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BABCOCK INTERNATIONAL GROUP PLC

Half year report

For the six months ended 30 September 2013

Financial highlights

	September 2013	September 2012 (restated†)	Change
Continuing operations – underlying			
Revenue*	£1,700.6m	£1,556.7m	+ 9%
Operating profit**	£172.8m	£158.4m	+ 9%
Profit before tax***	£141.7m	£121.2m	+ 17%
Basic earnings per share****	31.6p	27.9p	+ 13%
Continuing and discontinued operations basic earnings per share ****	31.6p	28.1p	+ 12%
Continuing operations – statutory			
Revenue	£1,583.6m	£1,450.3m	+ 9%
Operating profit	£113.3m	£93.2m	+ 22%
Profit before tax	£105.9m	£80.4m	+ 32%
Basic earnings per share	25.6p	20.2p	+ 27%
Continuing and discontinued operations basic earnings per share	25.6p	15.4p	+ 66%
Net debt	£572.2m	£581.1m	
Net debt/ebitda annualised (including jvs)	1.4 x	1.6 x	
Half year dividend	6.90p	6.30p	
Order book	£12.0bn	£12.5bn	

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

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

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

****Underlying basic earnings per share is before amortisation of acquired intangibles and exceptional items and before the related tax effects and before the effect of UK tax rate changes.

† The restatement of the prior year numbers relates to the adoption of IAS19 Revised.

Operational highlights

- Strong growth in revenue and profit
- 9% organic growth in underlying revenue (excluding the effect of foreign exchange movements)
8% organic growth in underlying operating profit (excluding the effect of foreign exchange movements)
- Order book maintained at £12 billion (14 May 2013: £12 billion) providing excellent visibility of future revenue streams
- Bid pipeline stable at £15.5 billion (14 May 2013: £15.5 billion) – significant long-term growth opportunities being progressed
- Cash conversion of 106%
- Board's confidence in future growth prospects reflected in 10% increase in half year dividend to 6.9 pence per share.

“Babcock performed well in the first half of the year. We delivered strong growth in revenue and profit with all our divisions moving ahead and fuelling further increases in shareholder value. The continued buoyancy of our order book and bid pipeline reflects both the strength of our markets, where budget-constrained public and private sector customers demand suppliers that can deliver maintained or enhanced value-for-money solutions, and our clear leadership of the UK engineering support services industry.

“We have excellent revenue visibility and our business model, operational scale, wide-ranging experience, track record and powerful balance sheet mean that we are well placed to generate further growth this year and in the longer-term future.”

Peter Rogers, Chief Executive

Overview

Introduction

As the UK's leading engineering support services company, Babcock has continued to demonstrate the strength and stability of its operations. We made further progress in the first half of 2013/14 in creating value for shareholders, delivering financial results with strong growth in revenue, profit and earnings per share.

The Group has maintained its secure financial position and focus on ensuring strong cash generation across the business. During the first half of 2013/14 this has allowed us to invest in the future through acquisition and infrastructure investment as well as capital investment to support our customers' operations.

The economic environment and financial constraints being experienced by our customers remain unchanged and our businesses remain committed to delivering financial and operational efficiencies for them. Through a consistent focus on our strategy, we are well positioned in our markets to benefit from the on-going economic climate of austerity and financial constraint. We have significant capabilities, know-how and expertise which place us in a strong position from which to achieve long-term growth by delivering the opportunities we have in the order book and realising the opportunities in the bid pipeline and in tracking.

Interim dividend

In light of the strong progress made during the first half of 2013/14 and the Board's confidence in the long-term growth prospects of the Group, the interim dividend has been increased by 10% to 6.9 pence per share (2012: 6.30 pence per share). This will be paid on 10 January 2014 to shareholders on the register at 13 December 2013.

Order book and bid pipeline

The order book has remained stable over the first half and currently stands at around £12 billion, providing excellent visibility of future revenue. We currently have around 90% of our anticipated revenue for 2013/14 already contracted and around 50% for the 2014/15 financial year.

The order book currently excludes forward work programmes in the Marine and Technology division which are covered by our Terms of Business Agreement (ToBA). These programmes will form part of the new Maritime Support Delivery Framework (MSDF) contract under negotiation with the Ministry of Defence which is expected to add approximately £2 billion to the order book on signature anticipated in the first half of the 2014/15 financial year.

During the first half we have maintained a win rate on new contracts of around 45% and on rebids of around 90%. The total contract value of bids > £10 million being adjudicated during the period was £1.3 billion, this included rebids valued at around £200 million.

The bid pipeline has also remained stable during the first half standing at around £15.5 billion (31 March 2013: £15.5 billion; 30 September 2012: £13 billion). Rebids and extensions comprise 12% of the bid pipeline and bids with contract values expected to be over £100 million make up 73% of the pipeline.

In addition to our pipeline of bids in formal competitive process, we continue to track a number of significant opportunities which have not yet come to market. Over the next two years, in both the UK and overseas, we expect a number of major defence training, equipment support and infrastructure support programmes to start a formal bidding process. These represent substantial opportunities for both the Marine and Technology and the Defence and Security divisions. In our civil markets, we have also identified further major opportunities in the UK and overseas, where the Support Services division can build on its key capabilities and market leading positions to deliver long-term growth. In particular, for our newly rebranded nuclear business, Cavendish Nuclear, the nuclear market is providing significant opportunities. It is currently bidding for the Parent Body Organisation contract for Magnox and RSRL decommissioning and, following the Government's agreement with EDF on the key terms for its investment in the new nuclear power station at Hinkley Point, Cavendish expects to see progress on further opportunities within the nuclear new build market.

Outlook

Building on the strength of the financial results for 2012/13, Babcock has continued to deliver good growth in revenue and strong growth in earnings during the first half of the 2013/14 financial year.

Our business model, the scale of our operations, the depth and breadth of our experience and our track record of delivering operational and financial efficiencies provide an excellent platform to benefit from positive markets which continue to offer us medium and long-term opportunities in both the UK and overseas.

The strength of the order book and bid pipeline continue to provide excellent visibility of future revenue streams and in light of this the Board is confident that the Group will continue to make further strong progress this year, in line with its expectations.

Financial review

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

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

This review and the consolidated half year financial information have been prepared using IAS 19 R2011 (amendment) 'employee benefits' and the results for the period ending 30 September 2012 have been restated accordingly. The impact on the previous year's results has been to reduce operating profit by £15.6 million, increase finance costs by £5.9 million and reduce the taxation charge by £5.2 million, resulting in an overall decrease in earnings per share of 4.5 pence. There was no impact on the net retirement liability.

Statutory to underlying reconciliation

	Continuing operations - statutory £m	Joint venture and associates			IFRIC 12 income £m	Amortisation of acquired intangibles £m	Change in UK tax rate £m	Exceptional items £m	Continuing operations - underlying £m
		Revenue and operating profit £m	Finance cost £m	Tax £m					
30 September 2013									
Revenue	1,583.6	117.0							1,700.6
Operating profit	113.3	11.2			19.4	28.9			172.8
Share of profit from jv	10.2	(11.2)	12.7	3.8	(18.6)	3.1			-
Investment income	0.8				(0.8)				-
Net finance costs	(18.4)		(12.7)						(31.1)
Profit before tax	105.9	-	-	3.8	-	32.0	-	-	141.7
Tax	(11.6)			(3.8)		(7.4)	(2.7)		(25.5)
Profit after tax	94.3	-	-	-	-	24.6	(2.7)	-	116.2
30 September 2012									
Revenue	1,450.3	106.4							1,556.7
Operating profit	93.2	10.6			19.6	32.4		2.6	158.4
Share of profit from jv	6.7	(10.6)	16.8	2.7	(18.7)	3.1			-
Investment income	0.9				(0.9)				-
Net finance costs	(20.4)		(16.8)						(37.2)
Profit before tax	80.4	-	-	2.7	-	35.5	-	2.6	121.2
Tax	(5.7)			(2.7)		(8.5)	(1.3)	(0.7)	(18.9)
Profit after tax	74.7	-	-	-	-	27.0	(1.3)	1.9	102.3

Income statement

Total revenue for the first half increased by 9% to £1,700.6 million (2012: £1,556.7 million). On a constant exchange rate basis revenue growth would have been 11%. Organic growth in revenue was 9%, excluding the effects of changes in exchange rate and the contributions from acquisitions which include Target Cranes in the International division, LGE Process in the Marine and Technology division and Conbras in the Support Services division.

The main contributor to revenue growth was the Marine and Technology division which delivered total growth of 16%, of which 13% was organic growth. This was mainly due to increased activity on the submarine programmes in the UK and Canada, the start-up of the warship refit contract in Australia and the Queen Elizabeth class aircraft carrier programme. The Support Services division reported a 9% increase in revenue as a result of increased activity within its subsidiary Cavendish Nuclear and good growth in the Mobile Assets business unit, particularly within its contracts at Heathrow airport. Despite the weakness in the South African Rand, the International division had a strong first half and reported 6% revenue growth in sterling terms, benefiting from a strong performance in equipment, power generation and crane hire offset to some extent by weakness in the power lines business. Revenue growth for the division in local currency was 22%.

Financial review continued

Underlying operating profit increased by 9% to £172.8 million (2012: £158.4 million) or 10% on a constant exchange rate basis. Organic growth for the Group excluding the effect of foreign exchange movements was 8%. Both the Marine and Technology and Defence and Security divisions delivered strong growth in profits of 12% and 10% respectively. The Defence and Security division benefited in particular from increased activities in the Future Strategic Tanker Aircraft (FSTA) joint venture. Despite the strong growth in revenue, profits in the Support Services division were diluted by lower margin take in the early stages of a number of recently started, long-term contracts, increased activity within the Rail business and significant bid costs being incurred, particularly within Cavendish Nuclear. The Group operating margin remained stable at 10.2% (2012: 10.2%).

Total net finance costs, including IAS 19 pension finance costs, were £31.1 million (2012: £37.2 million). Group finance costs of £18.4 million reduced as anticipated, jv interest costs reduced to £12.7 million (2012: 16.8 million) benefiting from increases in long-term interest swap valuations. IAS 19 retirement benefits interest remained broadly in line with last year at £5.4 million (2012: £5.9 million).

Profit before tax increased by 17% to £141.7 million (2012: £121.2 million). Taxation charges, including the Group's share of jv tax, were £25.5 million (2012: £18.9 million).

Earnings per share

Underlying earnings per share for the first half was 31.6 pence (2012: 27.9 pence) an increase of 13%. Basic continuing earnings per share, as defined by IAS 33, was 25.6 pence (2012: 20.2 pence).

Acquisitions and disposals

On 23 July 2013 the Group acquired Conbras Engenharia Ltda, a privately owned Brazilian company for a consideration of £22.6 million, including a maximum of £4.4 million deferred consideration and earn out. During the period the Group received a deferred consideration of £4.2 million on the disposal of the UKAEA Pension Administration Office which was sold in December 2012.

Cash flow and net debt

	30 Sept 2013 £m	30 Sept 2012 £m
Cash generated from operations	146.9	142.1
Capital expenditure (net)	(34.9)	(26.0)
Interest paid (net)	(16.5)	(14.7)
Taxation	(30.6)	(24.5)
Free cash flow	64.9	76.9
Acquisitions / disposals/jv	(15.9)	51.9
Investment/dividend received from joint ventures	1.5	(6.6)
Own shares	0.7	(0.6)
Dividends paid	(73.6)	(62.4)
Exchange difference / other	0.8	0.8
Net cash inflow	(21.6)	60.0
Opening net debt	(550.6)	(641.1)
Closing net debt	(572.2)	(581.1)

Cash generated from operations (after working capital movement) was £146.9 million (2012: £142.1 million) resulting in a conversion rate of underlying operating profit to cash of 106% (2012: 115%). Working capital cash flows during the period were £(25.3) million (2012: £(11.0) million) driven mainly by increased inventories and receivables to support growth activities offset in part by increased payables.

Gross capital expenditure (including new finance leases) during the first half was £37.5 million (2012: £26.3 million). As highlighted previously, over the course of this financial year the Group will continue to invest in upgrades to dockyard facilities within the Marine and Technology division, as well as cyber security systems and IT infrastructure across the Group. We have also purchased additional equipment for the South African crane hire business and invested in mobile assets and infrastructure to support recent contract wins. Capital expenditure during the first half was c 1.6 times depreciation and for the full year is expected to be maintained at around this level.

Net cash interest paid, excluding that paid by joint ventures, was £16.5 million (2012: £14.7 million). After taxation payments of £30.6 million (2012: £24.5 million), free cash flow was £64.9 million (2012: £76.9 million).

Financial review continued

Acquisitions and disposals of £(15.9) million (2012: £51.9 million), principally comprise the acquisition of Conbras and receipt of the deferred consideration relating to the disposal of the UKAEA pensions business.

After dividend payments totalling £73.6 million, net cash outflow was £21.6 million (2012: cash inflow of £60.0 million). Net debt at the end of the first half increased to £572.2 million (30 September 2012: £581.1 million; 31 March 2013: £550.6 million). This gives a net debt to earnings before interest, tax, depreciation and amortisation (ebitda) ratio of 1.4 times (30 September 2012: 1.6 times). We expect net debt to ebitda at the year end to be c 1.3 times.

Pensions

Accounting valuations

The volatility created by uncertainty in financial markets makes mark-to-market valuations particularly unhelpful when looking at the very long-term liabilities represented by defined benefit pension schemes. The IAS 19 valuation for accounting purposes showed a market value of assets of £3,058 billion in comparison to a valuation of the liabilities based on the required use of AA rated corporate bonds of £3,440 billion. The total accounting deficit, pre-tax, of the Group's combined defined benefit pension schemes was £382 million (30 September 2012: £318 million; 31 March 2013 £261 million).

As at 30 September 2013, the key assumptions used in valuing pension liabilities were

Discount rate 4.5% (31 March 2013: 4.4%)

Inflation rate 2.8% (31 March 2013: 2.8%)

Cash contributions

Cash contributions paid by the Group into the combined defined benefit pension schemes during the first half of the year were £30 million with a further approximately £70 million expected to be paid in the period to 31 March 2014.

Operational review

Marine and Technology

		30 Sept 2013	30 Sept 2012 (restated)	Change + / -
Revenue	group	£645.9m	£564.3m	+ 14%
	jv	£8.1m	–	–
	total	£654.0m	£564.3m	+ 16%
Operating profit	group	£69.0m	£62.4m	+ 11%
	jv	£0.6m	–	–
	total	£69.6m	£62.4m	+ 12%
Operating margin	group	10.7%	11.1%	
	jv	7.4%	–	
	total	10.6%	11.1%	

Financial review

The Marine and Technology division has had a very successful first half, reporting a total increase in revenue of 16%, of which 13% was organic growth. This is a result of increased activities on the submarine programmes in the UK and Canada, the start-up of the Anzac class frigate refit contract in Australia within joint ventures and the Queen Elizabeth class (QEC) aircraft carrier programme, as well as a contribution of £15 million from LGE. Operating profit increased by 12% which resulted in an operating margin of 10.6%. This is slightly below the same period last year which benefited from additional gain share earned on the achievement of stretch targets under the Terms of Business Agreement (ToBA) as well as higher margins achieved on export activities.

Operational review

Under the framework of the ToBA, our long-term partnering agreement with the Ministry of Defence (MoD), we continue to benefit from a predictable and long-term programme of work in submarine and warship deep maintenance and support, as well as our on-going role as the MoD's strategic partner at HMNBs Devonport and Clyde. In return, we remain focused on the delivery of significant cost reductions and improved efficiencies for the MoD.

We continue to progress discussions with the MoD about the introduction of the Maritime Support Delivery Framework (MSDF) which will replace the current Warship Modernisation Initiative (WSMI) contracts at Devonport and Clyde. Within the structure of the ToBA, the MSDF contract, which is expected to start during the first half of the 2014/15 financial year, will provide a platform to deliver further significant cost savings for the MoD with the potential to enhance our existing roles in both naval bases.

Through our key role in the MoD's Submarine Enterprise Performance Programme (SEPP), established to maximise the availability and efficiency of the Royal Navy's submarine fleet, we have continued to provide deep and in-service maintenance as well as through-life engineering support. At Devonport, good progress has been made on HMS Vengeance's £350 million, long overhaul (refuel) period, where work on the refuelling is proceeding well. At both Devonport and Clyde, we have been providing in-service support to the Trafalgar and Vanguard class submarines, as well as carrying out maintenance periods on HMS Tireless, Torbay and Trenchant during the period.

At Clyde we are now also providing a range of systems and equipment as well as in-service support and crew training for HMS Astute and HMS Ambush, the newest submarines in the Royal Navy. In addition, we are working with the MoD and BAE Systems through SEPP to support the introduction of the remaining Astute class submarines into service.

We have a key role on the Successor future deterrent submarine programme where we are using our expertise as the Royal Navy's through-life submarine support partner to develop the support solution for the programme. We are also the provider of the key tactical weapons launch system and are involved in a range of other technology development activities for the Main Gate business case to be submitted in 2016. In advance of the Successor submarines coming into service, we are working with the MoD on the development and delivery of the Vanguard class life extension programme to ensure there is no disruption to the UK's ability to meet its Continuous At Sea Deterrence commitment.

Through the Surface Ship Support Alliance (SSSA) we are undertaking a number of deep maintenance projects at Devonport, in particular the deep maintenance and upgrade programme for HMS Ocean which is progressing well, with the ship's crew expected to move back on board on schedule. We are currently working with our SSSA partners to reduce the cost of through-life support for surface ships and to improve operational availability for all complex surface ships including HMS Ocean and the QEC aircraft carriers. Activities on the QEC build programme continue to increase with the hull assembly phase for the first ship completed on schedule at our facilities in Rosyth. The next significant milestone for the Aircraft Carrier Alliance (ACA) will be the flooding of the dock in mid-2014.

The ACA has now agreed a revised target cost contract with the MoD to complete both the QEC aircraft carriers. This includes a 50:50 risk share arrangement to provide greater cost performance incentives. The maximum risk for Babcock is unchanged and will be limited to the loss of our profit opportunity. The revised contract reflects the increased maturity of the build programme and the greater certainty this provides for the final cost. We will continue to work with our partners to ensure the project is completed in line with our customer's expectations.

Operational review continued

Equipment support activities, which include the provision of engineering and logistical support for a range of key UK defence assets, continue to meet or exceed our customer's operational KPIs. We also continue to deliver an excellent service for the MoD for High Frequency and Very Low Frequency worldwide communications. In both the equipment support and communication areas, we are pursuing a number of opportunities to extend the range of services we are providing to customers in the UK and overseas.

In our international operations we continue to develop our presence in Australia and Canada, our key home markets in addition to the UK. In both these markets we have established our reputation for partnering and collaboration and for our ability to deliver world-class through-life support of submarines and surface ships. In our export markets, activities to deliver weapons handling and launch systems for future submarine programmes, now including South Korea, have progressed well during the period.

In Canada, we continue to deliver high levels of support to the submarine fleet through the Victoria Class In-Service Support (VISSC) contract. A major focus of activity has been on the deep maintenance package for HMCS Chicoutimi, the first such package to be undertaken outside a government-owned facility. In support of our growth ambitions in Canada, we signed a Teaming Agreement with Davie Shipyard to develop a proposal to support the Canadian Coast Guard vessel life extension programme. This competition is expected to start in spring 2014 and provides us with an opportunity to apply our in-service support capability to new market segments. We are also looking at other areas where current market conditions and our UK expertise could create opportunities, in particular around naval base support and naval training.

In Australia, we continue to deliver support to the Anzac class frigates, exceeding previous levels of engineering support and delivering significant improvements in vessel availability. Other activities to support the Australian Navy's submarine programmes are also performing well. As the Australian government considers the progressive reform of its naval support activities, we are progressing a number of opportunities that align with our proven, value-for-money, through-life support capabilities for both surface ships and submarines.

We continue to pursue opportunities for naval support activities in other geographies. During the first half we signed a Memorandum of Understanding with Abu Dhabi Shipbuilders and are forming a joint bid team to be able to respond to the region's on-going requirement for naval support activities. In South Africa we have submitted our report on the options for future support to the South African Navy at the Simon's Town naval base.

As the commercial marine and energy markets continue to pick up, we are establishing relationships with a number of high profile organisations to address this demand. The LGE Process business, acquired in January 2013, has been fully integrated into our commercial Energy and Marine Technology business unit and its activities strengthen our ability to deploy complex technology onto marine assets. During the first half we have seen good growth in our commercial activities and performance across our current range of commercial contracts has been strong. In addition the business has shown very encouraging signs of growth winning contracts worth in excess of £70 million.

Marine and Technology outlook

In the UK, as a result of its market positions and its involvement in long-term alliances and agreements, the division continues to have excellent visibility of its future revenue streams. The strength of the UK position has also created opportunities to develop a growing presence in international naval support markets as well as in commercial marine and energy markets.

We therefore believe the outlook for the Marine and Technology division remains positive with significant opportunities in the bidding and tracking pipeline to support long-term growth in the UK and overseas.

Defence and Security

		30 Sept 2013	30 Sept 2012 (restated)	Change + / -
Revenue	group	£338.3m	£339.9m	-
	jv	£62.7m	£55.5m	+ 13%
	total	£401.0m	£395.4m	+ 1%
Operating profit	group	£33.7m	£28.2m	+ 20%
	jv	£21.6m	£22.2m	- 3%
	total	£55.3m	£50.4m	+ 10%
Operating margin	group	10.0%	8.3%	
	jv	34.4%	40.0%	
	total	13.8%	12.7%	

Operational review continued

Financial review

As anticipated, the Defence and Security division's total revenue was broadly in line with the same period last year. Whilst the division continued to benefit from higher volumes through its vehicle fleet management contracts and increased scope in its Regional Prime contracts this has been offset by some reduction in Naval training support activities and phasing of infrastructure activities at RSME.

Operating profit, including the division's share of joint venture profit, increased by 10% benefitting from strong contract performance on vehicle fleet management, the Regional Prime contracts, the Future Strategic Tanker Aircraft (FSTA) programme and the settlement of gain-share arrangements on legacy training contracts. Joint venture profits were slightly behind the same period last year, which benefited from margin catch up on the Military Flying Training System (MFTS) programme. As anticipated, the division's operating margin increased to 13.8% (2012: 12.7%).

Operational review

Within the Infrastructure business unit, all contracts continue to perform well, meeting or exceeding our customers' KPIs with no change to their expected financial performance. The Regional Prime contracts have performed well as have operations to support and manage the military estate in Germany. We have identified a number of opportunities to provide additional support for our customer.

During the first half, the Defence Infrastructure Organisation has continued to progress its Next Generation Estates contracts (NGEC) in line with its revised timetable and the formal competitive dialogue and bidding process for all six contracts has been the primary focus for the business. The final bids have been submitted. We await confirmation from the DIO on the announcement dates for preferred bidders for the contracts; we expect these during the summer of 2014.

Our Air operations providing essential maintenance and support to the Royal Air Force continue to perform in line with our expectations. Key contracts supporting military flying training at all levels have performed well. Our significant Joint Ventures, UKMFTS and FSTA are now well-established in the operational phase. UKMFTS is successfully graduating aircrew in both the Royal Naval Observer and Fast Jet pilot specialisations and the competition to deliver the future fixed wing training capability has progressed to the assessment phase. Six Voyager aircraft have been delivered to the FSTA operation at RAF Brize Norton and the aircraft are now providing a service in both the strategic transport and Air-to-Air refuelling roles.

In the Land business, the Phoenix programme, for the delivery of white fleet vehicles, has performed well and the consolidation of customers using Babcock's nationwide booking system has driven increased volumes through the contract. We have recently successfully competed in frameworks that support Phoenix and have won bids totalling £30 million.

The capability improvement programme introduced across our training activities last year has enabled our customers to benefit from modern training methods and systems. This has helped to drive a reduction in the duration of the courses which benefits our customer by returning students to front line activities in shorter timescales. Additionally we have jointly delivered with the customer a state-of-the-art sixty seat simulated collective training environment at the Royal School of Military Engineering enabling our customers to benefit from contemporary low cost training solutions.

On the Defence College of Technical Training Programme – Electro-Mechanical Training Contract which includes the integration of the Bordon and Arborfield schools at Lyneham, we have been advised that we are the sole bidder for this requirement. We are now engaged in dialogue with the customer and this is expected to conclude in the New Year with contract award in mid-2014.

In addition to ensuring we are meeting or exceeding our customers' requirements on all our existing contracts, the division has been progressing bids for a number of significant outsourcing programmes in our core areas of infrastructure support, equipment support and training support and delivery. We believe our business model built on strong customer relationships, a track record of delivering operational and financial efficiencies and the depth of knowledge and experience within the division, place us in a strong position to compete for these opportunities. With our joint venture partners, DHL, we have now prequalified as one of three bidders for the Logistics, Commodities and Services Transformation (LCST) project, a programme to outsource commodity procurement, warehousing and distribution services. This competition is expected to run until the last quarter of the 2014/15 financial year. The MoD continues to progress its plans for the sale of DSG, the operations delivering deep maintenance and spares support to the Army's tracked vehicle fleet. We see this as an opportunity to bring our industry leading position in support to complex assets to this organisation to enable the MoD to benefit from improved service and optimised outputs. We expect this process to be under way during the 2014 calendar year. The MoD continues to consider plans for its future training requirements for the Army following withdrawal of troops from Afghanistan and, in the longer term, Germany. This includes the potential appointment of a Strategic Training Programme partner to help them transform military training and equipment support to both the Regular and Reserve Forces and we are well placed to compete for this.

As well as the significant opportunities we are progressing in our domestic markets, we are pursuing a number of opportunities internationally with particular focus on Australia, Canada and the Middle East. We believe these are markets where we can build on our capabilities and experience in the UK to build a long-term market leading position delivering high quality, output or availability based contracts for a wide variety of training, equipment support and infrastructure activities.

Operational review continued

Defence and Security outlook

The Defence and Security division has an excellent track record of delivering operational and financial efficiencies through its existing contracts. We are well positioned to meet the current and future demands and expectations of our main UK military customers and this is reflected in our pipeline of major new outsourcing programmes that are being progressed by the MoD. In addition, we are looking at longer term opportunities for the division and are establishing a presence in key international markets where we believe we can build on our UK expertise and capabilities.

Support Services

		30 Sept 2013	30 Sept 2012 (restated)	Change + / -
Revenue	group	£448.0m	£403.0m	+ 11%
	jv	£46.2m	£50.9m	- 9%
	total	£494.2m	£453.9m	+ 9%
Operating profit	group	£31.7m	£30.7m	+ 3%
	jv	£7.6m	£7.1m	+ 7%
	total	£39.3m	£37.8m	+ 4%
Operating margin	group	7.1%	7.6%	
	jv	16.5%	13.9%	
	total	8.0%	8.3%	

Financial review

The division delivered good revenue growth during the first half, resulting from growth in the expanded contract for Heathrow Airport Limited, good performance at Dounreay and revenue from the acquisition of Conbras in Brazil, which offset some weakness in overhead power line volumes. Organic growth for the division was 8%. Operating profit, including jvs, increased by 4% with operating margin of 8.0%. This anticipated reduction in margin is a result of the number of long-term contracts that have started over the past 18 months as well as the significant investment the division is making in bidding activities.

Operational review

The market environment for the division has remained positive. As customers continue to manage increasing financial pressures, opportunities for new outsourcing continue to be developed. To meet the varying and often complex requirements of customers, the division needs to be able to help formulate and offer a range of solutions. To maximise its successful track record and the expertise within its business units, it is focused on bidding, tracking and developing outsourcing solutions for key projects within its target market sectors.

During the first half, our civil nuclear subsidiary has been rebranded Cavendish Nuclear (Cavendish). Over the past seven years, Babcock has combined and consolidated the experience and talents of UKAEA, Alstec, Strachan & Henshaw, INS and British Nuclear Group Project Services to create a subsidiary which is now the UK's largest specialist nuclear support services organisation. Cavendish Nuclear is responsible for all our civil nuclear activities and saw revenue grow by over 20% during the first half of the year.

Cavendish is the lead partner in respect of the decommissioning contract at Dounreay, through the Cavendish Dounreay Partnership (formerly Babcock Dounreay Partnership). After a successful first year, the contract is performing well as it moves into its second year. A number of key milestones on the major projects on site have been met on schedule and further successful fuel moves from Dounreay to Sellafield have been completed. At Sellafield, the business is also involved in a number of projects as part of the decommissioning activities on site, where it is providing critical design support as well as engineering, procurement and construction services. Further to the Nuclear Decommissioning Authority's decision to extend the commercial arrangements at Sellafield, Cavendish is looking forward to supporting the site and the Authority in this very technically demanding environment and is confident our value engineering approach will continue to be successful.

Cavendish is also developing a strong relationship with the Atomic Weapons Establishment supporting a range of decommissioning activities. The business recently secured a long-term, target cost, integrated partnering arrangement, which is the first for this customer.

In partnership with Fluor, Cavendish is progressing the bid for the Magnox and RSRL Parent Body Organisation competition. The formal bid process is proceeding well and there has been no change to the anticipated timetable for this competition. Bids will be submitted in November 2013 and announcement of preferred bidder is expected in March 2014.

In the nuclear new build sector, Cavendish continues to develop its relationship with Hitachi where it is currently providing support for the Generic Design Assessment of reactors for the Horizon programme. It is also working with EDF as its bid for the Balance of Nuclear Island is developed as part of EDF's new build programme at Hinkley. As a strategic through-life partner to EDF Nuclear Generation, it also continues to provide support to EDF's current generating activities, through involvement in fuel route improvement activities as well as strategic spares support.

Operational review continued

The Mobile Asset business has continued to make good progress across its current activities. With a number of contracts benefiting from additional activities during the first half as well as the advantage of the new vehicle fleet contract with Aggregate Industries, revenue increased by over 20% compared with the first half of 2012/13.

Activities in the mining and construction sector have also performed well, delivering reduced operating costs for our customers as well as improved availability. The contract with Aggregate Industries (AI) has started well and is already delivering improved availability of equipment across its sites in the UK and we are formulating plans for discussion with AI's parent group, Holcim, to extend our service to its activities in other regions. As we continue to refine and improve our business model in this market we are pursuing a number of further opportunities with both existing and new customers in the UK and overseas.

The 18 month interim contract for the management of the vehicle fleet for the London Fire and Emergency Planning Authority (LFEPA) is progressing well as the business seeks to deliver improved availability and service quality for the customer. LFEPA is now undertaking a formal process to compete the 21 year, with a possible 4 year extension, vehicle fleet management contract which will follow the interim contract. We are bidding a number of options with the potential to extend the scope of services from that which we provide under the interim arrangement. We submit our final bid in January 2014 and we expect preferred bidder to be announced in March 2014. Contracts for the Metropolitan Police and Highways Agency, as well as the New Dimensions contract have also performed well and building on this success, the business is pursuing a number of new opportunities in this market as well as opportunities to extend current contract scope.

The new baggage handling contract for Heathrow Airport Limited has made a strong start and we are expanding operations into Terminals 3 and 5. The ground equipment support contract for British Airways has also made a good start. Building on the strength of our current activities we are looking at a range of potential opportunities for our Airports business in the UK and overseas.

Activities within our Network Engineering business unit, which now include rail, power and communication infrastructure, have seen some steady growth during the first half with revenue increasing by 7%. Rail activities continue to perform well with on-going demand for track renewal, power and signalling operations. The business is confident in the bids recently submitted to Network Rail for the forthcoming Control Period. Bids have been prepared for both Switches and Crossings and Plain Line Track renewal. For the second period in succession we have been recognised by Network Rail for the quality of our work. In the power sector, the new regulatory environment for electricity transmission is driving a range of reactions from major transmission network operators. Lower activity is being seen with National Grid but the business has been successful in securing additional projects from Scottish Power and has secured a framework position with Scottish and Southern Energy.

Education and Training activities have been stable throughout the first half with contracts generally trading in line with expectations. Training activities for the London Fire Brigade are progressing well and work on the new training facilities we are developing and building in Park Royal and East Beckton are progressing to plan.

On 23 July 2013 we completed the acquisition of Conbras, a privately owned business operating in the public and private sector facilities management sector in Brazil. We have identified Brazil as an attractive growth market for Babcock and this acquisition creates a credible platform from which to develop a broader operation focusing on asset and infrastructure management and training for both public and private sector customers. The Conbras business has a strong management team who will remain with the business to support its development. Since the acquisition, integration with the broader Support Services division is on plan and the business is performing in line with expectations.

Support Services outlook

The on-going pressure being felt by customers to deliver services within restricted budgets continues to create growth opportunities for the Support Services division. We are confident that our track record of managing complex projects and activities, the depth of our technical knowledge and experience and our focus on delivering excellent solutions for our customers provides a strong foundation for continuing growth in the UK and increasingly in overseas markets.

Operational review continued**International**

		30 Sept 2013	30 Sept 2012 (restated)	Change + / -
Revenue	total	£151.4m	£143.1m	+ 6%
Operating profit	total	£11.9m	£11.1m	+ 7%
Operating margin	total	7.9%	7.8%	

Financial review

The South African operations have seen excellent growth in revenue which increased by 22% on a local currency basis although the adverse impact of exchange rate movements reduced this to 6% in sterling terms. The increase in revenue has driven by strong growth in the equipment and crane hire businesses as well as strong demand from Eskom for power generation support.

Operating profit increased by 25% on a local currency basis and by 7% in sterling terms. Margins remained relatively stable, supported by strong margins within the crane hire business.

Operational review

Throughout the first half, demand for crane hire has remained strong as investment in South Africa's infrastructure remains positive and the impact on the demand for new mining equipment from strikes within the sector has been small. We have also seen increased demand for DAF trucks through our dealerships across the country.

We have now established our first Volvo dealership in Mozambique as planned and will continue to develop our position in this market and in Zambia. This will enable us to take advantage of the opportunities afforded by new copper and coal mines in these countries.

Following the acquisition of Target Cranes in June 2012, we have continued to invest in additional mobile cranes for our fleet. We currently have all our cranes fully utilised on long-term contracts and expect no change to this demand in the second half.

Eskom, South Africa's power utility company, remains under pressure to balance planned outages and maintenance periods with the requirement to generate electricity. Throughout the period there have been a number of unscheduled outages which have resulted in significant volumes of work for our power generation support operations. We expect this to continue as planned maintenance activities take place over the local summer period. Whilst Eskom continues to focus its budgets on power generation, there has been a slowdown in demand for our Powerlines business during the period. In response to this we are streamlining our business to take advantage of the longer term, large scale expansion planned for the South African national electricity grid.

International outlook

For the South African business the primary focus remains the growth of our market share in the automotive and construction equipment market in South Africa, and expansion in our export markets, as well as the extension of our support operations in the power generation market.

Across our International business units we are making good progress with a number of new opportunities where we can develop our business further by building on expertise across the Group.


Peter Rogers

Group Chief Executive


Bill Tame

Group Finance Director

Income statement

For the six months ended 30 September 2013

Year ended 31 March 2013 (restated) £m		Note	£m	Six months ended 30 September 2013 £m	£m	Six months ended 30 September 2012 (restated) £m
3,243.5	Total revenue	2	1,700.6		1,556.7	
214.1	Less: joint venture and associate revenue		117.0		106.4	
3,029.4	Group revenue			1,583.6		1,450.3
	Group					
284.2	Operating profit before amortisation of acquired intangibles and exceptional items	2	142.2		128.2	
(66.4)	Amortisation of acquired intangibles	3	(28.9)		(32.4)	
(14.3)	Exceptional items	3	-		(2.6)	
203.5	Group operating profit			113.3		93.2
	Joint ventures and associates					
21.2	Share of operating profit		11.2		10.6	
38.5	Investment income		18.6		18.7	
(6.2)	Amortisation of acquired intangibles	3	(3.1)		(3.1)	
(29.2)	Finance costs		(12.7)		(16.8)	
(6.3)	Income tax (expense)/credit		(3.8)		(2.7)	
18.0	Share of results of joint ventures and associates			10.2		6.7
	Group and joint ventures and associates					
305.4	Operating profit before amortisation of acquired intangibles and exceptional items		153.4		138.8	
40.2	Investment income		19.4		19.6	
345.6	Underlying operating profit*	2	172.8		158.4	
(72.6)	Amortisation of acquired intangibles		(32.0)		(35.5)	
(14.3)	Exceptional items		-		(2.6)	
(1.7)	Group investment income		(0.8)		(0.9)	
(29.2)	Joint venture and associate finance costs		(12.7)		(16.8)	
(6.3)	Joint venture and associate income tax expense		(3.8)		(2.7)	
221.5	Group operating profit plus share of joint ventures and associates			123.5		99.9
	Finance costs					
1.7	Investment income		0.8		0.9	
(11.8)	Retirement benefits interest		(5.4)		(5.9)	
(38.7)	Finance costs		(17.7)		(19.2)	
9.1	Finance income		4.7		4.7	
(39.7)				(17.6)		(19.5)
181.8	Profit before tax	2		105.9		80.4
(18.0)	Income tax expense	4		(11.6)		(5.7)
163.8	Profit for the period from continuing operations			94.3		74.7
	Discontinued operations					
(15.2)	(Loss)/profit for the year from discontinued operations attributable to owners of the parent			-		(17.4)
148.6	Profit for the period			94.3		57.3
	Attributable to:					
142.7	Owners of the parent			91.6		55.0
5.9	Non-controlling interest			2.7		2.3
148.6				94.3		57.3
	Earnings per share from continuing operations	5				
43.9p	- Basic			25.6p		20.2p
43.4p	- Diluted			25.3p		20.0p
	Earnings per share from continuing and discontinued operations	5				
39.7p	- Basic			25.6p		15.4p
39.2p	- Diluted			25.3p		15.2p

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

Statement of comprehensive income

For the six months ended 30 September 2013

Year ended 31 March 2013 (restated) £m		Six months ended 30 September 2013 £m	Six months ended 30 September 2012 (restated) £m
148.6	Profit for the period	94.3	57.3
	Other comprehensive income		
	Potentially rechargeable to Income Statement		
(0.8)	Currency translation differences	(12.4)	0.9
1.2	Fair value adjustment of interest rate and foreign exchange hedges	(1.3)	(0.2)
(0.3)	Tax on fair value adjustment of interest rate and foreign exchange hedges	0.3	0.1
(23.0)	Fair value adjustment of joint venture and associate derivatives	21.6	(30.4)
5.5	Tax on fair value adjustment of joint venture and associate derivatives	(5.0)	7.4
	Not potentially chargeable to Income Statement		
(16.2)	Net actuarial loss in respect of pensions	(120.2)	(50.0)
3.9	Tax on net actuarial loss in respect of pensions	27.7	11.9
(3.1)	Impact of change in UK tax rates	(12.5)	(3.5)
(32.8)	Other comprehensive loss, net of tax	(101.8)	(63.8)
115.8	Total comprehensive (loss)/income	(7.5)	(6.5)
	Total comprehensive income attributable to:		
111.0	Owners of the parent	(7.9)	(8.3)
4.8	Non-controlling interest	0.4	1.8
115.8	Total comprehensive (loss)/income	(7.5)	(6.5)

Statement of changes in equity

For the six months ended 30 September 2013

	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 2012	215.5	873.0	30.6	(160.9)	(41.9)	(4.9)	911.4	8.6	920.0
Total comprehensive income	–	–	–	13.4	(23.1)	1.4	(8.3)	1.8	(6.5)
Shares issued in the period	0.7	–	–	–	–	–	0.7	–	0.7
Dividends	–	–	–	(61.0)	–	–	(61.0)	(1.4)	(62.4)
Share-based payments	–	–	–	4.6	–	–	4.6	–	4.6
Tax on share-based payments	–	–	–	3.6	–	–	3.6	–	3.6
Acquisition of non-controlling interest	–	–	–	–	–	–	–	19.8	19.8
Disposal of non-controlling interest	–	–	–	–	–	–	–	0.4	0.4
Transactions with non-controlling interest	–	–	–	(4.6)	–	–	(4.6)	(8.7)	(13.3)
Own shares and other	–	–	–	(1.3)	–	–	(1.3)	–	(1.3)
Net movement in equity	0.7	–	–	(45.3)	(23.1)	1.4	(66.3)	11.9	(54.4)
At 30 September 2012	216.2	873.0	30.6	(206.2)	(65.0)	(3.5)	845.1	20.5	865.6
At 1 April 2013	217.2	873.0	30.6	(110.7)	(58.5)	(4.5)	947.1	21.8	968.9
Total comprehensive income	–	–	–	(13.4)	15.6	(10.1)	(7.9)	0.4	(7.5)
Shares issued in the period	–	–	–	–	–	–	–	–	–
Dividends	–	–	–	(71.8)	–	–	(71.8)	(1.8)	(73.6)
Share-based payments	–	–	–	7.2	–	–	7.2	–	7.2
Tax on share-based payments	–	–	–	1.2	–	–	1.2	–	1.2
Own shares and other	–	–	–	0.7	–	–	0.7	–	0.7
Net movement in equity	–	–	–	(76.1)	15.6	(10.1)	(70.6)	(1.4)	(72.0)
At 30 September 2013	217.2	873.0	30.6	(186.8)	(42.9)	(14.6)	876.5	20.4	896.9

Balance sheet

As at 30 September 2013

As at 31 March 2013 £m		Note	As at 30 September 2013 £m	As at 30 September 2012 £m
Assets				
Non-current assets				
1,563.0	Goodwill		1,576.8	1,543.8
299.2	Other intangible assets		284.3	319.6
248.9	Property, plant and equipment		249.1	239.3
18.6	Investments in joint ventures and associates	7	44.4	2.0
51.1	Loans to joint ventures and associates	7	51.0	31.0
10.1	Retirement benefits	12	12.4	11.9
0.5	Trade and other receivables		1.1	1.2
22.2	IFRIC 12 financial assets		21.6	23.2
45.1	Other financial assets	8	9.4	24.2
43.4	Deferred tax asset		59.9	46.7
2,302.1			2,310.0	2,242.9
Current assets				
73.9	Inventories		97.9	89.2
519.0	Trade and other receivables		527.2	514.2
8.6	Income tax recoverable		22.2	–
3.5	Other financial assets	8	6.2	5.3
97.1	Cash and cash equivalents	11	105.3	101.7
702.1			758.8	710.4
3,004.2	Total assets		3,068.8	2,953.3
Equity and liabilities				
Equity attributable to equity holders of the parent				
217.2	Share capital		217.2	216.2
873.0	Share premium		873.0	873.0
(32.4)	Capital redemption and other reserves		(26.9)	(37.9)
(110.7)	Retained earnings		(186.8)	(206.2)
947.1			876.5	845.1
21.8	Non-controlling interest		20.4	20.5
968.9	Total equity		896.9	865.6
Non-current liabilities				
684.0	Bank and other borrowings	11	674.2	699.3
7.9	Trade and other payables		8.1	8.6
4.0	Deferred tax liabilities		–	–
10.0	Other financial liabilities		8.9	14.6
271.2	Retirement liabilities	12	394.6	329.8
115.2	Provisions for other liabilities		103.8	121.0
1,092.3			1,189.6	1,173.3
Current liabilities				
8.8	Bank and other borrowings	11	12.7	7.7
884.4	Trade and other payables		924.6	868.3
–	Income tax payable		–	1.0
7.2	Other financial liabilities	8	9.7	10.6
42.6	Provisions for other liabilities		35.3	26.8
943.0			982.3	914.4
2,035.3	Total liabilities		2,171.9	2,087.7
3,004.2	Total equity and liabilities		3,068.8	2,953.3

Cash flow statement

For the six months ended 30 September 2013

Year ended 31 March 2013 £m		Note	Six months ended 30 September 2013 £m	Six months ended 30 September 2012 £m
	Cash flows from operating activities			
293.4	Cash generated from operations	9	146.9	142.1
(45.8)	Income tax paid		(30.6)	(24.5)
(38.7)	Interest paid		(18.8)	(19.3)
8.2	Interest received		2.3	4.6
217.1	Net cash flows from operating activities		99.8	102.9
	Cash flows from investing activities			
68.0	Disposal of subsidiaries, joint ventures and associates, net of cash disposed	14	2.3	57.7
7.1	Dividends received from joint ventures and associates		0.9	0.8
6.2	Proceeds on disposal of property, plant and equipment		2.6	0.3
(52.7)	Purchases of property, plant and equipment		(12.4)	(21.0)
(6.6)	Purchases of intangible assets		(8.5)	(5.3)
(30.2)	Investment in and loans to joint ventures and associates		2.4	(5.4)
1.3	Transactions with non-controlling interest	15	–	1.3
(22.2)	Acquisition of subsidiaries net of cash acquired	13	(16.9)	(0.8)
(29.1)	Net cash flows from investing activities		(29.6)	27.6
	Cash flows from financing activities			
(83.6)	Dividends paid		(71.8)	(61.0)
(3.7)	Finance lease principal payments		(1.6)	(2.8)
(101.1)	Bank loans repaid		–	(65.9)
–	Loans raised		14.9	–
(3.1)	Dividends paid to non-controlling interests		(1.8)	(1.4)
1.7	Net proceeds on issue of shares		–	0.7
(3.9)	Movement on own shares		0.7	(1.3)
(193.7)	Net cash flows from financing activities		(59.6)	(131.7)
(5.7)	Net increase/(decrease) in cash, cash equivalents and bank overdrafts		10.6	(1.2)
98.4	Cash, cash equivalents and bank overdrafts at start of period		90.6	98.4
(2.1)	Effects of exchange rate fluctuations		(2.1)	(1.1)
90.6	Cash, cash equivalents and bank overdrafts at end of period	11	99.1	96.1

Notes to the consolidated half year financial statements

For the six months ended 30 September 2013

1. Basis of preparation and restatement

The consolidated half year financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority, the Listing Rules and with IAS 34, 'Interim financial reporting' as adopted by the European Union. They should be read in conjunction with the Annual Report for the year ended 31 March 2013 (the 'Annual Report'), which has been prepared in accordance with IFRSs as adopted by the European Union. The accounting policies used and presentation of these consolidated half year financial statements are consistent with those in the Annual Report except as detailed below:

- IAS 19 (amendment), 'Employee benefits'. The impact on the results for the period ending 30 September 2012 has been to reduce operating profit by £15.6 million, increase finance costs by £5.9 million, and reduce the taxation charge by £5.2 million, resulting in an overall decrease in earnings per share of 4.5 pence. There was no impact on the net retirement liability. The comparative figures have been restated accordingly.
- IFRS 7 (amendment), 'Financial instruments; disclosure – Offsetting financial assets and liabilities'. There is no significant impact from the adoption of this change.

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

The half year report for the six months ended 30 September 2013 was approved by the Directors on 11 November 2013. The half year report has not been audited or reviewed by auditors.

2. Segmental analysis

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

2013	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total continuing operations £m
Continuing operations						
Total revenue	654.0	401.0	494.2	151.4	–	1,700.6
Joint venture and associate revenue	8.1	62.7	46.2	–	–	117.0
Group revenue	645.9	338.3	448.0	151.4	–	1,583.6
Operating profit – Group	69.0	33.3	31.3	11.9	(3.3)	142.2
IFRIC 12 investment income – Group	–	0.4	0.4	–	–	0.8
Share of operating profit – joint ventures and associates	0.6	7.3	3.3	–	–	11.2
Share of IFRIC 12 investment income – joint ventures and associates	–	14.3	4.3	–	–	18.6
Underlying operating profit	69.6	55.3	39.3	11.9	(3.3)	172.8
Share of interest - joint ventures and associates	–	(8.4)	(4.3)	–	–	(12.7)
Share of tax - joint ventures and associates	(0.2)	(3.0)	(0.6)	–	–	(3.8)
Acquired intangible amortisation – Group	(6.1)	(5.3)	(17.5)	–	–	(28.9)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.9)	(0.2)	–	–	(3.1)
Net finance costs – Group	–	–	–	–	(18.4)	(18.4)
Group profit before tax	63.3	35.7	16.7	11.9	(21.7)	105.9

Notes to the consolidated half year financial statements continued

2. Segmental analysis (continued)

	Continuing operations					Discontinued operations		Total
	Marine and Technology (restated) £m	Defence and Security (restated) £m	Support Services (restated) £m	International £m	Unallocated (restated) £m	Total continuing operations (restated) £m	International £m	Group total (restated) £m
Continuing operations								
Total revenue	564.3	395.4	453.9	143.1	–	1,556.7	38.9	1,595.6
Joint venture and associate revenue	–	55.5	50.9	–	–	106.4	–	106.4
Group revenue	564.3	339.9	403.0	143.1	–	1,450.3	38.9	1,489.2
Operating profit – Group	62.4	27.7	30.3	11.1	(3.3)	128.2	1.1	129.3
IFRIC 12 investment income – Group	–	0.5	0.4	–	–	0.9	–	0.9
Share of operating profit – joint ventures and associates	–	7.6	3.0	–	–	10.6	–	10.6
Share of IFRIC 12 investment income – joint ventures and associates	–	14.6	4.1	–	–	18.7	–	18.7
Underlying operating profit	62.4	50.4	37.8	11.1	(3.3)	158.4	1.1	159.5
Share of interest - joint ventures and associates	–	(12.4)	(4.4)	–	–	(16.8)	–	(16.8)
Share of tax - joint ventures and associates	–	(2.1)	(0.6)	–	–	(2.7)	–	(2.7)
Acquired intangible amortisation – Group	(5.2)	(6.0)	(21.2)	–	–	(32.4)	–	(32.4)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.9)	(0.2)	–	–	(3.1)	–	(3.1)
Net finance costs – Group	–	–	–	–	(20.4)	(20.4)	–	(20.4)
Exceptional items	–	–	–	–	(2.6)	(2.6)	(18.2)	(20.8)
Group profit before tax	57.2	27.0	11.4	11.1	(26.3)	80.4	(17.1)	63.3

3. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	Six months ended 30 September 2013 £m	Six months ended 30 September 2012 £m	Six months ended 30 September 2013 £m	Six months ended 30 September 2012 £m	Six months ended 30 September 2013 £m	Six months ended 30 September 2012 £m
Continuing operations						
Reorganisation and rationalisation costs	–	2.6	–	–	–	2.6
Exceptional items	–	2.6	–	–	–	2.6
Acquired intangible amortisation	28.9	32.4	3.1	3.1	32.0	35.5
Continuing operations	28.9	35.0	3.1	3.1	32.0	38.1
Discontinued operations						
Loss on disposal of subsidiaries	–	18.2	–	–	–	18.2
Discontinued total	–	18.2	–	–	–	18.2

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

In 2012 the loss on disposal of subsidiaries relates to the VT US disposal. £5 million reflects recycling of exchange rate fluctuations from the date of acquisition to completion of sale. The balance relates to movements in the disposal balance sheet since the year end and provisions against future claims and costs.

The reorganisation and rationalisation costs relate to redundancies, property costs and IT rationalisation costs arising in achieving synergy benefits on the VT Group plc acquisition. In addition to the above, a £2.7 million (2012: £1.3 million) exceptional tax credit arose on the change in UK tax rates.

Notes to the consolidated half year financial statements continued

4. Income taxes

The charge for taxation has been based on the estimated effective tax rate of 18% before amortisation of acquired intangibles and exceptional items for the full year ended 31 March 2014. (For September 2012, the charge for tax was based on an estimated effective tax rate of 18.1% for the full year ended 31 March 2013, together with a prior year credit of £1.6 million). An additional tax credit of £7.4 million relates to acquired intangible amortisation of which £0.7 million is included in share of profit from joint ventures and associates.

5. Earnings per share

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

	Six months ended 30 September 2012	Six months ended 30 September 2013
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	359,567,567	358,740,182
Effect of dilutive potential ordinary shares: share options	2,005,062	3,004,109
Weighted average number of ordinary shares for the purpose of diluted EPS	361,572,629	361,744,291

Earnings

	Six months ended 30 September 2013			Six months ended 30 September 2012 (Restated)		
	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	91.6	25.6	25.3	72.4	20.2	20.0
Add back:						
Amortisation of acquired intangible assets, net of tax	24.6	6.8	6.8	27.0	7.5	7.5
Exceptional items and other, net of tax	-	-	-	1.9	0.6	0.5
Impact of change in UK tax rate	(2.7)	(0.8)	(0.7)	(1.3)	(0.4)	(0.4)
Earnings before discontinued operations, amortisation, exceptional items and other	113.5	31.6	31.4	100.0	27.9	27.6
Discontinued operations						
Earnings from discontinued operations	-	-	-	(17.4)	(4.8)	(4.8)
Add back:						
Amortisation of acquired intangible assets, net of tax	-	-	-	-	-	-
Exceptional items and other, net of tax	-	-	-	18.2	5.0	5.0
Earnings from discontinued operations before amortisation, exceptional items and other	-	-	-	0.8	0.2	0.2
Continuing and discontinued operations						
Earnings from continuing and discontinued operations	91.6	25.6	25.3	55.0	15.4	15.2
Add back:						
Amortisation of acquired intangible assets, net of tax	24.6	6.8	6.8	27.0	7.5	7.5
Exceptional items and other, net of tax	-	-	-	20.1	5.6	5.5
Impact of change in UK tax rate	(2.7)	(0.8)	(0.7)	(1.3)	(0.4)	(0.4)
Earnings before amortisation, exceptional items and other	113.5	31.6	31.4	100.8	28.1	27.8

6. Dividends

An interim dividend of 6.9 pence per 60 pence ordinary share (2012: 6.30 pence per 60 pence ordinary share) was declared after the balance sheet date and will be paid on 10 January 2014 to shareholders registered on 13 December 2013.

Notes to the consolidated half year financial statements continued

7. Investments in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	Six months ended 30 September 2013 £m	Six months ended 30 September 2012 £m	Six months ended 30 September 2013 £m	Six months ended 30 September 2012 £m	Six months ended 30 September 2013 £m	Six months ended 30 September 2012 £m
At 1 April	18.6	19.3	51.1	24.9	69.7	44.2
Investments in joint ventures and associates	-	(0.2)	-	-	-	(0.2)
Loans to/(repayments from) joint ventures and associates	-	-	(0.6)	7.6	(0.6)	7.6
Share of profits	10.2	6.7	-	-	10.2	6.7
Dividends received	(0.9)	(0.8)	-	-	(0.9)	(0.8)
Interest accrued	-	-	2.3	0.5	2.3	0.5
Interest received	-	-	(1.8)	(2.0)	(1.8)	(2.0)
Fair value adjustment of derivatives	21.6	(30.4)	-	-	21.6	(30.4)
Tax on fair value adjustment of derivative	(5.0)	7.4	-	-	(5.0)	7.4
Foreign exchange	(0.1)	-	-	-	(0.1)	-
Total	44.4	2.0	51.0	31.0	95.4	33.0

8. Other financial instruments

	Assets		Liabilities	
	Six months ended 30 September 2013 £m	Six months ended 30 September 2012 £m	Six months ended 30 September 2013 £m	Six months ended 30 September 2012 £m
Non-current				
US private placement – currency and interest rate swaps (note 11)	9.4	24.2	-	-
Current				
Interest rate hedge	-	-	2.2	3.0
Cross currency swaps	-	-	4.1	4.3
Other currency hedges	6.2	5.3	3.4	3.3
	6.2	5.3	9.7	10.6

The Group enters into forward foreign currency contracts to hedge the currency exposures that arise on sales, purchases, deposits and borrowings denominated in foreign currencies, as the transactions occur.

The Group enters into interest rate hedges against interest rate exposure and to create a balance between fixed and floating interest rates.

The fair values of the financial instruments are based on valuation techniques (level 2).

Notes to the consolidated half year financial statements continued

9. Reconciliation of operating profit to cash generated from operations

Year ended 31 March 2013 (restated) £m		Six months ended 30 September 2013 £m	Six months ended 30 September 2012 (restated) £m
	Cash flows from operating activities		
284.2	Operating profit before amortisation of acquired intangibles and exceptional items	142.2	128.2
(80.7)	Amortisation of acquired intangibles and exceptional items	(28.9)	(35.0)
203.5	Group operating profit	113.3	93.2
(17.1)	Pre-tax loss from discontinued operations	-	(17.1)
37.4	Depreciation of property, plant and equipment	19.2	18.7
73.6	Amortisation of intangible assets	32.0	34.8
1.7	Investment income	0.8	0.9
8.6	Equity share-based payments	7.2	4.6
18.0	Loss/(profit) on disposal of subsidiaries	-	18.2
(4.1)	Profit on disposal of property, plant and equipment	(0.3)	(0.2)
1.1	Loss on disposal of intangible assets	-	-
322.7	Operating cash flows before movement in working capital	172.2	153.1
1.4	Increase in inventories	(31.8)	(11.6)
(34.8)	Increase in receivables	(16.9)	(42.2)
48.5	Increase in payables	46.6	54.0
(11.5)	Decrease in provisions	(18.7)	(7.2)
(32.9)	Retirement benefit payments in excess of income statement	(4.5)	(4.0)
293.4	Cash generated from operations	146.9	142.1

10. Movement in net debt

Year ended 31 March 2013 £m		Six months ended 30 September 2013 £m	Six months ended 30 September 2012 £m
(5.7)	Increase/(decrease) in cash in the period	10.6	(1.2)
104.8	Cash flow from the (increase)/decrease in debt and lease financing	(13.3)	68.6
99.1	Change in net funds resulting from cash flows	(2.7)	67.4
(6.3)	Loans and finance leases acquired with subsidiaries	(1.3)	(6.3)
(0.6)	New finance leases	(16.6)	-
(1.7)	Foreign currency translation differences and other	(1.0)	(1.1)
90.5	Movement in net debt in the period	(21.6)	60.0
(641.1)	Net debt at the beginning of the period	(550.6)	(641.1)
(550.6)	Net debt at the end of the period	(572.2)	(581.1)

11. Changes in net debt

	At 1 April 2013 £m	Cash flow £m	Acquisitions and disposals £m	New Finance leases £m	Exchange movement /other £m	At 30 September 2013 £m
Cash and bank balances	97.1	9.8	2.4	-	(4.0)	105.3
Bank overdrafts	(6.5)	(1.6)	-	-	1.9	(6.2)
Cash, cash equivalents and bank overdrafts at end of period	90.6	8.2	2.4	-	(2.1)	99.1
Debt	(681.7)	(14.9)	(1.3)	-	35.8	(662.1)
Finance leases	(4.6)	1.6	-	(16.6)	1.0	(18.6)
	(686.3)	(13.3)	(1.3)	(16.6)	36.8	(680.7)
Net debt before derivatives	(595.7)	(5.1)	1.1	(16.6)	34.7	(581.6)
Net debt derivative	45.1	-	-	-	(35.7)	9.4
Net debt including derivative	(550.6)	(5.1)	1.1	(16.6)	(1.0)	(572.2)

Notes to the consolidated half year financial statements continued

12. Pensions

Analysis of movement in the balance sheet

	Six months ended 30 September 2013 £m	Six months ended 30 September 2012 (restated) £m
Fair value of plan assets		
At 1 April	3,204.8	2,782.7
(Settlements)/transfers in	(3.3)	3.9
Expected return	67.8	84.2
Actuarial loss	(166.5)	(6.6)
Change in reimbursement rights	(5.9)	52.6
Employer contributions	29.5	26.4
Employee contributions	2.8	2.5
Benefits paid	(70.7)	(68.8)
At 30 September	3,058.5	2,876.9
Present value of benefit obligations		
At 1 April	3,465.8	3,039.9
(Settlements)/transfers in	(3.3)	3.9
Service cost	22.2	20.9
Incurred expenses	2.7	1.6
Interest cost	71.0	68.6
Employee contributions	2.8	2.5
Actuarial (gains)/loss	(67.8)	35.6
Experience losses	17.9	90.5
Benefits paid	(70.7)	(68.8)
At 30 September	3,440.6	3,194.7
Present value of unfunded obligations	(0.1)	(0.1)
IFRIC 14 adjustment	-	-
Net deficit at 30 September	(382.2)	(317.9)
Net deficit at 31 March 2013	(261.1)	(265.9)

Analysis of charge to Income Statement

	Six months ended 30 September 2013 £m	Six months ended 30 September 2012 (restated) £m
Current service cost	22.2	20.9
Incurred expenses	2.7	1.6
Total included within operating profit	24.9	22.5
Net interest costs	5.4	5.9
Total included within profit before tax	30.3	28.4

As at 30 September 2013 the key assumptions used in valuing pension liabilities were:

Discount rate	4.5% (31 March 2013: 4.4%)
Inflation rate	2.8% (31 March 2013: 2.8%)

Notes to the consolidated half year financial statements continued

13a. Acquisition (current year)

On 23 July 2013 the Group acquired Conbras Engenharia Ltda, a privately owned Brazilian company, for a consideration of £22.6 million (R\$75 million), including a maximum £4.4 million (R\$15 million) deferred consideration and earn out. Conbras operates in the facilities management sector, serving private and public customers across Brazil.

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

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

	Conbras Engenharia Ltda £m
Cost of acquisition	
Cash paid	18.2
Deferred consideration	4.4
Purchase consideration	22.6
Fair value of assets acquired (see below)	6.5
Goodwill	16.1

The goodwill arises from the market position and future synergistic growth expectations.

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

	Conbras Engenharia Ltda	
	Book value of assets acquired £m	Provisional fair value acquired £m
Acquired intangibles*	0.1	9.3
Property, plant and equipment	0.3	0.3
Investments	0.1	-
Deferred tax	(0.7)	(2.7)
Income tax	0.2	0.2
Cash, cash equivalents and bank overdrafts	1.3	1.3
Bank loans	(1.3)	(1.3)
Current assets	9.1	8.9
Current and non current liabilities	(6.1)	(6.8)
Provisions	-	(2.7)
Net assets acquired	3.0	6.5

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

Cash outflow to acquire business net of cash acquired:

	Conbras Engenharia Ltda £m
Purchase consideration paid in cash	18.2
Cash, cash equivalents and bank overdrafts acquired	(1.3)
Cash outflow in period	16.9

The revenue and operating profit of Conbras Engenharia Ltda since the date of acquisition and as if they had been acquired on 1 April 2013 are:

	Since date of acquisition £m	For full six months £m
Revenue	6.7	22.6
Operating profit	0.6	2.9

Notes to the consolidated half year financial statements continued

13b. Acquisition (prior year)

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

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

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

	Target Cranes £m	Other £m	Total £m
Cost of acquisition			
Cash paid	–	2.0	2.0
Value of non-controlling interest allowed	19.8	–	19.8
Purchase consideration	19.8	2.0	21.8
Fair value of assets acquired (see below)	16.7	2.0	18.7
Goodwill	3.1	–	3.1

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

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

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

Cash outflow to acquire business net of cash acquired:

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

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

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

Notes to the consolidated half year financial statements continued

14a. Disposals (current year)

During the period the Group received the deferred consideration on the disposal of the UKAEA Pension Administration Office and also paid certain accrued costs on previously disposed of businesses. Details of final assets disposed of are as follows:

	30 September 2013 £m
Deferred consideration received	4.2
Accrued costs on previously disposed of businesses	(1.9)
Net cash flow	2.3

14b. Disposals (prior year)

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

Details of final assets disposed of are as follows:

	30 September 2012 £m
Held for sale assets and liabilities	62.2
Cash, cash equivalents and bank overdrafts	2.6
Non-controlling interest	0.4
Translation adjustments recycled from translation reserve	4.9
Assets sold	70.1
Provision for claims and costs	8.9
Sale proceeds	(60.8)
Loss on disposal of subsidiaries	18.2

15. Transactions with non-controlling interests

There were no transactions with non-controlling interests in the current period.

The following were the transactions for the previous period:

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

16. Related party transactions

Related party transactions in the half year to 30 September 2013 are; sales to joint ventures and associates amounting to £125.8 million (2012: £105.7 million), purchases from joint ventures and associates amounting to £0.2 million (2012: £19.9 million) and sales to companies with common directors amounting to £4.8 million (2012: £4.7 million).

17. Financial information

The financial information in this half year report does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2013 were approved by the Board on 13 May 2013 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

Risks and uncertainties

The Directors consider that the principal risks and uncertainties affecting the Group remain unchanged from those described in the 2013 Annual Report and are those arising from: reliance on large contracts with a relatively limited number of major clients, including clients affected by political and public spending decisions, which exposes the Group to political risks, and damage to our reputation can have rapid and serious adverse consequences; contracts carrying strict performance conditions with which Babcock must comply within the tendered price; failure to realise the pipeline of opportunities and secure rebids; operations carrying significant health, safety and environmental risks; the need for experienced management resource and skilled employees, who can sometimes be in short supply; IT and security risks; and the risk of exposure to significant defined benefit pension schemes. These risks, and mitigating actions taken in respect of them, are explained and described in more detail on pages 50 to 55 of the 2013 Annual Report, a copy of which is available at www.babcockinternational.com. This half year report also includes comments on the outlook for the Group for the remaining six months of the financial year.

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

Forward-looking statements

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

Statement of Directors' responsibilities

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

- this condensed set of financial statements has been prepared in accordance with IAS 34 (Interim Financial Reporting) as adopted by the European Union; and
- the interim management report herein includes a fair review of the information required by
 - Rule 4.2.7 of the Disclosure & Transparency Rules (indication of the important events during the first six months, and their impact on the condensed set of financial statements, and a description of principal risks and uncertainties for the remaining six months of the year) and
 - Rule 4.2.8. of the Disclosure & Transparency Rules (disclosure of related parties' transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the entity during that period; and any changes in the related parties transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.).

The names and functions of each the Directors of Babcock International Group PLC are as listed in its 2013 Annual Report. A copy of the Annual Report can be found, and a list of current Directors is maintained, on the Group's website www.babcockinternational.com

Approved by the Board and signed on its behalf by



Peter Rogers
Group Chief Executive



Bill Tame
Group Finance Director



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