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Babcock International Group PLC

Half year report

For the six months ended 30 September 2015

babcockinternational.com

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A presentation for investors and analysts was held on 24 November 2015, at 9:00 am at FTI Consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD. The presentation was webcast and available on demand at www.babcockinternational.com.

Continued strong growth with excellent visibility of future revenues

Financial highlights

Underlying	September 2015	September 2014	Change
Revenue*	**£2,349.2m**	£2,103.2m	+ 12 %
Operating profit**	**£253.0m**	£239.5m	+ 6 %
Profit before tax***	**£213.6m**	£187.0m	+ 14 %
Basic earnings per share****	**34.5p**	31.0p	+ 11 %
Statutory			
Revenue	**£2,039.4m**	£1,941.4m	+ 5 %
Operating profit	**£157.2m**	£162.6m	– 3 %
Profit before tax	**£146.3m**	£137.0m	+ 7 %
Basic earnings per share	**24.7p**	23.7p	+ 4 %
Net debt	**£1,315.7m**	£1,284.9m	– 2 %
Net debt/ebitda annualised (including jvs)	**2.1x**	2.3 x	
Half year dividend	**6.05p**	5.50p	+ 10 %
Order book	**£20.0bn**	£18.5bn	+ 8%

**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 exceptional items. ***Underlying profit before tax is inclusive of pre-tax joint venture and associates income but before amortisation of acquired intangibles and exceptional items. ****Underlying basic earnings per share is before amortisation of acquired intangibles and exceptional items, before the related tax effects and before the effect of corporate tax rate changes.*

Highlights

- Continued strong growth
  - 12% growth in underlying revenue; 10% organic growth at constant exchange rates
  - 6% growth in underlying operating profit; 8% organic growth at constant exchange rates
  - 14% growth in underlying profit before tax

- Excellent revenue visibility
  - 92% of revenue for full year 2015/16 in place as of 30 October 2015
  - 60% of revenue for full year 2016/17 already under contract
  - £20 billion order book, reflecting £2 billion intake during the period

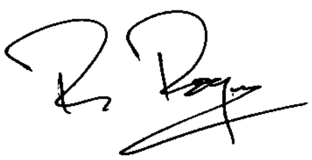
- Replenished £10.5 billion bid pipeline provides further opportunities for growth
  - £2.5 billion of new opportunities added to the bid pipeline during the period

- Continued pre-capital expenditure cash conversion of over 100%
  - Post-capital expenditure conversion of around 70% as anticipated

- Ongoing focus on creating shareholder value
  - 11% increase in underlying EPS to 34.5 pence
  - 10% increase in interim dividend to 6.05 pence

"Babcock has maintained its record of strong growth in revenue, profit and earnings with continued robust cash generation and conversion. Our sector leadership positions, excellent track record and operational scale enable us to continue to capitalise on healthy levels of demand in established and new markets, in Britain and overseas.

"Our order book remains at a record level and gives us excellent visibility of future revenues, whilst our replenished bid pipeline provides further opportunities for long-term growth. The Board therefore remains confident that we will continue to make good progress and that our full year results will be in line with our expectations."



Peter Rogers, Chief Executive

Overview

Introduction

Babcock continued to deliver strong growth in underlying revenue, operating profit and earnings per share during the first half of the 2015/16 financial year, demonstrating the quality of the Group's operations and business activities.

We believe the Group's key markets remain positive as customers continue to rely on our knowledge and experience to deliver their critical services. We have a proven track record of delivering technically complex programmes to drive financial and operational efficiencies whilst meeting key availability targets. Our first half contract wins continue to support and strengthen the leading positions we have in our markets and create further opportunities to strengthen our existing customer relationships. They also provide unique reference points for future business development opportunities not only in the UK but also in overseas markets, which our enhanced international presence following the acquisition of Avincis, now Mission Critical Services (MCS), is assisting us to identify and pursue.

Cash generation has remained a key priority for the Group and operating cash flow was £244.4 million (2014: £237.0 million) which represents a cash conversion rate of 112% (2014: 115%). Cash conversion after capital expenditure, forecast to be around 70% for the full year, was 73% in the first half (2014: 73%). Free cash flow increased 42% to £118.8 million (2014: £83.9 million) in the first half. Net debt to ebitda at the end of the first half improved, as expected, to 2.1 times.

In November, following the announcement of Executive Director Kevin Thomas' intention to retire on 31 March 2016, we instituted a number of management changes. Executive Director John Davies took over Mr Thomas' role as Chief Executive, Support Services. Mr Davies was succeeded as Chief Executive, Defence and Security by Roger Hardy, previously Managing Director of Cavendish Nuclear. Mr Thomas will step down from the Board as Director on 31 December 2015. He will maintain his relationship with Babcock through his roles as Non-Executive Chairman of the Parent Body Organisation boards of the Group's nuclear joint ventures at Dounreay (Cavendish Dounreay Partnership) and the Magnox nuclear sites (Cavendish Fluor Partnership).

Interim dividend

Based on continued strong growth and excellent revenue visibility the Board has decided to increase the half year dividend by 10% to 6.05 pence per share. This will be paid on 14 January 2016 to shareholders on the register at 11 December 2015.

Order book and bid pipeline

The order book for the Group remains at the record level of £20 billion reached at the end of financial year 2014/15, having been replenished by around £2 billion of contracted work during the first half of 2015/16. This represents an increase in order book size of £1.5 billion against the same period of the previous year. The order book provides strong visibility of future revenues in the short and medium term: 92% of revenue in place for full year 2015/16 and 60% for 2016/17.

We continue to make good progress on delivery of our existing long term contracts in our order book, including successfully completing the first year of activity under the £2.6 billion Maritime Support Delivery Framework; advancing the Magnox and Dounreay decommissioning programmes; delivering 99% availability in our successful C vehicle capability contract for the UK Ministry of Defence (MoD); maintaining high standards of service in our Army training programmes; and delivering support to Australian, Canadian and New Zealand naval programmes. Our long term UK Military Flight Training System and Future Strategic Tanker Aircraft joint ventures continue to perform well.

We have also seen significant growth within existing contracts during the first half of the financial year. The integration of the Defence Support Group (DSG) has progressed well, with all milestones being met in the first six months. As a result the total contract value has grown as the scope has been increased to encompass additional responsibility for the procurement of spares and repairs, earlier than was initially expected. Our decommissioning contract at Dounreay has also grown in scope, with around £250 million (Babcock share) of new work awarded in the period. We expect additional work to flow in our core nuclear contracts. MCS maintained a high contract win rate in the period, having been awarded 31 contracts and extensions (of which seven were new contracts).

During the first half, the Group maintained its win rate, achieving success in around 40% of its bids for new contracts and around 90% for rebids. New contracts won in the period include: a £120 million work package on Canadian submarine HMCS Corner Brook; a contract to engineer and construct an offshore substation for the Rampion wind farm; spares support work for the Royal Navy; a five-year contract to deliver engineering support to Royal Navy air stations in the south west of England; a multi-million pound project to produce a reference design for a new waste processing facility for Capenhurst Nuclear Services; a contract for resignalling work on the Derry to Coleraine railway line; an education support services contract for Worcestershire County Council; the provision of training services for BMW and Network Rail; digital learning solutions provided through our Skills2Learn business, a 10-year Critical Services contract for Aggregate Industries in the US; and a helicopter emergency services contract for the Languedoc region in France.

We are making good progress across our International business units, and have identified a number of new opportunities, using our access to the wider Group's expertise and our international presence to develop opportunities for Babcock in Continental Europe.

With around £2.5 billion of opportunities added during the first half of the financial year, the total bid pipeline has been replenished and remains at £10.5 billion, which we believe provides a strong platform for growth.

The UK Government's Strategic Defence and Security Review was published on 23rd November; we are currently analysing the detail of the document, but believe it supports our view regarding future outsourcing opportunities.

Outlook

Our key markets, in both the UK and overseas, remain positive as customers continue to seek financial and operational efficiencies. We continue to strengthen our strategic relationship with the UK armed forces. We believe our track record, and focus on delivering long-term output based contracts which provide improved availability and significant savings for the customer, position us well for future competitive outsourcing programmes.

We see strong short and medium term opportunities for our businesses, in existing as well as new markets and geographies. The Group's £20 billion order book provides excellent visibility of future revenues, and the replenishment of the bid pipeline with new opportunities provides significant prospects for continued growth.

The Board therefore remains confident the Group will continue to make good progress during this year and that the results for the 2015/16 financial year will be 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. 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. 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.

Statutory to underlying reconciliation

		Joint venture and associates					
	Continuing operations - statutory	Revenue and operating profit	Finance cost	Tax	IFRIC 12 income	Amortisation of acquired intangibles	**Continuing operations - underlying**
	£m	£m	£m	£m	£m	£m	**£m**
30 September 2015							
Revenue	**2,039.4**	309.8					**2,349.2**
Operating profit	**157.2**	20.0			15.6	60.2	**253.0**
Share of profit from jv	**17.8**	(20.0)	10.0	4.2	(14.9)	2.9	**–**
Investment income	**0.7**				(0.7)		**–**
Net finance costs	**(29.4)**		(10.0)				**(39.4)**
Profit before tax	**146.3**	–	–	4.2	–	63.1	**213.6**
Tax	**(18.1)**			(4.2)		(14.0)	**(36.3)**
Profit after tax	**128.2**	–	–	–	–	49.1	**177.3**
30 September 2014							
Revenue	**1,941.4**	161.8					**2,103.2**
Operating profit	**162.6**	14.6			19.4	42.9	**239.5**
Share of profit from jv	**10.6**	(14.6)	15.6	4.0	(18.7)	3.1	**–**
Investment income	**0.7**				(0.7)		**–**
Net finance costs	**(36.9)**		(15.6)				**(52.5)**
Profit before tax	**137.0**	–	–	4.0	–	46.0	**187.0**
Tax	**(19.1)**			(4.0)		(10.6)	**(33.7)**
Profit after tax	**117.9**	–	–	–	–	35.4	**153.3**

Income statement

Total revenue for the first half increased by 12% to £2,349.2 million (2014: £2,103.2 million), equating to 10% organic growth at constant exchange rates.

The largest contributor to this growth was the Support Services division which reported a 30% increase in revenue, benefiting from increased activity on long term decommissioning projects in its subsidiary, Cavendish Nuclear. The Marine and Technology division delivered another strong performance in the period, with growth of 11% driven by an increase of activity across all its markets. This more than offset the expected first half reduction of 3% in the Defence and Security division, due to programme phasing within the AirTanker joint venture and the ending of the Prime contracts in January 2015, and the headwinds from weaknesses in oil and commodity prices affecting parts of the International division.

Total underlying operating profit for the Group increased by 6% to £253.0 million in the first half (2014: £239.5 million), equating to 8% organic growth at constant exchange rates. As previously guided, the increase was at a lower rate than revenue mainly as a result of the early stages of the long-term Magnox and Dounreay decommissioning projects. This provided an overall Group operating margin of 10.8% (2014: 11.4%).

Total net finance costs reduced to £39.4 million (2014: £52.5 million), reflecting the refinancing of the Group following the acquisition of Avincis (now MCS) and the halving of retirement benefit interest to £2.6 million (2014: £5.5 million).

Total profit before tax increased by 14% to £213.6 million (2014: £187.0 million). Taxation charges, including the Group's share of joint venture tax, were £36.3 million (2014: £33.7 million) representing an effective underlying tax rate of 17% (2014: 18%).

Exchange rates

Sterling strengthened significantly against the main trading currencies of the Group compared to the first half of 2014/15, but stabilised in the second half of last financial year. However following the half year end, sterling has strengthened further. A 10% increase in the Euro affects revenue by around £31.0 million and operating profit by £6.0 million. A 10% movement in the Rand affects revenue by around £27.0 million and operating profit by £2.4 million.

Earnings per share

Underlying earnings per share for the first half were 34.5 pence (2014: 31.0 pence), an increase of 11%. Basic continuing earnings per share, as defined by IAS 33, were 24.7 pence (2014: 23.7 pence).

Financial review continued

Acquisitions and disposals

During the first half of the financial year the Group paid the deferred consideration of £1.3 million in respect of the acquisition of specialist vehicle converter MacNeillie, and progressed completion accounts relating to DSG. There were no new acquisitions during the period.

The Group disposed of its investments in the Lewisham Schools for the Future joint ventures for £14.3 million in April 2015, and in July 2015 disposed of Norsk Helikopterservice AS for a nominal consideration. This resulted in a net cash inflow of £11.5 million and a profit of £7.5 million.

Cash flow and net debt

	30 September 2015 £m	30 September 2014 £m
Operating profit before amortisation of acquired intangibles and exceptional items	**217.4**	205.5
Amortisation and depreciation	**42.1**	39.7
Other non-cash items	**8.0**	8.5
Working capital (excluding retirement benefits)	**(23.1)**	(16.7)
Operating cash flow	**244.4**	237.0
Cash conversion %	***112%***	*115%*
Capital expenditure (net)	**(85.2)**	(87.2)
Operating cash flow after capital expenditure	**159.2**	149.8
Cash conversion after capital expenditure %	***73%***	*73%*
Interest paid (net)	**(22.7)**	(45.9)
Taxation	**(25.0)**	(26.2)
Dividends from jvs	**7.3**	6.2
Free cash flow (pre excess pension contributions)	**118.8**	83.9
Pension contributions in excess of income statement	**(1.2)**	(6.2)
Free cash flow (post excess pension contributions)	**117.6**	77.7
Acquisitions/disposals/jv	**2.7**	(1,819.6)
Issue of shares	**1.2**	1,077.4
Exceptional items – working capital	**–**	(14.0)
Joint ventures loans and investments	**(7.3)**	2.3
Movement in own shares	**(0.9)**	(4.1)
Dividends paid	**(92.9)**	(86.8)
Exchange difference/other	**(10.5)**	15.9
Net cash inflow/(outflow)	**9.9**	(751.2)
Opening net debt	**(1,325.6)**	(533.7)
Closing net debt	**(1,315.7)**	(1,284.9)

The table below provides the reconciliation between the statutory cash flow and the trading cash flow table above.

	30 September 2015 £m	30 September 2014 £m
Cash generated from operations	**235.7**	216.8
Pension contributions in excess of income statement	**1.2**	6.2
Exceptional working capital flow	**–**	14.0
Profit on disposal of jv	**7.5**	–
Operating cash flow	**244.4**	237.0

Working capital cash flows during the period were £23.1 million (2014: £16.7 million), of which £2.2 million is related to provision movements (2014: £16.3 million). Operating cash flow after the working capital movement, was £244.4 million (2014: £237.0 million), resulting in a pre-capital expenditure conversion rate of underlying operating profit to cash of 112% (2014: 115%).

Net capital expenditure (including new finance leases) during the first half was £85.2 million (2014: £87.2 million) or around 2.0 times depreciation, which we would expect to be the case for the full year. As previously advised, net capital expenditure to depreciation ratio is expected to peak this financial year due to the planned investment in a group-wide ERP system.

There were no exceptional cash items in the first half of the year (2014: £14.0 million). Pension payments in excess of the income statement were £1.2 million (2014: £6.2 million).

Net cash interest paid, excluding that paid by joint ventures, was £22.7 million (2014: £45.9 million), reflecting the Group's refinanced banking facilities. After taxation payments of £25.0 million (2014: £26.2 million), free cash flow before excess pension contributions was £118.8 million (2014: £83.9 million), giving an adjusted free cash flow yield, after interest and tax, of 6.6% (2014: 2.6%). Free cash flow after excess pension contributions was £117.6 million (2014: £77.7 million).

Acquisitions, disposals and joint ventures of £2.7 million, related to deferred considerations in respect of the acquisition of MacNeillie, together with the disposal of investments in the Lewisham Schools for the Future joint venture and Norsk Helikopterservice.

Dividend payments during the first half totalled £92.9 million (2014: £86.8 million). Total net cash inflow was £9.9 million (2014: outflow of £751.2 million), which resulted in total net debt at the end of the first half of £1,315.7 million (2014: £1,284.9 million; 31 March 2015: £1,325.6 million). This gives a net debt to earnings before interest, tax, depreciation and amortisation (ebitda) ratio of 2.1 times (2014: 2.3 times). As previously indicated we expect the net debt to ebitda ratio to be around 1.9 times at 31 March 2016.

Pension

Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £3,766.3 million in comparison to a valuation of the liabilities based on AA corporate bond yields of £3,879.0 million. The total accounting deficit, pre-tax, of the Group's combined defined benefit pension schemes decreased to £112.8 million (30 September 2014: £270.7 million; 31 March 2015 £168.8 million). The increase in bond yields over the year more than offset the contribution from investment performance, whilst the continued hedging of inflation and interest rate changes mitigated volatility in the value of assets and liabilities. The increase in the credit spread between gilts and corporate bonds also reduced the deficit. Changes have been introduced into the Rosyth and Devonport Dockyard pension schemes from 1 June 2015, in line with those introduced in the Babcock International Group scheme from 1 October 2014 to limit future risks, reduce the future costs and to increase employee contribution rates to 6.0% phased over the next three years.

As at 30 September 2015, the key assumptions used in valuing pension liabilities were:

Discount rate	3.8% (31 March 2015: 3.4%)
Inflation rate (RPI)	3.0% (31 March 2015: 2.9%)

Operational review

Marine and Technology

		30 Sept 2015	30 Sept 2014	Change +/-
Revenue	group	**£792.8m**	£716.2m	+ 11 %
	jv	**£10.2m**	£8.9m	+ 15 %
	total	**£803.0m**	£725.1m	+ 11 %
Operating profit	group	**£84.9m**	£76.5m	+ 11 %
	jv	**£1.5m**	£1.2m	+ 25 %
	total	**£86.4m**	£77.7m	+ 11 %
Operating margin	group	**10.7%**	10.7%	
	jv	**14.7%**	13.5%	
	total	**10.8%**	10.7%	

Financial review

The Marine and Technology division continues to deliver strong growth across its key markets, with revenue growth of 11% in the first half of the year. This successful performance continues to be underpinned by our position as a strategic partner to the UK MoD where we operate under long term framework agreements, and by securing opportunities outside the UK and in the commercial marine sector. Operating profit in the first half increased by 11%, in line with revenue, and margins in the period remained stable at 10.8%.

Operational review

The Marine and Technology business has seen continued growth across defence and commercial markets. Through our long-term arrangements with the MoD and industry partners we continue to remain focused on cost reduction while maximising fleet availability.

The end of the first half has seen us conclude our first year of activity under the £2.6bn Maritime Support Delivery Framework (MSDF), our contract to deliver services at Her Majesty's Naval Base (HMNB) Clyde and Devonport through to 2020. The contract has begun well, and we are delivering improved efficiencies and cost reductions on the agreed programme of work.

Current warship and submarine refit contracts are performing in line with expectations, realising the customer's programme milestones and KPIs. Work on HMS Vengeance, the fourth of the Vanguard Class submarines to undergo a major refit in Devonport, is progressing well, together with a number of significant capability upgrades. HMS Vanguard will begin refuelling and life extension work in the coming months, and will be followed by life extension work on the other three submarines in the Vanguard Class over the next 15 years.

Refit work on the Revalidation Assistance Maintenance Period (RAMP) on Trafalgar Class vessel HMS Talent is also underway at Devonport, together with a significant reactivation package on the amphibious assault ship HMS Albion. Additionally, the Type 23 life extension programme began well, with HMS Monmouth returned to the fleet after a successful refit and work now underway on HMS Argyll. We continue to work with the UK MoD outside the UK, with a fleet-time support period on HMS Scott in Gibraltar and the provision of support to deployed UK ships and submarines in Bahrain.

Our role within the Aircraft Carrier Alliance (ACA) remains strategically important, as we continue to deliver assembly and fit out of both Queen Elizabeth class (QEC) aircraft carriers together with our alliance partners. Significant progress has been made on HMS Queen Elizabeth at our facility in Rosyth, with activity now focused on the commissioning of key mechanical and electronic systems. Our work on the assembly stage of HMS Prince of Wales is going well, with the programme continuing to deliver on schedule.

Looking outside the UK, we handed over the second Offshore Patrol Vessel (OPV) to the Irish Naval Service in a ceremony in September. Work on building the third OPV is progressing well, with the vessel due to be delivered in Summer 2016. Further afield, our contracts to support the Australian, New Zealand and Canadian navies are performing well, delivering improved availability and efficiencies for our customers. In Canada, the refit of HMCS Corner Brook is now well underway following the successful return to service of HMCS Chicoutimi.

In Australia, we continue to successfully deliver support to the Collins Class submarines and ANZAC Class frigates. Building on our Naval Ship Management joint venture, we are currently in discussions regarding the potential to broaden our role in support of the ANZAC Class through a new alliancing arrangement. In New Zealand, we continue to deliver our contract with the New Zealand Defence Force which provides us with scope to broaden our activities and generate further naval support opportunities.

Within our commercial marine business, the gas handling systems market remains buoyant, with our entry into new regions and new customers bringing both orders and future opportunities. Our development of LNG technology continues, and further opportunities with new customers in Asia have been identified through our regional marketing programme.

In the period, we delivered the last of the subsea modules to BP for this year's offshore campaign. The programme has proved very successful, with Babcock's performance in ensuring that all delivery dates were achieved or bettered, contributing to the improved productivity of our customer. We are currently in the early stages of work on an offshore substation platform for E.ON's offshore Rampion wind farm. Building on the success of our commercial marine operations, the division continues to pursue selected opportunities in the energy sector which meet our internal risk criteria and hurdle rates.

In our Technology business we are progressing activities to support the Successor future submarine programme. We continue to deliver weapons handling and launch systems to support the current Astute, Type 26 and QEC build programmes in the UK, as well as new build submarine programmes in Spain and South Korea. We have completed the initial development of our Equipment Management Operations Centre, through which we are managing a number of spares support contract opportunities for the Royal Navy, included within the Marine Equipment Transformation and Marine Equipment Systems programmes, with further opportunities due to be awarded in the second half of the year.

Our technology consultancy businesses continue to develop and support growth in their respective markets both in the UK and overseas, particularly in response to the developing cyber-threat environment through our Context IS business, but also by using our information and data analytics capabilities to enable our customers to deliver higher availability from their assets.

Marine and Technology outlook

We continue to have good visibility of future revenue streams in our core UK naval marine business where we work alongside our customer to maximise availability and value for money, and see further opportunities to continue to grow our presence in the overseas defence markets. Our technical expertise, facilities and project management skills, together with the experience of successfully delivering projects such as BP Quad 204, has positioned us well for future opportunities in the commercial marine sector.

We remain positive about the outlook: with significant opportunities in the bidding and tracking pipeline continuing to support growth in the medium term, the division is on track to achieve high single-digit revenue growth for the full year with margins at a similar level to the previous financial year.

Defence and Security

		30 Sept 2015	30 Sept 2014	Change + / -
Revenue	group	**£361.6m**	£353.5m	+ 2 %
	jv	**£42.4m**	£60.9m	– 30 %
	total	**£404.0m**	£414.4m	– 3 %
Operating profit	group	**£37.9m**	£35.4m	+ 7 %
	jv	**£22.7m**	£23.1m	– 2 %
	Total	**£60.6m**	£58.5m	+ 4 %
Operating margin	group	**10.5%**	10.0%	
	jv	**53.5%**	37.9%	
	Total	**15.0%**	14.1%	

Financial review

As expected, the Defence and Security division's revenue decreased by 3% compared to the same period in the previous year. This was partly due to the completion of the Regional Prime contracts in January 2015 and partly due to planned phasing of aircraft deliveries within the AirTanker joint venture as the implementation phase of the programme nears completion.

Operating profit, including the division's share of joint venture profit, increased by 4%. Operating margin for the period increased to 15%, up from 14.1% the previous year, driven by the relevant joint venture stages of completion.

Operational review

The most significant development during the period was the award of a contract with the Defence Support Group (DSG) on 31 March 2015. The integration has proved very successful, with all contract milestones during the first six months met in full.

We successfully transferred 1,950 employees into Babcock, and have continued to deliver the critical core services required by the customer whilst undertaking a programme to transform the performance of the business. DSG provides an excellent platform to expand our equipment support offerings to the MoD, and additionally to support vehicle upgrade programmes. We have already seen significant growth in the total contract value, having taken on additional responsibility for the procurement of spares and repairs earlier than planned.

In the division's Land business, the vehicle and fleet support contracts for the MoD are performing well. Our C vehicle capability contract celebrates its tenth anniversary this year and has proven our ability to deliver cost efficiencies as well as what is recognised to be a consistently successful service. The contract has achieved over 99% availability since it began, and with five years remaining on the contract, the focus will be on further streamlining the fleet and delivering further value for the customer.

Operational review continued

Our Army training contracts continue to deliver high standards of services for our customers whilst achieving improved efficiency and delivery savings. In particular, our Electro Mechanical Training Contract (EMTC) with the Defence College of Technical Training (DCTT) and the transition of training from Bordon and Arborfield to Lyneham is progressing well.

The Training Maintenance and Support Services (TMASS) contract at Armour Centre Bovington continues to perform strongly, and a further contract for these services is now being negotiated on a single source basis. We await the outcome of the MoD vehicle fleet management contract Phoenix II, which is expected to be announced shortly.

Our Air business' aircraft maintenance and engineering support contracts for the Royal Air Force continue to perform well. Our significant long-term UK Military Flight Training System (UKMFTS) and Future Strategic Tanker Aircraft (FSTA) joint ventures are performing in line with expectations, and the UKMFTS Fixed Wing programme is expected to reach financial close by the end of 2015.

In October, we were awarded a five-year contract to deliver Aviation Engineering Services and Aircraft Support (AESAS) to the Royal Navy at Yeovilton and Culdrose naval air stations, with our bid supported by the MCS business' experience in rotary wing platforms. The contract, which starts in January 2016, adds to our capability as a provider of airbase engineering support to the MoD and strengthens our position in bidding for future airbase support contracts.

We expect an announcement regarding the award of the programme to provide and support the aircraft that will be used to train future fixed wing pilots under the UKMFTS programme with Ascent, a joint venture between Babcock and Lockheed Martin, to be made by the UK MoD shortly.

Internationally, we continue to develop opportunities in Australia, Canada and the Middle East, and to developing future European opportunities in partnership with MCS. Our Airwork maintenance and technical support business in Oman continues to perform well, providing a foundation to offer additional support to the Oman air fleet.

Defence and Security outlook

DSG has allowed us to establish a strategic relationship with the Army which we believe will expand our partner relationships across the sector. We continue to progress a number of significant equipment support and training opportunities, including the Defence Fire and Rescue Project, future UKMFTS programmes and the potential appointment of an Army Training Development Programme partner to help transform the provision of military training and equipment support to both the Regular and Reserve Forces. The division remains on track to deliver low single-digit revenue growth for the full financial year at margins consistent with those in the first half.

Support Services

		30 Sept 2015	30 Sept 2014	Change + / -
Revenue	group	**£476.2m**	£469.9m	+ 1 %
	jv	**£253.2m**	£89.2m	+ 184 %
	total	**£729.4m**	£559.1m	+ 30 %
Operating profit	group	**£38.2m**	£33.0m	+ 16 %
	jv	**£9.2m**	£7.7m	+ 19 %
	total	**£47.4m**	£40.7m	+ 16 %
Operating margin	group	**8.0%**	7.0%	
	jv	**3.6%**	8.6%	
	total	**6.5%**	7.3%	

Financial review

The Support Services division continued to deliver impressive revenue growth, up 30% on the previous period, driven by the continued strong performance from Cavendish Nuclear in the Magnox and Dounreay decommissioning projects. Other business units delivered good results, with only our UK power business experiencing some difficulties.

Operating profit increased 16% on the previous period to £47.4 million (2014: £40.7 million), with growth in both group and joint venture operations. As anticipated, margins in the half year declined slightly to 6.5%, reflecting the early stages of the long-term Magnox and Dounreay contracts.

Operational review

The Support Services division continues to make good progress across its markets. Our nuclear decommissioning activities are progressing well and our Rail, Education, Critical Services and Media Services businesses have won new contracts during the period. As anticipated, our Power business saw a reduction in revenues, although by a lesser amount than originally forecast.

In April, our Magnox joint venture with Fluor, the Cavendish Fluor Partnership, created a single Site License Company (SLC) to manage the decommissioning of 12 nuclear sites across the UK - a key step forward in our strategy to safely and efficiently manage the decommissioning of these sites on behalf of the Nuclear Decommissioning Authority (NDA).

We have successfully achieved key project milestones, and are currently operating Wylfa power station during its extended generation period prior to its closure in December 2015. Work to date includes the demolition of the Dungeness A Turbine Hall, the safe retrieval of all bulk fuel element debris from Bradwell's underground vaults and the removal of the last fuel from Oldbury power station.

The Cavendish Dounreay Partnership, our joint venture, continues to perform well. Significant milestones achieved during the period included the shipping of breeder elements from storage to Sellafield, the move to active commissioning of the encapsulation plant and the transfer of the first waste packages into the underground disposal vaults – a significant step towards site clearance. Following the award of additional work primarily relating to the transfer of nuclear fuels from Dounreay to Sellafield, of which our share is around £250 million, we are now focused on transferring the next batch of fuels.

Cavendish Nuclear continues to explore the opportunities for overseas decommissioning work, with some progress achieved in Japan with Hitachi. The business has also been awarded a multi-million pound contract to produce a reference design for a legacy cylinder waste processing facility for new customer, Capenhurst Nuclear Services, part of the Urenco group. This contract forms part of a larger project, worth a potential £100 million in total to be let in phases over several years. In Canada, as previously stated, our consortium's bid for the Chalk River project was unsuccessful.

Cavendish Nuclear remains well-positioned to support the UK's nuclear new build programmes. Its joint venture, Cavendish Boccard Nuclear, was selected by EDF as the preferred bidder for the Balance of Nuclear Island mechanical erection package in the construction of the proposed Hinkley Point C nuclear power station.

In our Rail business the transition into Network Rail's new Control Period 5 arrangements has proceeded to plan, with a strong performance in track renewals in the new regions where Babcock has assumed responsibility. We also won a resignalling contract to upgrade the railway line between Derry and Coleraine. ABC Electrification, our joint venture with Alstom and Costain, continues to make good progress on projects including the Edinburgh Glasgow Improvement Programme, West Coast Power Supply Upgrade and the Great Western Route Modernisation.

Our Power business experienced an expected reduction in revenues during the period of around £30 million, less than previously forecast, which led to a programme to downsize our operations. However an improving pipeline of opportunities is developing, including three major design projects allocated under a framework agreement with National Grid for overhead line refurbishment projects to be completed in 2016.

In the Education business, our new five-year contract with Worcestershire County Council to deliver education support services across the region went live in October. The business also serves Devon and Surrey County Councils and is now the leading provider of education support services in the UK.

We were awarded a five-year contract to continue the delivery of training services to the BMW Group UK Academy which will begin in January 2016. We were also pleased to have been chosen to provide Network Rail's Advanced Apprenticeship Scheme for a further five years from 1 September 2017. Babcock has delivered this award-winning scheme since 2005.

Our Skills2Learn business continues to experience high demand for its digital learning solutions. The e-learning and virtual reality simulation business is working directly with customers such as British Airways and BAE Systems and is also supporting other businesses within Babcock.

Following the acquisition of WRN Broadcast last financial year, our Media Services business has continued to expand and attract new customers. Our Critical Services business increased its range of services following the acquisition of specialist vehicle converter MacNeillie, combining capabilities to create a whole-lifecycle proposition which is proving attractive to new and existing customers. These enhanced capabilities will form a key part of our offering for the Metropolitan Police Service fleet support services contract which is due to be awarded during 2016.

Outside the UK, Babcock was awarded a 10-year contract by Aggregate Industries US, part of the Holcim Group, to provide a fleet managed service for its aggregate operations' heavy mobile equipment across the Mid-Atlantic region, encompassing 14 sites and over 130 assets.

In Brazil, our new baggage system maintenance contract at São Paulo International airport – one of the busiest airports in the region – is progressing well. In Oman, we signed a contract with Shell to deliver a range of technical and vocational training.

Support Services outlook

The division remains focused on delivering its growth strategy. Cavendish Nuclear continues to perform strongly, and is well placed to reap the benefit of its experience as future opportunities in decommissioning and new build come to the market. Revenue growth is expected to slow between the first half and the full year, reflecting the part-year contribution from Magnox in the previous financial year.

Our selected markets continue to offer a significant pipeline of opportunities and our expertise and leading-edge capabilities mean that the division remains well positioned to secure growth next year, excluding the scheduled reduction in activity in the decommissioning contracts.

International

		30 Sept 2015	30 Sept 2014	Change + / -
Revenue	group	**£408.8m**	£401.8m	+ 2%
	jv	**£4.0m**	£2.8m	+ 43%
	total	**£412.8m**	£404.6m	+ 2%
Operating profit	group	**£60.1m**	£62.8m	– 4%
	jv	**£1.5m**	£1.3m	+ 15 %
	total	**£61.6m**	£64.1m	– 4 %
Operating margin	group	**14.7%**	15.6%	
	jv	**37.5%**	46.4%	
	total	**14.9%**	15.8%	

Financial review

The International division's revenue grew by 2% compared to the previous period, with slower growth reflecting the impact of weaker oil and commodity prices in parts of both the MCS and South African businesses as previously indicated. Operating profit declined by 4% in the first half of the year, but the division achieved an overall margin of 14.9%.

Our South African operations faced a challenging macro-economic environment in in the first half of 2015, with low commodity prices, labour strikes, weakness in the Rand and significant power load shedding. Whilst our power business has not been adversely affected, the truck and construction equipment markets have contracted by around 20% and this has contributed to an overall revenue decline of 5% in local currency. Despite this, the business has been steadily growing market share in the trucks and rental markets, and costs have been managed to reduce the decline in profit.

MCS reported revenue for the period of £292.7 million, delivering an operating profit of £53.0 million. At constant exchange rates, and including the full period effects of the acquisition of Avincis, revenue grew by 4% compared to the same period in the previous year. In line with expectations, revenue from Emergency Services operations, which comprise around two-thirds of the business, grew by 10% compared to the same period the previous year, and revenue from Oil and Gas services declined 9%.

Around half of the reduction in revenue for the Oil and Gas business was due to the impact of pass-through costs - for example, the cost of fuel purchased and recharged to customers with no added margin - which have almost halved as a result of the fall in oil prices. Excluding pass-through costs, Emergency Services' revenue grew by 11% and Oil & Gas services declined 5% compared to the previous period, giving total MCS growth of 7%.

Operational review

South Africa

Despite the headwinds in the mining and construction sector, the division has continued to grow its market share both in Volvo equipment and DAF trucks, with our share of the market for DAF more than doubling from 1.5% to 3%. We have finalised the distribution agreement for the Terex truck brand with Volvo, which increases our customer base.

Power shortages in the region have benefitted the generation business despite strains on the power grid creating planning uncertainty for maintenance outages. Our Powerlines unit is progressing well, with a full order book and a pipeline of eight new bids under customer evaluation.

Towards the end of the first half, order intake was impacted by macro-economic conditions, however spares and services revenues have benefited.

Mission Critical Services

Over the period, MCS has maintained a high contract win rate across new bids and renewals of around 70%, winning 31 contracts and extensions to existing contracts with a total value of around £275 million.

Our Emergency Services business, which comprises around two-thirds of MCS' operations, won a further two-year extension for the provision of a nationwide fire-fighting service in Spain on behalf of the Spanish Government. In the UK, Bond Air Services has successfully renewed and enhanced three air ambulance contracts, building on existing relationships to provide a full service in the hours of darkness using new technology aircraft.

In France, we won a new long-term emergency medical regional contract in the Languedoc region for the French Ministry of Health, where we will provide and operate four additional aircraft, but were unsuccessful in our bid for a new contract to provide aircraft, engineering and maintenance services for the French firefighting fleet. In Australia, we have taken delivery of five new AW139 twin engine helicopters for the Victorian Government's Ambulance Victoria service, and mobilisation plans are on track for the start of operations in January 2016.

As previously flagged, challenging conditions in the oil and gas sector have continued to impact our business in the North Sea and Australia, with some delays and cancellations of bids related to exploration and accordingly we are actively managing our cost base. Despite this sector environment, we increased the Group's presence in Africa with entries into Ghana and Mozambique where we won two new long-term contracts with a total value of around £80 million. Our ability to leverage the Group's existing presence in South Africa was a key factor in our successful entry into both countries.

We now have significantly greater ability to lease aircraft at lower cost and our pipeline of opportunities remains stable. We are utilising the wider Group's experience to optimise MCS' bid management systems and capture additional savings, particularly within procurement, fleet rationalisation and engineering, which has allowed us to broadly maintain MCS margins.

MCS continues to work with other Babcock divisions to help facilitate growth through existing strong customer relationships, operational credibility and administration in the geographies in which the Group operates.

International outlook

In the South African business, the primary focus remains market share growth in trucks, construction equipment and rentals as well as expansion in the export market, in particular, Mozambique. The power generation and transmission market continues to offer opportunities and we will look to extend our support services offerings in the power sector.

While MCS continues to pursue growth opportunities in its Emergency Services business, as previously advised, headwinds in the oil and gas sector are expected to continue and we expect revenues to remain flat at constant exchange rates for the full financial year.

We are making good progress across our International business units, and have identified a number of new opportunities, using our access to the wider Group's expertise and our international presence to develop opportunities for Babcock in Continental Europe.

Peter Rogers
Group Chief Executive

Franco Martinelli
Group Finance Director

Income statement

For the six months ended 30 September 2015

Year ended 31 March 2015 (restated) £m		Note	£m	Six months ended 30 September 2015 £m	£m	Six months ended 30 September 2014 (restated) £m
4,503.3	**Total revenue**	2	**2,349.2**		2,103.2	
506.7	Less: joint venture and associate revenue		**309.8**		161.8	
3,996.6	**Group revenue**			**2,039.4**		1,941.4
	Group					
445.9	Operating profit before amortisation of acquired intangibles and exceptional items	2	**217.4**		205.5	
(93.6)	Amortisation of acquired intangibles	3	**(60.2)**		(42.9)	
352.3	**Group operating profit**			**157.2**		162.6
	Joint ventures and associates					
35.2	Share of operating profit		**20.0**		14.6	
36.2	Investment income		**14.9**		18.7	
(6.0)	Amortisation of acquired intangibles	3	**(2.9)**		(3.1)	
(31.0)	Finance costs		**(10.0)**		(15.6)	
(5.0)	Income tax expense		**(4.2)**		(4.0)	
29.4	**Share of results of joint ventures and associates**			**17.8**		10.6
	Group and joint ventures and associates					
481.1	Operating profit before amortisation of acquired intangibles and exceptional items		**237.4**		220.1	
37.6	Investment income		**15.6**		19.4	
518.7	Underlying operating profit*	2	**253.0**		239.5	
(99.6)	Amortisation of acquired intangibles		**(63.1)**		(46.0)	
(1.4)	Group investment income		**(0.7)**		(0.7)	
(31.0)	Joint venture and associate finance costs		**(10.0)**		(15.6)	
(5.0)	Joint venture and associate income tax expense		**(4.2)**		(4.0)	
381.7	**Group operating profit plus share of joint ventures and associates**			**175.0**		173.2
	Finance costs					
1.4	Investment income		**0.7**		0.7	
(11.0)	Retirement benefits interest		**(2.6)**		(5.5)	
(70.4)	Finance costs		**(32.0)**		(35.9)	
11.4	Finance income		**5.2**		4.5	
(68.6)				**(28.7)**		(36.2)
313.1	**Profit before tax**	2		**146.3**		137.0
(46.7)	Income tax expense	4		**(18.1)**		(19.1)
266.4	**Profit for the period**			**128.2**		117.9
	Attributable to:					
260.2	Owners of the parent			**124.1**		114.1
6.2	Non-controlling interest			**4.1**		3.8
266.4				**128.2**		117.9
	Earnings per share	5				
52.9p	– Basic			**24.7p**		23.7p
52.6p	– Diluted			**24.6p**		23.6p

*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 2015

Year ended 31 March 2015 £m		Six months ended 30 September 2015 £m	Six months ended 30 September 2014 £m
266.4	Profit for the period	**128.2**	117.9
	Other comprehensive income		
	Items that may be subsequently reclassified to Income Statement		
(78.6)	Currency translation differences	**(27.0)**	(35.5)
(14.7)	Fair value adjustment of interest rate and foreign exchange hedges	**9.3**	(6.8)
2.9	Tax on fair value adjustment of interest rate and foreign exchange hedges	**(1.9)**	1.4
(41.9)	Fair value adjustment of joint venture and associate derivatives	**7.1**	(12.2)
4.5	Tax on fair value adjustment of joint venture and associate derivatives	**(1.3)**	(1.0)
	Items that will not be reclassified to Income Statement		
66.0	Net actuarial gain/(loss) in respect of pensions	**57.3**	(3.7)
(13.1)	Tax on net actuarial (gain)/loss in respect of pensions	**(11.5)**	0.7
(74.9)	**Other comprehensive income/(loss), net of tax**	**32.0**	(57.1)
191.5	**Total comprehensive income**	**160.2**	60.8
	Total comprehensive income attributable to:		
185.5	Owners of the parent	**157.6**	57.6
6.0	Non-controlling interest	**2.6**	3.2
191.5	**Total comprehensive income**	**160.2**	60.8

Statement of changes in equity

For the six months ended 30 September 2015

	Share capital £m	Share premium £m	Other reserve £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 2014	**217.2**	**873.0**	**–**	**30.6**	**(53.3)**	**(42.4)**	**(20.7)**	**1,004.4**	**21.7**	**1,026.1**
Total comprehensive income	–	–	–	–	111.1	(18.6)	(34.9)	57.6	3.2	60.8
Shares issued in the period	84.1	–	993.3	–	–	–	–	1,077.4	–	1,077.4
Dividends	–	–	–	–	(82.2)	–	–	(82.2)	(4.6)	(86.8)
Share-based payments	–	–	–	–	8.0	–	–	8.0	–	8.0
Tax on share-based payments	–	–	–	–	3.7	–	–	3.7	–	3.7
Acquisition of non-controlling interest	–	–	–	–	–	–	–	–	(0.4)	(0.4)
Transactions with non-controlling interest	–	–	–	–	5.5	–	–	5.5	(2.1)	3.4
Own shares and other	–	–	–	–	(4.1)	–	–	(4.1)	–	(4.1)
Net movement in equity	84.1	–	993.3	–	42.0	(18.6)	(34.9)	1,065.9	(3.9)	1,062.0
At 30 September 2014	**301.3**	**873.0**	**993.3**	**30.6**	**(11.3)**	**(61.0)**	**(55.6)**	**2,070.3**	**17.8**	**2,088.1**
At 1 April 2015	**301.3**	**873.0**	**851.3**	**30.6**	**314.5**	**(91.6)**	**(99.0)**	**2,180.1**	**18.0**	**2,198.1**
Total comprehensive income	–	–	–	–	169.8	13.2	(25.4)	157.6	2.6	160.2
Shares issued in the period	1.2	–	–	–	–	–	–	1.2	–	1.2
Dividends	–	–	–	–	(91.0)	–	–	(91.0)	(1.9)	(92.9)
Share-based payments	–	–	–	–	8.2	–	–	8.2	–	8.2
Tax on share-based payments	–	–	–	–	0.1	–	–	0.1	–	0.1
Disposal of non-controlling interest	–	–	–	–	(0.7)	–	–	(0.7)	0.7	–
Own shares and other	–	–	–	–	(0.9)	–	–	(0.9)	–	(0.9)
Net movement in equity	1.2	–	–	–	85.5	13.2	(25.4)	74.5	1.4	75.9
At 30 September 2015	**302.5**	**873.0**	**851.3**	**30.6**	**400.0**	**(78.4)**	**(124.4)**	**2,254.6**	**19.4**	**2,274.0**

Balance sheet

As at 30 September 2015

As at 31 March 2015 (restated) £m		Note	As at 30 September 2015 £m	As at 30 September 2014 (restated) £m
	Assets			
	Non-current assets			
2,506.0	Goodwill		**2,499.4**	2,508.0
753.0	Other intangible assets		**698.5**	651.6
876.1	Property, plant and equipment		**907.3**	891.3
36.3	Investments in joint ventures and associates	7	**57.3**	51.4
38.6	Loans to joint ventures and associates	7 & 11	**31.1**	48.9
45.6	Retirement benefits	12	**62.6**	15.2
27.1	Trade and other receivables		**27.2**	11.6
19.2	IFRIC 12 financial assets		**18.8**	19.8
61.8	Other financial assets	8	**48.6**	8.7
132.2	Deferred tax asset		**116.0**	–
4,495.9			**4,466.8**	4,206.5
	Current assets			
155.2	Inventories		**146.7**	119.2
742.2	Trade and other receivables		**762.3**	727.4
24.7	Income tax recoverable		**24.8**	30.1
12.3	Other financial assets	8	**11.7**	7.4
130.6	Cash and cash equivalents	11	**140.9**	167.3
1,065.0			**1,086.4**	1,051.4
5,560.9	**Total assets**		**5,553.2**	5,257.9
	Equity and liabilities			
	Equity attributable to equity holders of the parent			
301.3	Share capital		**302.5**	301.3
873.0	Share premium		**873.0**	873.0
691.3	Capital redemption and other reserves		**679.1**	907.3
314.5	Retained earnings		**400.0**	(11.3)
2,180.1			**2,254.6**	2,070.3
18.0	Non-controlling interest		**19.4**	17.8
2,198.1	**Total equity**		**2,274.0**	2,088.1
	Non-current liabilities			
1,495.3	Bank and other borrowings	11	**1,476.7**	1,494.1
6.8	Trade and other payables		**4.4**	13.0
186.1	Deferred tax liabilities		**172.3**	8.7
7.8	Other financial liabilities	8	**7.9**	10.7
214.4	Retirement liabilities	12	**175.4**	285.9
159.8	Provisions for other liabilities		**148.7**	151.9
2,070.2			**1,985.4**	1,964.3
	Current liabilities			
64.8	Bank and other borrowings	11	**63.4**	15.7
1,158.3	Trade and other payables		**1,162.6**	1,120.3
5.7	Income tax payable		**10.4**	9.2
27.9	Other financial liabilities	8	**16.4**	17.7
35.9	Provisions for other liabilities		**41.0**	42.6
1,292.6			**1,293.8**	1,205.5
3,362.8	**Total liabilities**		**3,279.2**	3,169.8
5,560.9	**Total equity and liabilities**		**5,553.2**	5,257.9

Cash flow statement

For the six months ended 30 September 2015

Year ended 31 March 2015 £m		Note	Six months ended 30 September 2015 £m	Six months ended 30 September 2014 £m
	Cash flows from operating activities			
426.8	**Cash generated from operations**	9	**235.7**	216.8
(46.1)	Income tax paid		**(25.0)**	(26.2)
(80.7)	Interest paid		**(26.6)**	(48.0)
6.9	Interest received		**3.9**	2.1
306.9	**Net cash flows from operating activities**		**188.0**	144.7
	Cash flows from investing activities			
2.1	Disposal of subsidiaries, joint ventures and associates, net of cash disposed	14	**11.5**	(1.6)
19.5	Dividends received from joint ventures and associates		**7.3**	6.2
77.6	Proceeds on disposal of property, plant and equipment		**20.7**	2.5
0.7	Proceeds on disposal of intangible assets		**–**	–
(150.7)	Purchases of property, plant and equipment		**(78.9)**	(52.0)
(23.4)	Purchases of intangible assets		**(10.4)**	(4.2)
10.3	Investment in and loans to joint ventures and associates		**0.2**	4.0
(4.3)	Transactions with non-controlling interest	15	**–**	(4.3)
(1,039.1	Acquisition of subsidiaries net of cash acquired	13	**(1.3)**	(841.5)
(1,107.3)	**Net cash flows from investing activities**		**(50.9)**	(890.9)
	Cash flows from financing activities			
(109.8)	Dividends paid		**(91.0)**	(82.2)
(39.7)	Finance lease principal payments		**(16.1)**	(9.1)
(1,638.7)	Bank loans repaid		**(21.3)**	(858.3)
1,570.3	Loans raised		**0.9**	716.2
(7.2)	Dividends paid to non-controlling interests		**(1.9)**	(4.6)
1,077.4	Net proceeds on issue of shares		**1.2**	1,077.4
(3.5)	Movement on own shares		**(0.9)**	(4.1)
848.8	**Net cash flows from financing activities**		**(129.1)**	(835.3)
48.4	**Net increase/(decrease) in cash, cash equivalents and bank overdrafts**		**8.0**	89.1
71.2	**Cash, cash equivalents and bank overdrafts at start of period**		**112.5**	71.2
(7.1)	Effects of exchange rate fluctuations		**(2.6)**	(3.3)
112.5	**Cash, cash equivalents and bank overdrafts at end of period**	11	**117.9**	157.0

Notes to the consolidated half year financial statements

For the six months ended 30 September 2015

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 2015 (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 to comply with amendments to IFRS, none of which had a material impact on the consolidated results, financial position or cash flows of the Group.

The Directors consider it appropriate to adopt the going concern basis of accounting in preparing the interim financial information.

The balance sheet at 31 March 2015 has been restated due to the progression of the completion accounts of DSG, resulting in additional deferred consideration of £5 million and a corresponding adjustment to net assets. In addition, the balance sheet at 30 September 2014 has been restated due to a change in the acquired balance sheet for Avincis prior to 31 March 2015, and has resulted in an increase of goodwill of £1 million and is shown in the Financial Statement for the year ended 31 March 2015.

The half year report for the six months ended 30 September 2015 was approved by the Directors on 23 November 2015. 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).

2015	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total continuing operations £m
Total revenue	803.0	404.0	729.4	412.8	–	2,349.2
Joint venture and associate revenue	10.2	42.4	253.2	4.0	–	309.8
Group revenue	792.8	361.6	476.2	408.8	–	2,039.4
Operating profit – Group	84.9	37.6	37.8	60.1	(3.0)	217.4
IFRIC 12 investment income – Group	–	0.3	0.4	–	–	0.7
Share of operating profit – joint ventures and associates	1.5	8.0	9.0	1.5	–	20.0
Share of IFRIC 12 investment income – joint ventures and associates	–	14.7	0.2	–	–	14.9
Underlying operating profit	86.4	60.6	47.4	61.6	(3.0)	253.0
Share of interest - joint ventures and associates	–	(9.3)	(0.2)	(0.5)	–	(10.0)
Share of tax - joint ventures and associates	(0.5)	(1.6)	(1.9)	(0.2)	–	(4.2)
Acquired intangible amortisation – Group	(5.1)	(11.3)	(16.6)	(27.2)	–	(60.2)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.9)	–	–	–	(2.9)
Net finance costs – Group	–	–	–	–	(29.4)	(29.4)
Group profit before tax	80.8	35.5	28.7	33.7	(32.4)	146.3

Notes to the consolidated half year financial statements continued

2. Segmental analysis (continued)

2014	Marine and Technology) £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total continuing operations £m
Total revenue	725.1	414.4	559.1	404.6	–	2,103.2
Joint venture and associate revenue	8.9	60.9	89.2	2.8	–	161.8
Group revenue	716.2	353.5	469.9	401.8	–	1,941.4
Operating profit – Group	76.5	35.0	32.7	62.8	(1.5)	205.5
IFRIC 12 investment income – Group	–	0.4	0.3	–	–	0.7
Share of operating profit – joint ventures and associates	1.2	8.5	3.6	1.3	–	14.6
Share of IFRIC 12 investment income – joint ventures and associates	–	14.6	4.1	–	–	18.7
Underlying operating profit	77.7	58.5	40.7	64.1	(1.5)	239.5
Share of interest - joint ventures and associates	–	(11.2)	(3.9)	(0.5)	–	(15.6)
Share of tax - joint ventures and associates	(0.4)	(2.6)	(0.7)	(0.3)	–	(4.0)
Acquired intangible amortisation – Group	(5.6)	(4.7)	(16.6)	(16.0)	–	(42.9)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.9)	(0.2)	–	–	(3.1)
Net finance costs – Group	–	–	–	–	(36.9)	(36.9)
Group profit before tax	71.7	37.1	19.3	47.3	(38.4)	137.0

3. Acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	Six months ended 30 September 2015 £m	Six months ended 30 September 2014 £m	**Six months ended 30 September 2015 £m**	Six months ended 30 September 2014 £m	**Six months ended 30 September 2015 £m**	Six months ended 30 September 2014 £m
Acquired intangible amortisation	**60.2**	42.9	**2.9**	3.1	**63.1**	46.0
Total	**60.2**	42.9	**2.9**	3.1	**63.1**	46.0

4. Income taxes

The charge for taxation has been based on the estimated effective tax rate of 17.6% before amortisation of acquired intangibles and exceptional items for the full year ended 31 March 2016, together with a prior year credit of £1.25 million to give an effective underlying tax rate of 17%. (For September 2014, the charge for tax was based on an estimated effective tax rate of 19.9% for the full year ended 31 March 2015). An additional tax credit of £14 million relates to acquired intangible amortisation of which £0.6 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:

Number of shares	Six months ended 30 September 2015	Six months ended 30 September 2014
Pre adjustment for rights issue		
Weighted average number of ordinary shares for the purpose of basic EPS	**502,658,156**	472,612,415
Effect of dilutive potential ordinary shares: share options	**1,745,095**	2,164,032
Weighted average number of ordinary shares for the purpose of diluted EPS	**504,403,251**	474,776,447
Adjustment for rights issue		
Weighted average number of ordinary shares for the purpose of basic EPS	**–**	9,681,120
Effect of dilutive potential ordinary shares: share options	**–**	59,647
Weighted average number of ordinary shares for the purpose of diluted EPS	**–**	9,740,767
Restated for rights issue		
Weighted average number of ordinary shares for the purpose of basic EPS	**502,658,156**	482,293,535
Effect of dilutive potential ordinary shares: share options	**1,745,095**	2,223,679
Weighted average number of ordinary shares for the purpose of diluted EPS	**504,403,251**	484,517,214

Earnings

	Six months ended 30 September 2015			Six months ended 30 September 2014		
	Earnings £m	Basic per share pence	Diluted per share pence	Earnings £m	Basic per share pence	Diluted per share pence
Earnings from operations	**124.1**	**24.7**	**24.6**	114.1	23.7	23.6
Add back:						
Amortisation of acquired intangible assets, net of tax	**49.1**	**9.8**	**9.7**	35.4	7.3	7.3
Earnings before amortisation, exceptional items and other	**173.2**	**34.5**	**34.3**	149.5	31.0	30.9

6. Dividends

An interim dividend of 6.05 pence per 60 pence ordinary share (2014: 5.5 pence per 60 pence ordinary share) was declared after the balance sheet date and will be paid on 14 January 2016 to shareholders registered on 11 December 2015.

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 2015 £m	Six months ended 30 September 2014 £m	Six months ended 30 September 2015 £m	Six months ended 30 September 2014 £m	Six months ended 30 September 2015 £m	Six months ended 30 September 2014 £m
At 1 April	**36.3**	52.3	**38.6**	50.6	**74.9**	102.9
Acquisition of joint ventures and associates	**–**	8.3	**–**	–	**–**	8.3
Disposal of joint ventures and associates	**3.2**	–	**(6.5)**	–	**(3.3)**	–
Joint ventures: loans and reclassifications	**1.8**	–	**(1.8)**	(2.3)	**–**	(2.3)
Investment in joint ventures and associates	**0.2**	–	**–**	–	**0.2**	–
Share of profits	**17.8**	10.6	**–**	–	**17.8**	10.6
Dividends received	**(7.3)**	(6.2)	**–**	–	**(7.3)**	(6.2)
Interest accrued	**–**	–	**1.3**	2.4	**1.3**	2.4
Interest received	**–**	–	**(0.5)**	(1.8)	**(0.5)**	(1.8)
Fair value adjustment of derivatives	**6.4**	(12.2)	**–**	–	**6.4**	(12.2)
Tax on fair value adjustment of derivative	**(1.3)**	(1.0)	**–**	–	**(1.3)**	(1.0)
Foreign exchange	**0.2**	(0.4)	**–**	–	**0.2**	(0.4)
Total	**57.3**	51.4	**31.1**	48.9	**88.4**	100.3

Notes to the consolidated half year financial statements continued

8. Other financial assets and liabilities

	Assets		Liabilities	
	Six months ended 30 September 2015 £m	Six months ended 30 September 2014 £m	Six months ended 30 September 2015 £m	Six months ended 30 September 2014 £m
Non-current				
US private placement – currency and interest rate swaps	**40.1**	8.7	**–**	–
Non-controlling interest put options	**–**	–	**7.9**	10.7
Financial instruments	**40.1**	8.7	**7.9**	10.7
Finance leases granted	**8.5**	–	**–**	–
Total non-current other financial assets and liabilities	**48.6**	8.7	**7.9**	10.7
Current				
Interest rate hedge	**0.5**	–	**–**	1.6
Cross currency swaps	**–**	–	**–**	3.5
Other currency hedges	**7.4**	7.4	**16.4**	12.6
Financial instruments	**7.9**	7.4	**16.4**	17.7
Finance leases granted	**3.8**	–	**–**	–
Total current other financial assets and liabilities	**11.7**	7.4	**16.4**	17.7

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, excluding the non-controlling interest put option, are based on valuation techniques (level 2) using underlying market data and discounted cash flows.

The fair value of the non-controlling interest put options are based on valuation techniques (level 3) using discounted cash flows. Future cash flows are derived from approved budgets using a discount rate of 8%.

9. Reconciliation of operating profit to cash generated from operations

Year ended 31 March 2015 £m		Six months ended 30 September 2015 £m	Six months ended 30 September 2014 £m
	Cash flows from operating activities		
445.9	Operating profit before amortisation of acquired intangibles and exceptional items	**217.4**	205.5
(93.6)	Amortisation of acquired intangibles and exceptional items	**(60.2)**	(42.9)
352.3	**Group operating profit**	**157.2**	162.6
71.0	Depreciation of property, plant and equipment	**38.5**	33.8
101.1	Amortisation of intangible assets	**63.8**	48.8
1.4	Investment income	**0.7**	0.7
15.4	Share-based payments	**8.2**	8.0
(8.5)	Profit on disposal of joint ventures and associates	**(7.5)**	–
(0.1)	Profit on disposal of property, plant and equipment	**(0.9)**	(0.2)
532.6	**Operating cash flows before movement in working capital**	**260.0**	253.7
2.4	(Increase)/decrease in inventories	**(1.8)**	3.1
(29.5)	Increase in receivables	**(34.8)**	(22.6)
3.7	Increase in payables	**15.7**	19.1
(14.3)	Decrease in provisions	**(2.2)**	(16.3)
(24.2)	Exceptional items – acquisition costs	**–**	(14.0)
(43.9)	Retirement benefit payments in excess of income statement	**(1.2)**	(6.2)
426.8	**Cash generated from operations**	**235.7**	216.8

Notes to the consolidated half year financial statements continued

10. Movement in net debt

Year ended 31 March 2015 £m		Six months ended 30 September 2015 £m	Six months ended 30 September 2014 £m
48.4	Increase/(decrease) in cash in the period	**8.0**	89.1
92.4	Cash flow from the (increase)/decrease in debt and lease financing	**33.6**	151.2
140.8	Change in net funds resulting from cash flows	**41.6**	240.3
(978.1)	Loans and finance leases acquired with subsidiaries	**–**	(976.5)
(39.2)	New finance leases – received	**(16.6)**	(33.5)
15.7	New finance leases – granted	**2.9**	–
(12.0)	Movement in joint venture and associates loans	**(7.5)**	(1.7)
80.9	Foreign currency translation differences and other	**(10.5)**	20.2
(791.9)	Movement in net debt in the period	**9.9**	(751.2)
(533.7)	Net debt at the beginning of the period	**(1,325.6)**	(533.7)
(1,325.6)	**Net debt at the end of the period**	**(1,315.7)**	(1,284.9)

11. Changes in net debt

	At 1 April 2015 £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange movement /other £m	At 30 September 2015 £m
Cash and bank balances	130.6	14.1	(1.0)	–	(2.8)	**140.9**
Bank overdrafts	(18.1)	(5.1)	–	–	0.2	**(23.0)**
Cash, cash equivalents and bank overdrafts	112.5	9.0	(1.0)	–	(2.6)	**117.9**
Debt	(1,394.0)	19.4	–	–	5.6	**(1,369.0)**
Finance leases – received	(148.0)	16.1	–	(16.6)	0.4	**(148.1)**
Finance leases - granted	13.1	(1.9)	–	2.9	(1.8)	**12.3**
	(1,528.9)	33.6	–	(13.7)	4.2	**(1,504.8)**
Net debt before derivatives and joint venture and associate loans	(1,416.4)	42.6	(1.0)	(13.7)	1.6	**(1,386.9)**
Net debt derivative	52.2	–	–	–	(12.1)	**40.1**
Joint venture and associate loans	38.6	(7.5)	–	–	–	**31.1**
Net debt	(1,325.6)	35.1	(1.0)	(13.7)	(10.5)	**(1,315.7)**

12. Pensions

Analysis of movement in the balance sheet

	Six months ended 30 September 2015 £m	Six months ended 30 September 2014 £m
Fair value of plan assets		
At 1 April	**3,938.0**	3,220.1
Expected return	**66.5**	69.5
Actuarial gain/(loss)	**(181.0)**	230.1
Change in reimbursement rights	**6.4**	(11.5)
Employer contributions	**24.5**	29.7
Employee contributions	**1.6**	2.5
Benefits paid	**(89.7)**	(77.8)
At 30 September	**3,766.3**	3,462.6
Present value of benefit obligations		
At 1 April	**4,106.6**	3,487.7
Service cost	**21.1**	21.6
Incurred expenses	**2.1**	1.8
Interest cost	**66.7**	72.8
Employee contributions	**1.6**	2.5
Actuarial loss/(gains)	**(233.1)**	188.1
Experience losses	**3.7**	36.5
Benefits paid	**(89.7)**	(77.8)
At 30 September	**3,879.0**	3,733.2
Present value of unfunded obligations	**(0.1)**	(0.1)
IFRIC 14 adjustment	**–**	–
Net deficit at 30 September	**(112.8)**	(270.7)
Net deficit at 31 March 2015	(168.8)	(267.7)

Analysis of charge to Income Statement

	Six months ended 30 September 2015 £m	Six months ended 30 September 2014 £m
Current service cost	**21.1**	21.6
Incurred expenses	**2.1**	1.8
Total included within operating profit	**23.2**	23.4
Net interest costs	**2.6**	5.5
Total included within profit before tax	**25.8**	28.9

As at 30 September 2015 the key assumptions used in valuing pension liabilities were:

Discount rate	3.8% (31 March 2015: 3.4%)
Inflation rate	3.0% (31 March 2015: 2.9%)

13a. Acquisition (current year)

There have been no acquisitions in the current year.

The deferred consideration of £1.3 million in respect of S MacNeillie and Sons Limited was paid during the period. During the period the completion accounts for the Defence Support Group ("DSG") were progressed. The restated provisional assets acquired and the provisional goodwill is as follows:

	DSG (restated) £m
Cost of acquisition	
Cash paid	**140.0**
Deferred consideration	**5.0**
Purchase consideration	**145.0**
Fair value of assets acquired (see below)	**145.0**
Goodwill	**–**

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

	DSG Provisional fair value acquired (restated) £m
Acquired intangibles*	**137.8**
Property plant and equipment	**0.6**
Deferred tax	**(27.6)**
Inventory	**25.5**
Current assets	**23.4**
Current and non-current liabilities	**(13.5)**
Provisions	**(1.2)**
Net assets acquired	**145.0**

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

13b. Acquisition (prior year)

On 16 May 2014 the Group acquired Avincis Mission Critical Services Topco Limited ("Avincis") for £899.5 million (€1,088.5 million). The Group also assumed the Avincis debt of £786.7 million (€951.6 million). Avincis is a leading provider of helicopter and fixed wing services in mission critical operations such as medical, search and rescue, firefighting and civil protection in Europe and a leading supplier of critical offshore crew-change helicopter services to the oil and gas industry in the UK sector of the North Sea.

On 29 June 2014 the Group acquired 84.6% of Scandinavian AirAmbulance AB ("SAA") for £25.3 million (SEK290.3 million) including deferred consideration of £7.3 million (SEK 84.2 million). The Group also assumed SAA debt of £40.8 million. This company provides helicopter services in medical mission critical services in Sweden and Finland.

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:

	Avincis (restated) £m	SAA £m	Total £m
Cost of acquisition			
Cash paid	899.5	18.0	**917.5**
Deferred consideration	–	7.3	**7.3**
Purchase consideration	899.5	25.3	**924.8**
Fair value of assets acquired (see below)	(5.2)	(2.5)	**(7.7)**
Goodwill	904.7	27.8	**932.5**

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

Notes to the consolidated half year financial statements continued

13b. Acquisition (prior year) (continued)

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

	Avincis Provisional fair value acquired (restated) £m	SAA Provisional fair value acquired £m	**Total Provisional fair value acquired £m**
Acquired intangibles*	413.5	15.5	**429.0**
Other intangible assets	4.9	–	**4.9**
Property plant and equipment	574.2	41.4	**615.6**
Investments	8.3	–	**8.3**
Deferred tax	(65.8)	(1.4)	**(67.2)**
Income tax	(8.8)	0.7	**(8.1)**
Cash, cash equivalents and bank overdraft	67.0	9.0	**76.0**
Bank Loan	(808.1)	(23.9)	**(832.0)**
Finance leases	(118.6)	(25.9)	**(144.5)**
Inventory	20.0	0.1	**20.1**
Current assets	138.9	5.9	**144.8**
Current and non-current liabilities	(162.3)	(23.0)	**(185.3)**
Provisions	(68.4)	(1.3)	**(69.7)**
Non-controlling interest	–	0.4	**0.4**
Net assets acquired	(5.2)	(2.5)	**(7.7)**

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

Cash outflow to acquire businesses net of cash acquired:

	Avincis £m	SAA £m	**Total £m**
Purchase consideration paid in cash	899.5	18.0	**917.5**
Cash, cash equivalents and bank overdrafts	(67.0)	(9.0)	**(76.0)**
Cash outflow in period	832.5	9.0	**841.5**

The revenue and operating profit of the acquired businesses since the date of acquisition and as if they had been acquired on 1 April 2014 are:

	Avincis		SAA	
	Since date of acquisition £m	For full six months £m	Since date of acquisition £m	For full six months £m
Group revenue	247.7	289.1	13.1	25.8
Total revenue (including share of joint ventures)	250.5	292.8	13.1	25.8
Group operating profit	33.9	33.7	1.8	3.8
Underlying operating profit	50.3	50.5	2.2	4.2

14. Disposals

On 17 April 2015 the Group sold its investments in the Lewisham Schools for the Future joint ventures for £14.3 million.

On 5 July 2015 the Group disposed of its investment in Norsk Helikopterservice AS ("Norsk") for NOK 100.

During the previous period the Group paid certain accrued costs on previously disposed of businesses. Details of final assets disposed of are as follows:

	2015				2014	
	Lewisham Schools for the Future £m	Norsk £m	Previously disposed of business £m	Total £m	Previously disposed of business £m	Total £m
Investment in and loans to joint ventures and associates	3.3	–	–	3.3	–	–
Property plant and equipment	–	0.4	–	0.4	–	–
Cash, cash equivalents and bank overdraft	–	1.0	–	1.0	–	–
Inventory	–	0.3	–	0.3	–	–
Current assets	–	1.5	–	1.5	–	–
Current and non-current liabilities	–	(2.5)	–	(2.5)	–	–
Provisions	–	(2.1)	–	(2.1)	–	–
Deferred tax	–	0.4	–	0.4	–	–
Mark to market amortisation recycled from hedging reserve	0.7	–	–	0.7	–	–
Net assets disposed	4.0	(1.0)	–	3.0	–	–
Profit on disposal of joint ventures and associates	7.5	–	–	7.5	–	–
Disposal costs	2.8	1.0	–	3.8	–	–
Sale proceeds	14.3	–	–	14.3	–	–
Sale proceeds less cash disposed of	14.3	(1.0)	–	13.3	–	–
Less costs paid in the year	–	(1.1)	(0.7)	(1.8)	(1.6)	(1.6)
Net cash inflow/(outflow)	14.3	(2.1)	(0.7)	11.5	(1.6)	(1.6)

15. Transactions with non-controlling interests

On 5 July 2015 the non-controlling interest in Norsk Helikopterservice AS of £0.7 million was disposed of for no consideration.

During the previous period part of the Target Cranes put option was exercised resulting in the non-controlling interest being reduced from 35.6% to 28%. In addition part of the put option lapsed on transfer of the balance to a third party.

The following were the transactions with non-controlling interests in the previous period:

	Increase/ (decrease) in retained earnings £m	Increase/ (decrease) in non-controlling interests £m	Cash outflow/ (inflow) £m
During the period part of the put option in Target Cranes was exercised. As a result 7.6% of shares in Target Cranes were purchased, in cash, from the non-controlling interest for £4.3 million utilising the put option valuation within the balance sheet. This resulted in a transfer from non-controlling interest of £2.1 million.	2.1	(2.1)	4.3
Following the exercising of part of the put option the balance lapsed and was transferred to reserves. The Put Option liability was shown as non-current Other financial liabilities on the balance sheet.	3.4	–	–
Transactions with non-controlling interests	5.5	(2.1)	4.3

16. Related party transactions

Related party transactions in the half year to 30 September 2015 are; sales to joint ventures and associates amounting to £91.4 million (2014: £131.6 million), purchases from joint ventures and associates amounting to £0.5 million (2014: £0.4 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 2015 were approved by the Board on 18 May 2015 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 2015 Annual Report, and are those arising from: **our customer profile** (reliance on winning and retaining large contracts with a relatively limited number of major clients (particularly the UK MoD) , including clients affected by political and public spending reviews and decisions, which exposes the Group to political and public spending risks; **the nature of our contracts, bid processes and our major markets**: bidding is a time consuming and expensive process; public procurement rules apply in many cases and bring the risk of challenge to award decisions; large contract opportunities by their nature tend not to arise on a regular or frequent basis; failure to win rebids of large contracts that we already hold could represent a major loss of business and the failure to win new bids for large contract opportunities can represent a major missed opportunity and either loss can affect our strategic development; long-term contracts carry potential pricing and risk-transfer risks for our businesses and our contracts typically contain strict key performance indicators failure to meet which can result in adverse financial consequences or loss of contract; **reputational risks:** our reputation is a fundamental business asset given the nature of our business, markets and customers – its loss for any reason (for example poor contract performance or a high profile safety incident) could have a major adverse impact as could damage to the reputation of outsourcing businesses generally (and thus outsourcing itself); **regulatory and compliance burden:** our major businesses depend on being able to meet and continue to comply with applicable customer or industry specific requirements and regulations, which can change; the cost of compliance can be high; failure to meet the requirements could result in loss of existing business or future business opportunities; **health, safety and environmental risks**; some of our businesses entail the potential risk of significant harm to people, property or the environment if not properly managed and a serious incident could seriously damage our reputation (which could lead to loss of existing or future business) as well as expose us to fines and damages claims not all of which may or can be covered by insurance; **people risks**: the Group's ability to deliver its existing business, future growth and strategy is dependent on being able to attract, develop, train and retain experienced senior management, business development teams and suitably qualified and skilled employees – the competition for whom is strong; **international business risks**: as we expand outside the UK we are increasingly exposed to the impact of foreign currency exchange rates; **IT and Security risks**; we depend heavily on our ability to be able to maintain IT and information security and assurance to preserve our reputation and the confidentiality of our customers' and our own valuable information; **pension risks**: we have a number significant defined benefit pension schemes that carry cost and funding risks and the risk of accounting volatility; **integration of acquisitions:** we have grown and expect to continue to grow through acquisitions (for example the 2014 acquisition of Avincis, now MCS) as well as organically the financial benefits of acquisitions may not be realised as quickly and as efficiently as expected.

The risks summarised above, and mitigating actions taken in respect of them, are explained and described in more detail on pages 63 to 69 of the 2015 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

Forward-looking statements

Certain statements in this half year report are forward-looking statements which by their nature, 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 each confirms 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 of the Directors of Babcock International Group PLC are as listed in its 2015 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 behalf of the Directors by:

Peter Rogers
Group Chief Executive
24 November 2015

Franco Martinelli
Group Finance Director