 investment income – Group	–	1.4	0.8	–	–	2.2	–	2.2
Share of operating profit – joint ventures and associates	–	9.5	1.5	–	–	11.0	–	11.0
Share of IFRIC 12 investment income – joint ventures and associates	–	18.4	7.2	–	–	25.6	–	25.6
Underlying operating profit	135.1	79.6	106.7	19.3	(11.7)	329.0	14.7	343.7
Share of interest - joint ventures and associates	–	(12.3)	(7.1)	–	–	(19.4)	–	(19.4)
Share of tax - joint ventures and associates	–	(6.5)	(0.2)	–	–	(6.7)	–	(6.7)
Acquired intangible amortisation – Group	(13.0)	(12.6)	(51.7)	–	–	(77.3)	(7.9)	(85.2)
Share of acquired intangible amortisation – joint ventures and associates	–	(5.8)	(0.4)	–	–	(6.2)	–	(6.2)
Net finance costs – Group	–	–	–	–	(35.5)	(35.5)	–	(35.5)
Exceptional items	–	–	–	–	(10.9)	(10.9)	(58.6)	(69.5)
Group profit before tax	122.1	42.4	47.3	19.3	(58.1)	173.0	(51.8)	121.2

*Before amortisation of acquired intangibles and exceptional items.

Notes to the consolidated financial statements continued

2. Segmental analysis (continued)

2011	Marine and Technology £m	Defence and Security £m	Support Services £m	International (restated) £m	Unallocated (restated) £m	Continuing operations: Total continuing operations £m	Discontinued operations: International (restated) £m	Total: Group total £m
Total revenue	1,019.5	469.2	946.6	267.9	–	2,703.2	191.3	2,894.5
Joint ventures and associates revenue	–	87.3	51.4	–	–	138.7	–	138.7
Group revenue	1,019.5	381.9	895.2	267.9	–	2,564.5	191.3	2,755.8
Operating profit* – Group	119.3	52.8	74.7	18.1	(14.8)	250.1	11.5	261.6
IFRIC 12 investment income – Group	–	1.6	0.6	–	–	2.2	–	2.2
Share of operating profit – joint ventures and associates	–	8.5	0.8	–	–	9.3	–	9.3
Share of IFRIC 12 investment income – joint ventures and associates	–	10.3	3.5	–	–	13.8	–	13.8
Underlying operating profit	119.3	73.2	79.6	18.1	(14.8)	275.4	11.5	286.9
Share of interest - joint ventures and associates	–	(4.7)	(3.6)	–	–	(8.3)	–	(8.3)
Share of tax - joint ventures and associates	–	(4.0)	(0.1)	–	–	(4.1)	–	(4.1)
Acquired intangible amortisation – Group	(10.1)	(13.9)	(52.6)	–	–	(76.6)	(6.8)	(83.4)
Share of acquired intangible amortisation – joint ventures and associates	–	(4.3)	(0.3)	–	–	(4.6)	–	(4.6)
Net finance costs – Group	–	–	–	–	(50.4)	(50.4)	–	(50.4)
Exceptional items	–	–	–	–	(20.3)	(20.3)	(0.4)	(20.7)
Group profit before tax	109.2	46.3	23.0	18.1	(85.5)	111.1	4.3	115.4

*Before amortisation of acquired intangibles and exceptional items.

3. Exceptional items and acquired intangible amortisation

	Group 2012 £m	Group 2011 £m	Joint ventures and associates 2012 £m	Joint ventures and associates 2011 £m	Total 2012 £m	Total 2011 £m
Continuing operations						
Profit on disposal of subsidiaries	**(1.9)**	(2.9)	**–**	–	**(1.9)**	(2.9)
Reorganisation costs	**12.8**	10.8	**–**	–	**12.8**	10.8
Acquisition costs	**–**	12.4	**–**	–	**–**	12.4
Exceptional items	**10.9**	20.3	**–**	–	**10.9**	20.3
Acquired intangible amortisation	**77.3**	76.6	**6.2**	4.6	**83.5**	81.2
Continuing total	**88.2**	96.9	**6.2**	4.6	**94.4**	101.5
Discontinued operations						
Reorganisation costs	**0.1**	0.4	**–**	–	**0.1**	0.4
Impairment of US defence goodwill	**58.5**	–	**–**	–	**58.5**	–
Exceptional items	**58.6**	0.4	**–**	–	**58.6**	0.4
Acquired intangible amortisation	**7.9**	6.8	**–**	–	**7.9**	6.8
Discontinued total	**66.5**	7.2	**–**	–	**66.5**	7.2

Exceptional items are those items which are exceptional in nature or size. These include material acquisition costs and reorganisation costs

Following the exchange of conditional contracts for the sale of the US defence business acquired with VT Group plc there is an impairment to Goodwill reflecting the current sales value expected.

Acquisition costs in 2011 relate to the acquisition of VT Group plc. Reorganisation costs relate to the integration of Babcock International Group PLC and VT Group plc.

Notes to consolidated financial statements continued

4. Income taxes

Taxation in respect of Group profit before tax, acquired intangible amortisation and exceptional items totalled £54.7 million (2011: £46.8 million) including the Groups shares of JV income tax of £8.3 million (2011: £5.4 million). The effective rate of income tax, which is calculated by reference to the Group's underlying profit before tax and the associated tax charge (excluding prior year items) was 19% (2011: 20.5%).

5. Earnings per share

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

	2012 Number	2011 Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	358,568,556	323,193,144
Effect of dilutive potential ordinary shares: share options	1,312,457	1,144,410
Weighted average number of ordinary shares for the purpose of diluted EPS	359,881,013	324,337,554

Earnings

	2012			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	153.9	42.93	42.76	97.4	30.14	30.03
Add back:						
Amortisation of acquired intangible assets, net of tax	61.8	17.23	17.17	58.5	18.09	18.02
Exceptional items, net of tax	8.1	2.26	2.25	16.5	5.11	5.09
Impact of change in UK tax rate	(3.4)	(0.95)	(0.94)	(2.7)	(0.84)	(0.83)
Earnings before discontinued operations, amortisation, exceptional items and other	220.4	61.47	61.24	169.7	52.50	52.31
Discontinued operations						
Earnings from discontinued operations	(53.1)	(14.82)	(14.75)	3.7	1.14	1.14
Add back:						
Amortisation of acquired intangible assets, net of tax	4.8	1.35	1.34	4.1	1.30	1.30
Exceptional items, net of tax	58.6	16.33	16.26	0.3	0.09	0.09
Earnings from discontinued operations before amortisation, exceptional items and other	10.3	2.86	2.85	8.1	2.53	2.53
Continuing and discontinued operations						
Earnings from continuing and discontinued operations	100.8	28.11	28.01	101.1	31.28	31.17
Add back:						
Amortisation of acquired intangible assets, net of tax	66.6	18.58	18.51	62.6	19.39	19.32
Exceptional items, net of tax	66.7	18.59	18.51	16.8	5.20	5.18
Impact of change in UK tax rate	(3.4)	(0.95)	(0.94)	(2.7)	(0.84)	(0.83)
Earnings before amortisation, exceptional items and other	230.7	64.33	64.09	177.8	55.03	54.84

6. Dividends

The Directors have proposed a final dividend of 17.0 pence per 60 pence ordinary share (2011: 14.2 pence per 60 pence ordinary share) was declared after the balance sheet date and will be paid on 7 August 2012 to shareholders registered on 6 July 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	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
At 1 April	**64.9**	1.0	**22.1**	13.3	**87.0**	14.3
Acquisition of joint ventures and associates	**–**	51.2	**–**	8.1	**–**	59.3
Joint venture becoming a subsidiary	**4.0**	–	**–**	–	**4.0**	–
Investments in joint ventures and associates	**0.9**	0.2	**–**	–	**0.9**	0.2
Loans to/(repayments from) joint ventures and associates	**–**	–	**3.2**	(0.4)	**3.2**	(0.4)
Share of profits	**4.3**	6.1	**–**	–	**4.3**	6.1
Dividends received	**(6.6)**	–	**–**	–	**(6.6)**	–
Interest accrued	**–**	–	**1.1**	1.1	**1.1**	1.1
Interest received	**–**	–	**(1.5)**	–	**(1.5)**	–
Fair value adjustment of derivatives	**(65.1)**	8.8	**–**	–	**(65.1)**	8.8
Tax on fair value adjustment of derivatives	**16.9**	(2.4)	**–**	–	**16.9**	(2.4)
At 31 March	**19.3**	64.9	**24.9**	22.1	**44.2**	87.0

8. Reconciliation of operating profit to cash generated from operations

	2012 £m	2011 £m
Cash flows from operating activities		
Operating profit before amortisation of acquired intangibles and exceptional items.	**290.2**	250.1
Amortisation of acquired intangibles and exceptional items	**(88.2)**	(96.9)
(Loss)/profit from discontinued operations	**(53.1)**	3.7
Tax on (loss)/ profit from discontinued operations	**1.3**	0.6
Operating profit	**150.2**	157.5
Depreciation of property, plant and equipment	**33.6**	31.2
Amortisation of intangible assets	**90.3**	87.3
Investment income	**2.2**	2.2
Equity share-based payments	**5.0**	5.8
Profit on disposal of subsidiaries	**(1.9)**	(2.9)
Impairment of goodwill	**58.5**	–
(Profit)/loss on disposal of property, plant and equipment	**(0.8)**	0.4
Loss on disposal of intangible assets	**0.2**	0.2
Operating cash flows before movement in working capital	**337.3**	281.7
Decrease in inventories	**8.6**	3.5
Decrease/(increase) in receivables	**23.3**	(83.0)
(Decrease)/increase in payables	**(26.4)**	176.5
Decrease in provisions	**(16.0)**	(16.8)
Retirement benefit payments in excess of income statement	**(66.1)**	(53.4)
Cash generated from operations	**260.7**	308.5

Notes to the consolidated financial statements continued

9. Movement in net debt

	2012 £m	2011 £m
Increase in cash in the period	**28.2**	43.2
Cash flow from the (increase)/decrease in debt and lease financing	**56.6**	(374.7)
Change in net funds resulting from cash flows	**84.8**	(331.5)
Loans and finance leases acquired and disposed of with subsidiaries	**–**	(90.3)
Foreign currency translation differences and other	**3.1**	(4.9)
Movement in net debt in the period	**87.9**	(426.7)
Net debt at the beginning of the period	**(729.0)**	(302.3)
Net debt at the end of the period	**(641.1)**	(729.0)

10. Changes in net debt

	At 1 April 2011 £m	Cash flow £m	Acquisition and disposals £m	Exchange movement /other £m	At 31 March 2012 £m
Cash and bank balances	104.3	(1.8)	0.2	(2.4)	**100.3**
Bank overdrafts	(31.6)	29.8	–	(0.1)	**(1.9)**
Cash, cash equivalents and bank overdrafts	72.7	28.0	0.2	(2.5)	**98.4**
Debt	(798.7)	54.6	–	(13.7)	**(757.8)**
Finance leases	(4.0)	2.0	–	0.2	**(1.8)**
	(802.7)	56.6	–	(13.5)	**(759.6)**
Net debt before derivatives	(730.0)	84.6	0.2	(16.0)	**(661.2)**
Net debt derivative	1.0	–	–	19.1	**20.1**
Net debt including derivative	(729.0)	84.6	0.2	3.1	**(641.1)**

11. Retirement Benefits and Liabilities

Analysis of movement in the balance sheet

	2012 £m	2011 £m
Fair value of plan assets		
At 1 April	**2,579.9**	1,979.8
Acquisitions	**–**	432.5
Expected return	**172.1**	152.6
Actuarial gain	**70.1**	7.8
Change in reimbursement rights	**(2.5)**	36.1
Employer contributions	**84.3**	82.5
Employee contributions	**7.3**	7.1
Benefits paid	**(128.5)**	(118.1)
Exchange differences	**–**	(0.4)
At 31 March	**2,782.7**	2,579.9
Present value of benefit obligations		
At 1 April	**2,794.6**	2,303.8
Acquisitions	**–**	483.6
Service cost	**44.5**	46.0
Interest cost	**145.7**	135.6
Employee contributions	**7.3**	7.1
Actuarial (gain)/ loss	**176.3**	(63.3)
Benefits paid	**(128.5)**	(118.1)
Exchange differences	**–**	(0.1)
At 31 March	**3,039.9**	2,794.6
Present value of unfunded obligations	**(0.1)**	–
IFRIC 14 adjustment	**(8.6)**	(10.4)
Net deficit at 31 March	**(265.9)**	(225.1)

Analysis of charge to Income Statement

	2012 £m	2011 £m
Current service cost	**(44.5)**	(46.0)
Interest on obligations	**(145.7)**	(135.6)
Expected return on plan assets	**172.1**	152.6
Total included within operating profit	**(18.1)**	(29.0)

As at 31 March 2012 the key assumptions used in valuing pension liabilities were:

Discount rate	4.8% (31 March 2011: 5.6%)
Inflation rate	2.7% (31 March 2011: 3.1%)
Expected return on plan assets	6.6% (31 March 2011: 7.2%)
Total life expectancy – future pensioners (years)	86.7 (31 March 2011: 86.6)

Notes to consolidated financial statements continued

12(a). Acquisition – current year

On 6 October 2011 the Group acquired a controlling interest in Careers Enterprises (Futures) Limited for a cost of £nil. Prior to this the Group had an investment in the company and accounted for it as a joint venture. The net assets acquired were £nil after allowing for the negative value of the joint venture brought forward and a provision of £3.7 million.

12(b). Acquisition – prior year

On 8 July 2010 the acquisition of 100% of the share capital of VT Group plc was completed for a cash and share consideration of £1,471.3 million. On 27 September 2011 the acquisition of the assets and trading of Evergreen Unmanned Systems (Evergreen) in the USA was completed for a cash consideration of £8.9 million (US$14 million).

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

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

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

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

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

* Acquired intangibles are: customer relationships, both contracted and non-contracted.

Last year's financial statements reported fair value adjustments for VT Group plc and Evergreen as provisional. The final fair value adjustments reflect the nature of long term contracts, the estimation of which benefits from the effluxion of time. The balance sheet categories affected were provisions and their related tax benefits:

	Provisional fair value £m	Final fair value £m	Movement £m
Deferred tax	(86.9)	(84.3)	2.6
Provisions	(120.6)	(130.6)	(10.0)
Net assets acquired	407.2	399.8	(7.4)

13. Disposals and held for sale and Post Balance Sheet Event

During the year the Group disposed of its holding in Babcock Eagleton Inc. At the year end the Group was actively marketing its holding in VT Services Inc. (The US Defence business) and has therefore transferred its assets and liabilities to held for sale. Subsequent to the year end conditional contracts were exchanged for the sale of the US defence business at a price consistent with the impairment. The comparatives of the income statement have been restated to reflect this change.

In 2011 four small subsidiaries were disposed of.

	2012			2011
	Babcock Eagleton Inc. £m	**Held for sale £m**	**Total £m**	Total £m
Goodwill	**1.2**	**23.4**	**24.6**	–
Intangible assets	**–**	**41.7**	**41.7**	–
Property, plant and equipment	**0.6**	**6.0**	**6.6**	2.0
Cash, cash equivalents and bank overdrafts	**–**	**–**	**–**	0.2
Bank loans	**–**	**–**	**–**	(1.8)
Taxation	**–**	**(20.4)**	**(20.4)**	(0.5)
Current and non-current assets	**3.4**	**31.7**	**35.1**	0.2
Inventories	**–**	**0.2**	**0.2**	–
Current and non-current liabilities	**(1.4)**	**(21.2)**	**(22.6)**	(0.5)
Provisions	**–**	**(6.8)**	**(6.8)**	(0.2)
Non-controlling interests	**–**	**–**	**–**	(0.1)
Net assets disposed /held for sale	**3.8**	**54.6**	**58.4**	(0.7)
Profit on disposal of subsidiary	**1.9**	**–**	**1.9**	2.9
Net held for sale	**–**	**(54.6)**	**(54.6)**	
Net cashflow	**5.7**	**–**	**5.7**	2.2

14. Related party transactions

Related party transactions in the year are; sales to joint ventures and associates of £278.1 million (2011: £236.7 million) and purchases from joint ventures and associates of £58.5 million (2011: £36.2 million). The year end receivables balance was £21.0 million (2011: £24.0 million) and the payables balance was £2.4 million (2011: £2.8 million). In addition, there were sales with related parties by means of common directors of £10.0 million (2011: £6.2 million) and purchases from related parties by means of common directors of £0.3 million (2011: £nil). The year end receivables balance was £1.8 million (2011: £2.1 million).

15. Financial information

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

Statutory accounts for 2011 have been delivered to the Registrar of Companies and those for 2012 will be delivered following the Company's Annual General Meeting.

The Annual Report for the year ended 31 March 2012 and this preliminary statement were approved by the Board on 14 May 2012. The auditors have reported on the Annual Report for the year ended 31 March 2012 and 31 March 2011 and neither report was qualified and neither contain a statement under section 498(2) or (3) of the Companies Act 2006.

Annual General Meeting 2012

This year's Annual General Meeting will be held on 5 July 2012. Details of the resolutions to be proposed at that meeting will be included in the Notice of Annual General Meeting that will be sent to shareholders at the beginning of June 2012.

At our Annual General Meeting in 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 when the Annual Report is available (which will be early in June) on the Company website www.babcock.co.uk. Hard copies of the Annual Report will be distributed to those shareholders who have requested or subsequently request them. Additional copies will be available from the Company's registered office 33 Wigmore Street, London, W1U 1QX.

Forward-looking statements

Certain statements in this announcement are forward looking statements. Such statements may relate to Babcock's business, strategy and plans. Statements that are not historical facts, including statements about Babcock's or its management's beliefs and expectations, are forward-looking statements. Words such as 'believe', 'anticipate', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', and variations of these words and similar future or conditional expressions are intended to identify forward-looking statements but are not the exclusive means of doing so. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions, some known and some unknown, that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements, many of which are beyond Babcock's control. Please see pages 13 which set out some of these risks and uncertainties. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Nor are they indicative of future performance and Babcock's actual results of operations and financial condition and the development of the industry and markets in which Babcock operates may differ materially from those made in or suggested by the forward-looking statements. You should not place undue reliance on forward-looking statements, which speak only as of the date of this announcement because such statements relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements reflect Babcock's judgement at the date of this announcement and are not intended to give any assurance as to future results. Except as required by law, Babcock is under no obligation to update (and will not) or keep current the forward-looking statements contained in this announcement or to correct any inaccuracies which may become apparent in such forward-looking statements.

Directors' responsibility statement

This full year results announcement complies with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Services Authority. The full year results announcement is the responsibility of, and has been approved by, the Directors of Babcock International Group PLC.

The responsibility statement below has been prepared in connection with the Company's full Annual Report for the year ended 31 March 2012. Certain parts thereof are not included in this announcement.

The Directors of Babcock International Group PLC confirm that to the best of their knowledge

- the financial statements prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole, and
- the Operating and Financial Review includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

On behalf of the Board

Peter Rogers
Group Chief Executive

14 May 2012

W Tame
Group Finance Director

14 May 2012