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Babcock International Group PLC

Half Year Report

For the six months ended 30 September 2016

babcockinternational.com

Contact

Babcock International Group PLC
Franco Martinelli, Group Finance Director Tel: 020 7355 5300
Kate Hill, Head of Investor Relations

FTI Consulting
Andrew Lorenz Tel: 020 3727 1340
Nick Hasell

A presentation for investors and analysts was held on 22 November 2016, at 9:00 am at FTI Consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD. The presentation and webcast are available at www.babcockinternational.com/investors.

22 November 2016

Solid delivery, clear visibility

Financial highlights

Underlying	September 2016	September 2015	Change
Revenue*	**£2,492.8m**	£2,349.2m	+6 %
Operating profit**	**£269.7m**	£253.0m	+7 %
Profit before tax***	**£228.4m**	£213.6m	+7 %
Basic earnings per share****	**37.2p**	34.5p	+8 %
Statutory			
Revenue	**£2,173.1m**	£2,039.4m	+7 %
Operating profit	**£165.6m**	£157.2m	+5 %
Profit before tax	**£163.5m**	£146.3m	+12 %
Basic earnings per share	**28.3p**	24.7p	+15 %
Net debt	**£1,291.2m**	£1,315.7m	–2 %
Net debt/EBITDA	**2.0x**	2.1x	–5 %
Order book	**£20bn**	£20bn	–
Half year dividend	**6.50p**	6.05p	+ 7 %

**Underlying revenue includes the Group's share of joint ventures and associates revenues. **Underlying operating profit includes IFRIC 12 investment income and joint ventures and associates operating profit but is before amortisation of acquired intangibles and exceptional items. ***Underlying profit before tax is inclusive of pre-tax joint ventures and associates income but before amortisation of acquired intangibles and exceptional items. ****Underlying basic earnings per share is before amortisation of acquired intangibles and exceptional items, before the related tax effects and before the effect of corporate tax rate changes.*

Financial highlights

- Solid delivery
  - 7% growth in underlying and organic operating profit at constant exchange rates
  - 6% growth in underlying revenue; 4% organic growth at constant exchange rates
  - 7% growth in underlying profit before tax
  - Stable margins

- Strong revenue visibility
  - 93% of revenue for full year 2016/17 in place
  - 63% of revenue for full year 2017/18 already under contract
  - £20 billion order book, reflecting £2 billion intake during the period
    - Maintained win rate of over 40% on new bids and over 90% on rebids

- Continuing demand for our services
  - Increased £10.8 billion bid pipeline of opportunities where formal process underway
  - £3 billion of new entries into bid pipeline
  - Strong tracking pipeline of future opportunities underpins long-term growth

- Ongoing focus on financial discipline and cash performance
  - Free cash flow up 8%
  - Pre-capital expenditure cash conversion of 108%
  - Net debt of £1,291 million; net debt to EBITDA ratio of 2.0x

- Generating shareholder value
  - 8% increase in underlying EPS to 37.2 pence
  - 7% increase in interim dividend to 6.50 pence

Chief Executive Archie Bethel said:

"Babcock continues to perform; delivering growth in revenue, profit and earnings, and maintaining healthy levels of cash generation and conversion. The long-term visibility provided by our £20 billion order book and substantial pipeline of opportunities underpins our future growth. Our UK markets remain positive, with the Group well positioned for the significant future outsourcing opportunities expected from both our defence and civil customers, and we see growing international demand for our specialist and complex engineering support services. Despite slightly slower organic growth, the Board expects the full-year results to be in line with its expectations. We therefore remain confident of making good progress both this year and beyond."

Archie Bethel
Chief Executive

Introduction

Overview

Babcock continued to deliver solid growth in underlying revenue, operating profit and earnings per share during the first half of the 2016/17 financial year, demonstrating the strength of the Group's operations. Our existing long-term contracts continue to perform well, with these complex programmes delivering operational and financial efficiencies to our customers. We added £2 billion of contracts in the first half of the year, reinforcing our position as a leader across our markets. In the UK we continue to be a trusted partner in the defence sector, winning new work across each of the Armed Forces, as well as being awarded new business across the civil sector. Our international expansion continues, and we were delighted to be awarded a multi-year contract to support Qantas' airport ground support fleet across Australia and have continued to develop our pipeline of international opportunities.

Underlying revenue growth of 6% and underlying and organic profit growth of 7%, combined with a free cash flow increase of 8% to £128.2 million, were in line with our expectations for the first half. We maintained strong contract win rates in the period, however organic revenue growth was slightly lower than expected due to the phasing of contract awards, economic headwinds in South Africa and the impact of the H225 helicopter grounding. Cash generation has remained a key priority for the Group, with a cash conversion rate of 108% (2015: 112%) pre-capital expenditure. Cash conversion after capital expenditure, forecast to be around 80% for the full year, was 79% in the first half (2015: 73%). Net debt to EBITDA at the end of the first half was 2.0 times (2015: 2.1 times) reflecting the impact of exchange rates on the portion of Group's net debt held in euros.

On 1 September 2016 Archie Bethel took the role of Group Chief Executive following the retirement of his predecessor Peter Rogers. Archie, who previously led the Group's Marine and Technology division, has been an integral part of the senior management team since joining Babcock in 2004, and had held the interim role of Chief Operating Officer since 1 April 2016. He was succeeded as Chief Executive of the Marine and Technology division by John Howie, previously Managing Director, Naval Marine, who has joined the Group's Executive Committee.

Interim dividend

Based on continued growth and strong revenue visibility the Board has decided to increase the half year dividend by 7% to 6.50 pence per share. This will be paid on 16 January 2017 to shareholders on the register on 9 December 2016.

Order book and bid pipeline

The order book for the Group remains at £20 billion, having been replenished by £2 billion of contracted work during the first half of 2016/17. The order book provides strong visibility of future revenues in the short and medium term with 93% of revenue in place for full year 2016/17 and 63% for 2017/18.

We continue to make good progress on delivery of existing long term contracts in our order book, including: delivering a further successful year of activity under the long term £2.6 billion Maritime Support Delivery Framework; advancing the Magnox and Dounreay decommissioning programmes; successfully implementing the additional procurement phase of the Defence Support Group (DSG) contract; securing our position as a strategic partner in the long term asset management solution for Australia's Anzac Class as part of the new Warship Asset Management Alliance (WAMA); and progressing activities to support the future Dreadnought class submarine programme. Work has begun on our long term UK Military Flight Training System (UKMFTS) Rotary and Fixed Wing training contracts and the Future Strategic Tanker Aircraft joint venture has successfully delivered the last of its 14 aircraft. Our Mission Critical Services (MCS) business has continued to grow its emergency services business, securing 31 new contracts and contract extensions.

During the first half, the Group maintained its win rate, achieving success in over 40% of its bids for new contracts and over 90% for rebids. New contracts won in the period include: a further c £80 million contract to manufacture missile tube assemblies as part of the £1 billion common project for the UK Dreadnought and US Ohio Class replacement submarine programmes; an order for a fourth Offshore Patrol Vessel for the Irish Naval Service; a contract for offshore transmission modules for the Beatrice wind farm; a £1.1 billion contract for Rotary Wing training for our Ascent joint venture; renewed army training, maintenance and support services contracts; a number of rail contracts, a £30 million power line refurbishment contract and a new air ambulance contract in Northern Ireland. We were delighted to secure a contract to support Qantas' airport ground support equipment at 60 sites across Australia, bringing together a combination of our proven record of delivery in airport fleet management, technical capabilities and local presence.

We continue to make good progress building our international pipeline of opportunities, and believe our outsourcing model is gaining traction with customers outside the UK. In November, following a competitive bid process, France's Direction Générale de l'Armement (DGA) recommended Babcock be awarded an 11 year contract to provide and maintain a training platform and related services for the French Air Force (l'Armée de l'Air). Our share of the FOMEDEC contract is expected to be worth over €400 million, around half of which relates to the financing of assets for the customer. Final contract award will be subject to the successful completion of the French Ministère de la Défense's approval process, following the usual pre-contractual standstill period.

With £3 billion of opportunities added during the first half of the financial year, the total bid pipeline, which captures those bids which are subject to a formal process, has increased to £10.8 billion. Together with our tracking pipeline of future opportunities which have yet to formally enter a bid process, these opportunities provide a strong platform for future growth.

Introduction continued

Current environment

Whilst the environment under which we operate has been subject to some change during the period, most notably the UK's referendum vote in favour of leaving the European Union, the fundamentals of our business are unchanged. Although it is too early to predict the longer-term impact on the wider economy, we have not experienced slowdowns in our key markets. Our operations in Europe, which are delivered by locally-based companies, are not expected to be impacted. Should the Scottish Government ask the UK Government for a further Referendum on Scottish Independence, should the UK Government then concede to that request, and should there ultimately be a vote in favour of independence, the vast majority of the Group's operations in Scotland are expected to be unaffected. Lastly in terms of the introduction of guidance for new sole source contracts, we are currently engaging with the UK Single Source Regulations Office as their thinking matures. The vast majority of our sole source activities are contracted until 2020 under the Maritime Support Delivery Framework and 2025 under the Terms of Business Agreement, and we anticipate that the complexity and value inherent in the majority of services we provide would continue to generate commensurate returns within the sole source environment. We therefore continue to have confidence in our growth outlook for the medium term.

Outlook

Our UK markets continue to grow despite the broader uncertainties. The UK Government's five-year Strategic Defence and Security Review confirmed its commitment to invest in multi-year programmes, requiring the life extension of existing platforms, and a whole force approach. The requirement to generate £9 billion of efficiency savings in the next five years presents a significant opportunity for future growth, as does the continued drive for efficiency and performance across the civil sector. Our proven expertise in delivering complex programmes, through-life engineering services, fleet management, nuclear engineering support and technical training mean we are well positioned to benefit from the growing markets for further outsourcing.

Internationally we see an increased appetite for output-based contracting which delivers proven efficiencies in both cost and availability across civil and defence customers. Countries such as Australia and Canada are increasing investment in multi-year defence programmes requiring through-life asset support, and we believe that there will be increasing opportunities for global alliances with trusted partners such as Babcock being asked to support customers in new geographies.

The Group's £20 billion order book provides excellent visibility of future revenues, and the replenishment of the bid pipeline with new opportunities underpins our expectations for continued growth.

Despite slightly slower organic growth, the Board expects the full year results to be in line with its expectations. We therefore remain confident of making good progress this year and beyond.

Financial review

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

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

Statutory to underlying reconciliation

		Joint ventures and associates						
	Statutory £m	Revenue and operating profit £m	Finance costs £m	Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Change in tax rate £m	**Underlying £m**
30 September 2016								
Revenue	**2,173.1**	319.7						**2,492.8**
Operating profit	**165.6**	32.7			15.5	55.9		**269.7**
Share of profit from jv	**25.6**	(32.7)	13.1	6.1	(15.0)	2.9		**–**
Investment income	**0.5**				(0.5)			**–**
Net finance costs	**(28.2)**		(13.1)					**(41.3)**
Profit before tax	**163.5**	–	–	6.1	–	58.8	–	**228.4**
Tax	**(19.4)**			(6.1)		(13.1)	(0.9)	**(39.5)**
Profit after tax	**144.1**	–	–	–	–	45.7	(0.9)	**188.9**
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**

Income statement

Total underlying operating profit for the Group increased by 7% to £269.7 million in the first half (2015: £253.0 million), equating to 7% organic growth at constant exchange rates. This provided a stable overall Group operating margin of 10.8% (2015: 10.8%).

Total revenue for the first half increased by 6% to £2,492.8 million (2015: £2,349.2 million), equating to 4% organic growth at constant exchange rates.

The largest contributor to this growth was the Defence and Security division which reported a 16% increase in revenue, benefiting from good progress in DSG with additional procurement work going well and milestones achieved. The Marine and Technology division also delivered good growth of 7% in the period, driven by continued strong performance in the naval marine business. The flat revenue in the Support Services division was due to the scheduled step down in Dounreay/Magnox, which will be more evident in the second half of the financial year, and the fact that discussions regarding scope growth in the Metropolitan Police contract are still ongoing, with the new contract now expected to generate additional revenue in financial year 2017/18. Headwinds from commodity prices and economic uncertainty in South Africa, and the continued H225 helicopter grounding impacted the International division.

Total net finance costs increased to £41.3 million (2015: £39.4 million), with JV interest increasing as expected along with IAS19 interest expense.

Total profit before tax increased by 7% to £228.4 million (2015: £213.6 million). Taxation charges, including the Group's share of joint venture tax, were £39.5 million (2015: £36.3 million) representing an effective underlying tax rate of 17.3% (2015: 17.0%).

On a statutory basis, revenue for the first half increased by 7% to £2,173.1 million (2015: £2,039.4 million) and operating profit by 5% to £165.6 million (2015: £157.2 million). Statutory profit before tax for the first half increased by 12% to £163.5 million (2015: £146.3 million) and basic earnings per share rose 15% to 28.3 pence (2015: 24.7 pence).

Financial review continued

Exchange rates

Sterling has weakened further against the main trading currencies of the Group since the 2015/16 full year results announcement in May 2016. A 10% increase in the Euro affects revenue by around £31.7 million and operating profit by £5.7 million. A 10% movement in the Rand affects revenue by around £24.5 million and operating profit by £1.7 million.

Earnings per share

Underlying earnings per share for the first half was 37.2 pence (2015: 34.5 pence), an increase of 8%. At constant exchange rates the growth was 6%. Basic continuing earnings per share, as defined by IAS 33, was 28.3 pence (2015: 24.7 pence).

Acquisitions and disposals

During the first half of the financial year the Group paid the deferred consideration of £14.8 million in respect of the acquisition of DSG and Scandinavian AirAmbulance.

On 15 April 2016 the Group acquired Heli Aviation, a provider of mission critical helicopter services in Germany for a consideration of £10.9 million, including a cash cost of £5.7 million and acquired loans of £5.2 million.

Cash flow and net debt

We continue to focus on the generation of cash and cash conversion remains an important key performance indicator (KPI) for the Group. The analysis below reflects the management KPI for cash conversion.

	30 September 2016 £m	30 September 2015 £m
Operating profit before amortisation of acquired intangibles	**221.5**	217.4
Amortisation and depreciation	**45.8**	42.1
Other non-cash items	**6.6**	8.0
Working capital (excluding excess retirement benefits and provisions)	**(19.0)**	(20.9)
Provisions	**(16.6)**	(2.2)
Operating cash flow	**238.3**	244.4
Cash conversion %	***108%***	*112%*
Capital expenditure (net)	**(63.9)**	(85.2)
Operating cash flow after capital expenditure	**174.4**	159.2
Cash conversion after capital expenditure %	***79%***	*73%*
Interest paid (net)	**(23.4)**	(22.7)
Taxation	**(33.2)**	(25.0)
Dividends from jvs	**10.4**	7.3
Free cash flow before pension contribution in excess of income statement	**128.2**	118.8
Pensions contributions in excess of income statement	**(0.7)**	(1.2)
Free cash flow after pension contribution in excess of income statement	**127.5**	117.6
Acquisitions and disposals net of cash/debt acquired	**(25.9)**	2.7
Issue of shares	**0.9**	1.2
Investments in joint ventures	**0.6**	(7.3)
Movement in own shares	**(0.2)**	(0.9)
Dividends paid	**(100.4)**	(92.9)
Exchange difference/other	**(65.2)**	(10.5)
Net cash (outflow)/ inflow	**(62.7)**	9.9
Opening net debt	**(1,228.5)**	(1,325.6)
Closing net debt	**(1,291.2)**	(1,315.7)

Financial review continued

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

	30 September 2016 £m	30 September 2015 £m
Cash generated from operations	**237.6**	235.7
Retirement benefit contributions in excess of income statement	**0.7**	1.2
Profit on disposals of jv/exceptional loss	**–**	7.5
Operating cash flow	**238.3**	244.4

Working capital cash outflows during the period were £19.0 million (2015: £20.9 million), with a further £16.6 million outflow for provision movements (2015: £2.2 million). Working capital outflow for the full year is expected to be in the order of £25 million. In addition, provision outflows of around £30 million are expected for the full year. Operating cash flow after the working capital movement, was £238.3 million (2015: £244.4 million), resulting in a pre-capital expenditure conversion rate of underlying operating profit to cash of 108% (2015: 112%).

Net capital expenditure (including new finance leases) during the first half was £63.9 million (2015: £85.2 million) or around 1.4 times depreciation (2015: 2.0 times). As previously advised, net capital expenditure to depreciation ratio is expected to be around 1.5 times for the full year. Capital expenditure in MCS is expected to be around £40 million per annum and marine infrastructure around £45 million per annum, in part to enable future growth.

Pension payments in excess of the income statement were £0.7 million (2015: £1.2 million).

Net cash interest paid, excluding that paid by joint ventures, was £23.4 million (2015: £22.7 million), reflecting some refinancing of credit facilities. After taxation payments of £33.2 million (2015: £25.0 million), free cash flow before excess pension contributions was £128.2 million (2015: £118.8 million), giving an adjusted free cash flow yield, after interest and tax, of 6.1% (2015: 6.6%) at the half year.

Free cash flow after excess pension contributions was up 8% to £127.5 million (2015: £117.6 million).

Acquisitions, disposals and joint ventures of £25.9 million, related to deferred considerations in respect of the acquisition of DSG and Scandinavian Air Ambulance, together with the acquisition of Heli Aviation.

Dividend payments during the first half totalled £100.4 million (2015: £92.9 million). Total net cash outflow was £62.7 million (2015: inflow of £9.9 million), which resulted in total net debt at the end of the first half of £1,291.2 million (2015: £1,315.7 million; 31 March 2016: £1,228.5 million) with £65 million related to movements in foreign exchange rates since the end of the 2015/16 financial year. This gives a net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) ratio of 2.0 times (2015: 2.1 times). As previously indicated we expect the net debt to EBITDA ratio to be around 1.8 times at 31 March 2017, based on exchange rates as at 30 September 2016 and assuming no bolt-on acquisitions.

Pension

Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,637.5 million in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,898.6 million. The total accounting deficit, pre-tax, of the Group's combined defined benefit pension schemes increased to £261.1 million (30 September 2015: £112.8 million; 31 March 2016 £203.1 million). The falls in bond yields over the first half have been largely mitigated by strong investment performance and the high level of hedging of inflation and interest rates. The increase in deficit since the year end of £60 million was disproportionately due to the smaller industry-wide schemes, eg Rail. Market conditions at 31 March 2017 will determine the pension service cost for 2017/18. Changes 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 will limit future risks and with the phased increase to employee contribution rates to 6.0% will help reduce the employer costs.

As at 30 September 2016, the key assumptions used in valuing pension liabilities were:

Discount rate	2.4% (31 March 2016: 3.5%)
Inflation rate (RPI)	3.1% (31 March 2016: 2.9%)

Operational review

Marine and Technology

		30 Sept 2016	30 Sept 2015	Change + / –
Revenue	group	**£838.8 m**	£792.8 m	+6 %
	jv	**£17.0 m**	£10.2 m	+67 %
	total	**£855.8 m**	£803.0 m	+7 %
Operating profit	group	**£94.9 m**	£84.9 m	+12 %
	jv	**£4.7 m**	£1.5 m	+213 %
	Total	**£99.6 m**	£86.4 m	+15 %
Operating margin	group	**11.3%**	10.7%	
	jv	**27.6%**	14.7%	
	total	**11.6%**	10.8%	

Financial review

The Marine and Technology division continues to achieve good growth across its key markets, with revenue up 7% as we continue to deliver under long term framework agreements in our role as a strategic partner to the UK MOD, as well as securing new contracts. Organic revenue growth at constant exchange rates was up 6%. Operating profit in the first half increased by 15%, ahead of revenue, and margins improved compared to the same period in the previous year, increasing to 11.6%, driven by contract performance, including in joint ventures.

Operational review

The Marine and Technology business has experienced growth across both defence and commercial markets. Continuing to concentrate on long-term arrangements with the MoD and industry partners, we remain focused on cost reduction while maximising asset availability.

The first half has seen us continue to deliver our commitments 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 is progressing well, and we are delivering improved efficiencies and cost reductions on the agreed programme of work.

Warship and submarine refit contracts continue to perform in line with expectations, building capacity and capability within the fleet while achieving our customer's programme milestones and KPIs. Work on HMS Vanguard's long term deep maintenance period continues to progress well in Devonport and will be followed by life extension work on the other three submarines in the Vanguard Class over the next 15 years.

The Revalidation Assistance Maintenance Periods (RAMP) on Trafalgar Class vessels HMS Talent and HMS Trenchant continues well, together with a significant reactivation package on the amphibious assault ship HMS Albion. The Type 23 life extension programme continues on both HMS Argyll and HMS Montrose. We continue to support the UK MoD outside the UK in Europe, North America and the Middle East.

Our role within the Aircraft Carrier Alliance (ACA) remains strategically important. We continue to assemble and fit out both Queen Elizabeth class (QEC) aircraft carriers together with our alliance partners at our Rosyth facility and the overall programme remains on schedule. Having completed initial commissioning of the first carrier, activity is now focused on the final stages of systems commissioning and entering a period of harbour trials across Power and Propulsion and Combat Systems in readiness for sea trials in the Spring of 2017. HMS Prince of Wales' assembly phase is also progressing to plan with the carrier now consolidated to her full length in dry dock.

In June the submarine to be used in the MOD's demonstrator project for the dismantling programme was taken in dock at Rosyth for routine maintenance; she will now remain there until work to remove the low level waste starts later in the year.

Additionally, following a competition with two US companies, we have been awarded a contract from General Dynamics Electric Boat to manufacture 22 tactical missile tube assemblies at Rosyth as part of the common missile compartment (CMC) project for the UK Dreadnought and US Ohio Class replacement submarine programmes. This work forms part of the second phase of the project and establishes Babcock as a critical supplier of missile tube assemblies for future phases of the £1 billion programme.

Internationally, we successfully delivered a third Offshore Patrol Vessel (OPV) on time and budget to the Irish Department of Defence and secured an order to deliver a fourth OPV for the Irish Naval Service from our facilities in Appledore.

Our contracts to support the Australian, New Zealand and Canadian navies continue to perform well, delivering improved availability and efficiencies for our customers. In Canada, the refit of HMCS Corner Brook is progressing well. We continue to successfully deliver support to the Collins Class submarines delivering on our customers' expectations. The new warship support agreement, Warship Asset Management Alliance (WAMA) began in July, broadening and securing our position as a strategic partner in the long-term asset management solution for the Anzac Class until its end of life. In New Zealand, we continue to successfully deliver our contract with the New Zealand Defence Force, which provides us with scope to broaden our activities and generate further naval support opportunities.

Having signed a Memorandum of Understanding with the Oman Drydock Company, we are finalising a joint venture to provide support for the UK's Royal Navy, the Royal Navy of Oman and other international navies from facilities at Duqm.

The marine gas handling systems market remains an important aspect of our commercial marine business, with our work in current regions bringing future opportunities. Additionally, winning two Queen's Awards for Innovation and another for International Trade in 2016, underpins the development of our LNG technology and the further opportunities we continue to identify.

Operational review continued

We are consolidating our position within the offshore energy market, successfully delivering and installing the jacket section for the Rampion offshore substation for our customer, E.ON. This was reinforced with contract wins to support Dong Energy (Hornsea) and Siemens (Beatrice) in the supply of complex platforms for two UK offshore wind programmes. As we grow our commercial marine operations, the division continues to pursue selected opportunities in the energy sector.

In our Technology business we are progressing activities to support the Dreadnought Class future submarine programme and 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 secured a five-year contract, with the potential to extend another five years, to ensure the ongoing availability and sustainability of the Royal Navy's Medium Calibre Gun (MCG) weapon system and have been awarded multi-year equipment management contracts by the UK Ministry of Defence to manage spares support, all with a combined value of around £130 million. Our consultancy businesses continue to grow in challenging market conditions. Our balanced portfolio of clients from the defence, transport, power and energy and finance sectors has helped us deliver this growth, alongside an attractive service offering based on engineering support and a strongly growing cyber security capability. Together these services are helping our clients deliver safe and secure operation of their enterprises and assets. Additionally, our Information Analytics and Security businesses have continued to establish their propositions in their respective target markets. Notably, the Information Analytics business has doubled its size in the Energy & Infrastructure markets; whilst the Security business has developed a full 24x7 Protective Monitoring capability and secured a key contract win from the UK Government.

Marine and Technology outlook

The division continues to have excellent visibility of future revenue streams in our core UK naval marine business where we work alongside our customer, maximising availability and value for money. We continue to see further opportunities to grow our presence in overseas defence markets. Having now proven our ability to deliver successfully for customers in a number of offshore energy projects, our technical expertise, facilities and project management skills continue to position us well in the commercial marine sector for future opportunities.

With significant opportunities in our bidding and tracking pipelines to support future growth, the division continues to make good progress, despite lower QEC volumes, as previously guided, which will have more impact in the second half of the year.

Defence and Security

		30 Sept 2016	30 Sept 2015	Change + / –
Revenue	group	**£422.4 m**	£361.6 m	+17 %
	jv	**£46.1 m**	£42.4 m	+9 %
	total	**£468.5 m**	£404.0 m	+16 %
Operating profit	group	**£42.0 m**	£37.9 m	+11 %
	jv	**£23.9 m**	£22.7 m	+5 %
	total	**£65.9 m**	£60.6 m	+9 %
Operating margin	group	**9.9%**	10.5%	
	jv	**51.8%**	53.5%	
	total	**14.1%**	15.0%	

Financial review

As expected, the Defence and Security division showed strong growth compared to the same period in the previous year, with revenue up 16% and operating profit up 9%. Organic revenue growth at constant exchange rates was up 15%. This was largely due to the start of the long term UKMFTS Fixed and Rotary Wing contracts awarded to our Ascent joint venture and the additional procurement element of the DSG contract. The division's margin reduced to 14.1% (2015: 15%) due to the additional procurement work being at lower than divisional average margins.

Operational review

We are seeing strong progress in DSG. We have met all our transformation programme milestones, which as previously stated resulted in the earlier than planned additional responsibility for the procurement of spares and repair management. Since April we have secured further orders and are currently exploring opportunities with the Army to extend our DSG services to additional sites. We are working on twelve demonstration vehicles for the Warrior Capability Sustainment Programme for Lockheed Martin and this has the potential to lead into a production phase for this programme. The Challenger 2 Life Extension Programme is in its early phases and we are working with the remaining prime contractors that are engaged in the MoD procurement process to progress opportunities to support them.

Earlier this year we announced our successful rebid to deliver the UK armed forces white fleet contract, Phoenix II, which will target customer savings of £100m over six years. This contract went live in September, initially within the mainland UK but will also include the additional provision of white fleet services in Northern Ireland and Germany from October. The implementation of a bespoke Babcock developed data analysis suite enables us to undertake continuous efficiency and improvements throughout the contract term. Our success on this contract means that we are presently targeting the extension of Phoenix II globally from April 2017. Elsewhere our Construction Vehicle capability contract (ALC joint venture) is performing well with continual above target availability rates being delivered. Work is currently underway to position the division for the support of the MOD's plant, construction and warehousing fleets world-wide.

Operational review continued

Our training services contracts for our customers are achieving improved efficiency and delivery savings. The transition of our Electro Mechanical Training Contract (EMTC) with the Defence College of Technical Training (DCTT) to MOD Lyneham continues to progress well and we have now secured the ongoing provision of Training Maintenance and Support Services (TMASS) at Armour Centre Bovington. We continue to progress our bids for training contracts, including support for defence explosive ordnance disposal, munitions and search training and the renewal of the Royal Navy's contract for the Provision of Outsourced Training Services (POTS) contract.

In our Air business the Air Tanker programme, known as Voyager, reached full service delivery on 30th September with acceptance of the fourteenth and final Voyager aircraft into RAF service. Air-to-Air refuelling certification for the future F-35 Lightning II aircraft is underway and the service flew its first VIP mission in July. Our UKMFTS fixed wing and rotary wing contracts were secured earlier this year and are now beginning the delivery and management of flying training that will see around 118 fixed-wing jet trainees graduate between 2016 and 2019. We have also secured a £22m contract for the ongoing provision of rear crew training.

We have agreed the sale of 28 Grob G115E elementary flying training aircraft to the Finnish Ministry of Defence. The release of these aircraft over the next six months aligns with the introduction of new platforms under the UKMFTS fixed wing programme.

We continue to achieve contract rebid win rates of 100%, including our support to the Hawk fast jet training fleets and for the provision of airbase support services. Integration of the recent aviation and engineering support and aircraft services (AESAS) contract at Yeovilton and Culdrose naval air stations continues to progress well and opportunities to expand our range of services at these large sites are already being explored.

We continue to track opportunities in our target international markets; Europe, Australia, Canada and the Middle East, and have secured the first phase of a training contract for the UAE Naval Training School. Operationally, our British Forces Germany contract was extended and continues to perform well.

Defence and Security outlook

The division is expected to continue to grow strongly, driven by the UKMFTS contracts which will have an increased impact in the second half of the financial year, together with the continuation of procurement activity for the DSG contract which started in October 2015. DSG continues to demonstrate its value to the Group as an indispensable supplier of complex engineering support to the Army, providing access to growth opportunities that were not previously accessible to Babcock. As a result our bid pipeline continues to grow, and the SDSR requirement to realise over £9bn of efficiency savings brings significant opportunities for future growth. Our role in supporting the UK fleet, and our recent success in the Air domain, means that we are well placed to expand our services into international markets, both for the UK and international armed forces.

Support Services

		30 Sept 2016	30 Sept 2015	Change + / –
Revenue	group	**£478.7 m**	£476.2 m	+1 %
	jv	**£252.4 m**	£253.2 m	–
	total	**£731.1 m**	£729.4 m	–
Operating profit	group	**£30.8 m**	£38.2 m	–19 %
	jv	**£17.5 m**	£9.2 m	+90 %
	total	**£48.3m**	£47.4 m	+2 %
Operating margin	group	**6.4%**	8.0%	
	jv	**6.9%**	3.6%	
	total	**6.6%**	6.5%	

Financial review

The division's revenue was flat compared to the same period in the previous year, due to the impact of reduced revenues, as expected, from the Magnox and Dounreay decommissioning joint ventures, offset in part by growth in our Rail joint venture. Weakness in the Critical Services business from lower mining and construction revenues and the delayed start of the enhanced Metropolitan Police contract was offset by growth in Rail. Operating profit increased 2% on the previous period, with growth in Cavendish Nuclear's margins reflecting the increasing maturity of the decommissioning contracts, which compensated for the sale of the Lewisham BSF asset which benefited the same period in the previous year by £7.5 million. As a result, the division's margins in the half year remained stable.

Operational review

The division's long term contracts continue to perform well. In the nuclear sector, Cavendish Nuclear's decommissioning joint ventures continue to perform to plan. Discussions with the Nuclear Decommissioning Authority regarding growth in the Magnox contract, our joint venture with Fluor, are progressing well and we expect to reach formal agreement in 2017. We have successfully delivered key operational milestones across twelve nuclear sites, including the decontamination of an area of more than 10,000 square metres at Bradwell's pond complex, marking a significant milestone in the site's hazard reduction programme.

Our Cavendish Dounreay Partnership joint venture made safe the last of the radioactive liquid waste produced during Dounreay Fast Reactor fuel processing, encapsulating 232 cubic metres of material ready for long term storage. We continue to anticipate additional scope relating to the transfer of nuclear fuels.

Operational review continued

At Sellafield, our joint venture Bechtel Cavendish Nuclear Solutions, has successfully completed a major milestone which will enable the customer to start safely retrieving legacy waste from the Pile Fuel Cladding Silo. We continue to develop further decommissioning opportunities in the UK and internationally, where we have made some progress in Japan with Hitachi, and are exploring emerging opportunities in Taiwan. However we have seen some delays in the nuclear projects business as the new Sellafield management establishes how it wishes to proceed with the decommissioning work.

Following the decision of the British Government to proceed with Hinkley Point C, our joint venture, Cavendish Boccard Nuclear, will be supporting the nuclear new build programme as the preferred bidder for the Balance of Nuclear Island mechanical erection package at this new nuclear power station.

In our Critical Services business we continue to develop support solutions for customers' vehicle fleets and the addition of MacNeillie – the specialist vehicle converter – has enhanced our whole-lifecycle fleet management proposition. This increased capability is reflected in our proposal for the new Metropolitan Police Service fleet management contract; we are currently concluding detailed discussions with the customer and expect the contract to be renewed, with additional growth, in the second half of the financial year resulting in increased revenue from April 2017. We continue to make good progress delivering the London Fire Brigade's vehicle replacement programme, with the first of the new dual pump fire appliances recently handed over to the customer at an event attended by HRH Prince Charles.

Our Airports business continues to perform strongly at the UK's major airports and at Schiphol in the Netherlands, and we are now also providing technical expertise for the new international airport support contracts with Qantas in Australia and Alitalia in Italy. We recently supported our UK customer's baggage handling upgrade projects at Heathrow's terminals 1, 4 and 5, and at Gatwick's North terminal. The team is also investing in technology, piloting an innovative Babcock-developed 'app' which delivers live baggage handling system status updates direct to key stakeholders at Heathrow.

In our Rail business, our track renewal contracts are performing well with significant highlights including Bletchley South on the West Coast main line being handed back at 125 mph line speed, a first for Babcock under Network Rail's Control Period 5 framework arrangements. In Scotland, works to upgrade the Glasgow Queen Street tunnel were successfully completed under the Edinburgh Glasgow Improvement Programme and in Northern Ireland, our signalling contract to upgrade the Coleraine to Londonderry line for Translink is also progressing well with the 33 mile route being recontrolled from a new signalling control centre in Coleraine.

Our Power business has also had a successful period with the award of a £30 million power line refurbishment contract from National Grid for 100km of overhead line between Plymouth and Exeter, to be delivered in 2017.

In our Skills & Learning business, we have developed our programmes and technologies to respond to the Government's changes to apprenticeship qualifications and funding. Our new Network Rail apprenticeship contract has been successfully mobilised and the programme is now being delivered from a new site under the new Rail Apprenticeship standard. However we have seen some weakness in the apprentice training market, following the UK's referendum decision to exit the European Union.

Our emergency services training contracts continue to perform strongly. Earlier this year, we launched a prototype simulator to provide a fully immersive training experience for blue-light drivers, whilst also delivering greater efficiencies for our London Fire Brigade customer by compressing the training time by 50%. This simulator was short-listed in this year's The Engineer magazine's 'Collaborate to Innovate' awards. We are also participating in the Metropolitan Police's market testing of a potential joint venture to outsource training provision, and pursuing opportunities in Babcock's other key markets, including the nuclear training industry. Skills2Learn, our digital learning business, has secured new orders to develop e-learning for the Royal Navy and the United Arab Emirates Navy, in support of wider programmes managed by our Defence and Security division. In Surrey, Devon and Worcestershire, our local authority education partnerships continue to perform well, delivering a broad range of support services to over 1,000 schools and academies and achieving Ofsted scores in excess of 90% across all three partnerships.

Support Services outlook

We continue to make good progress in our long term contracts and to develop a healthy pipeline of opportunities across our businesses, however growth in the division over the full year will continue to be affected by the scheduled reduction of revenue in the Dounreay and Magnox decommissioning contracts, around two-thirds of which will impact the second half.

International

		30 Sept 2016	30 Sept 2015	Change + / -
Revenue	group	**£433.2 m**	£408.8 m	+6 %
	jv	**£4.2 m**	£4.0 m	+5 %
	total	**£437.4 m**	£412.8 m	+6 %
Operating profit	group	**£59.6 m**	£60.1 m	–1 %
	jv	**£1.6 m**	£1.5 m	+7 %
	total	**£61.2 m**	£61.6 m	–1 %
Operating margin	group	**13.8%**	14.7%	
	jv	**38.1%**	37.5%	
	total	**14.0%**	14.9%	

Operational review continued

Financial review

The International division's revenue grew by 6% compared to the previous period, reflecting the impact of movements in foreign exchange rates and growth in Mission Critical Services' (MCS) Emergency Services business, offsetting pressure on our operations in South Africa and challenges in the oil and gas sector. Organic revenue at constant exchange rates declined by 1% for the division as a whole, whilst MCS' organic revenue increased by 3% at constant exchange rates. Operating profits declined by £0.4 million and the division's margin reduced to 14.0% (2015: 14.9%), reflecting economic headwinds and political uncertainties in South Africa and the impact of the industry-wide grounding of the H225 (EC225) and AS332L2 Super Puma helicopters.

In South Africa, economic headwinds have continued to put pressure on our operations in the first half. This has been compounded by the political landscape creating some uncertainty during a period that included local government elections but this has been slightly offset by a recent strengthening of the Rand. Commodity prices remain low and the economy contracted during the first quarter. The truck and construction equipment markets have fallen by a further 15%. This combined to contribute to a 9% decline in revenue in local currency in spite of a significant increase in market share through all our business units.

MCS' Emergency Services operations, which comprises around three-quarters of the business, continued to grow over the period. Strong growth in the helicopter emergency medical services (HEMS) business was offset by weakness in firefighting following a delayed start to the season, and a decline in civil protection work. The decline seen last year in the oil and gas helicopter support market has largely stabilised, but revenue and profits have been impacted by the continued grounding of the Super Puma helicopters, resulting in lower flight hours and some additional costs to ensure we continue to serve our customers. However we continue to optimise MCS and capture additional savings, particularly within fleet leasing, procurement, fleet rationalisation and engineering, which has allowed us to broadly maintain MCS margins.

Operational review

In South Africa, the continued requirement for increased power supply in the region and the subsequent grid expansion requirement coupled with maintenance and life extension opportunities on the old fossil fired power stations, have resulted in good order intake for both our generation and powerline business units. In our generation business we have been awarded high pressure piping installation and mill assembly work on the two new power stations that are under construction and powerlines have been awarded a further two line contracts.

While Rand weakness in the earlier part of the year impacted our ability to grow our share of the truck market, our sales of Volvo and Terex construction equipment led to a 3% market share growth in the first half.

MCS has maintained a high contract win rate across new bids and renewals, securing 31 new contracts and extensions to existing contracts with a total value of around £480 million.

Our Emergency Services business successfully renewed contracts for the provision of nationwide and regional fire-fighting and for search and rescue services in Spain on behalf of the Spanish Government, and in October we renewed the main medical services contract in Spain's Castilla-La Mancha region. We also won a new wind farm service contract in the UK and new emergency medical services contract in Northern Ireland.

Also in the emergency medical services market, we renewed three major contracts in the first half, two of them in Sweden and one in Italy. In Australia, we have been successfully running operations for the Victorian Government's Ambulance Victoria service and renewed our emergency medical services at Horn Island. In October we secured a new long-term emergency medical services contract in the South West region of France, where we will provide and operate five aircraft for the French Ministry of Health.

As previously flagged, challenging conditions in the oil and gas sector have continued to impact our business in the North Sea and Australia, especially following the grounding of the Super Puma helicopters following an accident to one of our competitor's aircraft, with some delays and cancellations of bids related to exploration. Despite this, we secured a long-term extension to an existing contract in the UK, renewed two oil and gas contracts and won two new additional contracts with an existing customer in Italy, becoming the sole provider of these services in the country. We were awarded a new oil and gas services contract in Australia, and increased the Group's presence in Africa.

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.

In other international work our contract to support Alitalia's ground fleet at Rome's Fiumicino airport is performing well and we were delighted to be awarded a contract to support Qantas' ground support equipment fleet at 60 locations across Australia. The five-year contract, with an option for a further five years, streamlines the management of the airline's fleet of over 10,000 ground service equipment assets. Babcock will deliver a programme to improve the equipment's reliability and provide significant long term capability and cost benefits. The contract will ramp-up over the remainder of this year and is expected to be fully operational in financial year 2017/18.

International outlook

In South Africa the urgent need for power is still benefitting both the generation and transmission line business units which have a full order book, and this will impact the second half of the year.

MCS is expected to continue to grow its Emergency Services business as previously advised, and is pursuing a number of opportunities. In MCS's oil and gas business, whilst the market remains challenging and the impact of the grounding of the Super Pumas is expected to continue across the year, this is expected to be offset by the new oil and gas contracts starting operations in the second half, resulting in revenues remaining flat.

We continue to make good progress in developing our wider international business where our offering is gaining traction, and are actively pursuing a number of new opportunities which allow us to combine our proven expertise and local presence to provide a compelling offering in our key markets.

Group income statement

For the six months ended 30 September 2016

Year ended 31 March 2016 £m		Note	Six months ended 30 September 2016 £m	Six months ended 30 September 2016 £m	Six month ended 30 September 2015 £m	Six month ended 30 September 2015 £m
4,842.1	**Total revenue**		2,492.8		2,349.2	
683.7	Less: joint ventures and associates revenue		319.7		309.8	
4,158.4	**Group revenue**	2		2,173.1		2,039.4
	Group					
468.3	Operating profit before amortisation of acquired intangibles and exceptional items	2	221.5		217.4	
(115.8)	Amortisation of acquired intangibles	2	(55.9)		(60.2)	
352.5	**Group operating profit**			165.6		157.2
	Joint ventures and associates					
40.8	Share of operating profit		32.7		20.0	
29.5	Investment income		15.0		14.9	
(5.8)	Amortisation of acquired intangibles		(2.9)		(2.9)	
(21.9)	Finance costs		(13.1)		(10.0)	
(8.0)	Income tax expense		(6.1)		(4.2)	
34.6	**Share of results of joint ventures and associates**			25.6		17.8
	Group and joint ventures and associates					
509.1	Operating profit before amortisation of acquired intangibles and exceptional items		254.2		237.4	
30.6	Investment income		15.5		15.6	
539.7	Underlying operating profit*	2	269.7		253.0	
(121.6)	Amortisation of acquired intangibles		(58.8)		(63.1)	
(1.1)	Group investment income		(0.5)		(0.7)	
(21.9)	Joint ventures and associates finance costs		(13.1)		(10.0)	
(8.0)	Joint ventures and associates income tax expense		(6.1)		(4.2)	
387.1	**Group operating profit plus share of joint ventures and associates**			191.2		175.0
	Finance costs					
1.1	Investment income		0.5		0.7	
(5.1)	Retirement benefit interest		(3.2)		(2.6)	
(64.1)	Finance costs		(30.7)		(32.0)	
11.1	Finance income		5.7		5.2	
(57.0)				(27.7)		(28.7)
330.1	**Profit before tax**	2		163.5		146.3
(39.0)	Income tax expense	3		(19.4)		(18.1)
291.1	**Profit for the year**			144.1		128.2
	Attributable to:					
286.6	Owners of the parent			142.7		124.1
4.5	Non-controlling interest			1.4		4.1
291.1				144.1		128.2
	Earnings per share from continuing operations	4				
57.0	Basic			28.3p		24.7p
56.8	Diluted			28.3p		24.6p

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

Group statement of comprehensive income

For the six months ended 30 September 2016

Year ended 31 March 2016 £m		Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m
291.1	Profit for the year	**144.1**	128.2
	Other comprehensive income		
	Items that may be subsequently reclassified to income statement		
34.1	Currency translation differences	**78.9**	(27.0)
15.9	Fair value adjustment of interest rate and foreign exchange hedges	**4.0**	9.3
(3.2)	Tax on fair value adjustment of interest rate and foreign exchange hedges	**(0.8)**	(1.9)
(16.4)	Fair value adjustment of joint venture and associates derivatives	**(17.4)**	7.1
3.3	Tax on fair value adjustment of joint venture and associates derivatives	**3.2**	(1.3)
	Items that will not be subsequently reclassified to income statement		
(64.1)	Remeasurement of retirement benefit obligations	**(55.5)**	57.3
13.0	Tax on remeasurement of retirement benefit obligations	**10.3**	(11.5)
(4.7)	Impact of change in UK tax rates	**(3.9)**	–
(22.1)	**Other comprehensive loss, net of tax**	**18.8**	32.0
269.0	**Total comprehensive income**	**162.9**	160.2
	Total comprehensive income attributable to:		
265.8	Owners of the parent	**159.6**	157.6
3.2	Non-controlling interest	**3.3**	2.6
269.0	**Total comprehensive income**	**162.9**	160.2

Group statement of changes in equity

For the six months ended 30 September 2016

	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Owners of the parent £m	Non-controlling interest £m	Total equity £m
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/(loss)	–	–	–	–	169.8	13.2	(25.4)	157.6	2.6	160.2
Shares issued in year	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 shared-based payments	–	–	–	–	0.1	–	–	0.1	–	0.1
Transaction with 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**
At 1 April 2016	**302.5**	**873.0**	**768.8**	**30.6**	**519.2**	**(92.0)**	**(63.6)**	**2,338.5**	**17.8**	**2,356.3**
Total comprehensive income/(loss)	–	–	–	–	93.6	(11.0)	77.0	159.6	3.3	162.9
Shares issued in year	0.9	–	–	–	–	–	–	0.9	–	0.9
Dividends	–	–	–	–	(99.7)	–	–	(99.7)	(0.7)	(100.4)
Share-based payments	–	–	–	–	8.3	–	–	8.3	–	8.3
Tax on shared-based payments	–	–	–	–	2.9	–	–	2.9	–	2.9
Own shares and other	–	–	–	–	(0.2)	–	–	(0.2)	–	(0.2)
Net movement in equity	0.9	–	–	–	4.9	(11.0)	77.0	71.8	2.6	74.4
At 30 September 2016	**303.4**	**873.0**	**768.8**	**30.6**	**524.1**	**(103.0)**	**13.4**	**2,410.3**	**20.4**	**2,430.7**

Group balance sheet

For the six months ended 30 September 2016

As at 31 March 2016 £m		Note	As at 30 September 2016 £m	As at 30 September 2015 £m
	Assets			
	Non-current assets			
2,550.6	Goodwill		**2,610.2**	2,499.4
676.2	Other intangible assets		**653.2**	698.5
950.8	Property, plant and equipment		**1,016.2**	907.3
39.9	Investment in joint ventures and associates	6	**41.7**	57.3
32.6	Loan to joint ventures and associates	6	**32.8**	31.1
45.0	Retirement benefits	11	**63.2**	62.6
29.2	Trade and other receivables		**28.3**	27.2
17.7	IFRIC 12 financial assets		**16.7**	18.8
84.3	Other financial assets	7	**131.4**	48.6
125.5	Deferred tax asset		**134.9**	116.0
4,551.8			**4,728.6**	4,466.8
	Current assets			
139.1	Inventories		**169.9**	146.7
766.9	Trade and other receivables		**778.7**	762.3
24.8	Income tax recoverable		**24.8**	24.8
10.1	Other financial assets	7	**21.4**	11.7
185.9	Cash and cash equivalents	10	**152.6**	140.9
1,126.8			**1,147.4**	1,086.4
5,678.6	**Total assets**		**5,876.0**	5,553.2
	Equity and liabilities			
	Equity attributable to owners of the parent			
302.5	Share capital		**303.4**	302.5
873.0	Share premium		**873.0**	873.0
643.8	Capital redemption and other reserves		**709.8**	679.1
519.2	Retained earnings		**524.1**	400.0
2,338.5			**2,410.3**	2,254.6
17.8	Non-controlling interest		**20.4**	19.4
2,356.3	**Total equity**		**2,430.7**	2,274.0
	Non-current liabilities			
1,401.3	Bank and other borrowings	10	**1,590.3**	1,476.7
4.4	Trade and other payables		**4.9**	4.4
151.9	Deferred tax liabilities		**141.0**	172.3
6.3	Other financial liabilities	7	**5.2**	7.9
248.1	Retirement liabilities	11	**324.3**	175.4
137.8	Provisions for other liabilities		**108.2**	148.7
1,949.8			**2,173.9**	1,985.4
	Current liabilities			
131.6	Bank and other borrowings	10	**24.8**	63.4
1,185.6	Trade and other payables		**1,183.4**	1,162.6
11.6	Income tax payable		**13.8**	10.4
10.6	Other financial liabilities	7	**14.3**	16.4
33.1	Provisions for other liabilities		**35.1**	41.0
1,372.5			**1,271.4**	1,293.8
3,322.3	**Total liabilities**		**3,445.3**	3,279.2
5,678.6	**Total equity and liabilities**		**5,876.0**	5,553.2

Group cash flow statement

For the six months ended 30 September 2016

Year ended 31 March 2016 £m		Note	Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m
	Cash flows from operating activities			
490.3	Cash generated from operations	8	**237.6**	235.7
(46.6)	Income tax paid		**(33.2)**	(25.0)
(61.7)	Interest paid		**(29.1)**	(26.6)
8.3	Interest received		**5.7**	3.9
390.3	**Net cash flows from operating activities**		**181.0**	188.0
	Cash flows from investing activities			
10.3	Disposal of subsidiaries and joint ventures and associates, net of cash disposed	13	**(0.2)**	11.5
23.0	Dividends received from joint ventures and associates		**10.4**	7.3
66.0	Proceeds on disposal of property, plant and equipment		**67.9**	20.7
(163.2)	Purchases of property, plant and equipment		**(118.4)**	(78.9)
(28.2)	Purchases of intangible assets		**(13.4)**	(10.4)
1.2	Investment in, loans to and interest received from joint ventures and associates		**0.4**	0.2
(1.8)	Acquisition of subsidiaries net of cash acquired	12	**(20.5)**	(1.3)
(92.7)	**Net cash flows from investing activities**		**(73.8)**	(50.9)
	Cash flows from financing activities			
(121.5)	Dividends paid		**(99.7)**	(91.0)
(37.2)	Finance lease principal payments		**(15.4)**	(16.1)
(111.3)	Bank loans repaid		**(14.3)**	(21.3)
28.9	Loans raised		**–**	0.9
(4.1)	Dividends paid to non-controlling interest		**(0.7)**	(1.9)
1.2	Net proceeds on issue of shares		**0.9**	1.2
(0.7)	Movement on own shares		**(0.2)**	(0.9)
(244.7)	**Net cash flows from financing activities**		**(129.4)**	(129.1)
52.9	**Net (decrease)/increase in cash, cash equivalents and bank overdrafts**		**(22.2)**	8.0
112.5	**Cash, cash equivalents and bank overdrafts at beginning of year**		**168.8**	112.5
3.4	Effects of exchange rate fluctuations		**5.6**	(2.6)
168.8	**Cash, cash equivalents and bank overdrafts at end of year**	10	**152.2**	117.9

Notes to the consolidated financial statements

For the six months ended 30 September 2016

1. Basis of preparation and significant accounting policies

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 2016 (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 half year report for the six months ended 30 September 2016 was approved by the Directors on 21 November 2016. The half year report has not been audited or reviewed by auditors.

2. Segmental information

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

30 September 2016	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total continuing operations £m
Total revenue	855.8	468.5	731.1	437.4	–	2,492.8
Less: joint ventures and associates revenue	17.0	46.1	252.4	4.2	–	319.7
Group revenue	838.8	422.4	478.7	433.2	–	2,173.1
Operating profit* – Group	94.9	41.7	30.6	59.6	(5.3)	221.5
IFRIC 12 investment income – Group	–	0.3	0.2	–	–	0.5
Share of operating profit – joint ventures and associates	4.7	8.9	17.5	1.6	–	32.7
Share of IFRIC 12 investment income – joint ventures and associates	–	15.0	–	–	–	15.0
Underlying operating profit	99.6	65.9	48.3	61.2	(5.3)	269.7
Share of finance costs – joint ventures and associates	–	(12.6)	–	(0.5)	–	(13.1)
Share of tax – joint ventures and associates	(1.4)	(1.3)	(3.0)	(0.4)	–	(6.1)
Acquired intangible amortisation – Group	(4.7)	(10.2)	(15.1)	(25.9)	–	(55.9)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.9)	–	–	–	(2.9)
Net finance costs – Group	–	–	–	–	(28.2)	(28.2)
Group profit before tax	93.5	38.9	30.2	34.4	(33.5)	163.5

* Before amortisation of acquired intangibles and exceptional items.

Notes to the consolidated financial statements continued

2. Segmental information (continued)

30 September 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
Less: joint ventures and associates 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 finance costs – 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

* Before amortisation of acquired intangibles and exceptional items

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

There are no exceptional costs in the period nor in the previous period.

3. Income tax expense

The charge for taxation is after a tax credit of £13.1m, relating to acquired intangible amortisation (2015: £14.0 million), of which £0.6 million (2015: £0.6 million) is included in a share of profit from joint ventures and associates, and a tax credit of £0.9 million (2015: £nil) relating to rate changes. The charge for taxation gives an underlying effective rate of 17.3% (2015: 17%), which is based on the estimated effective rate of tax for the full year ended 31 March 2017, together with any prior year credit, and before the credits in respect of amortisation of acquired intangibles and rate changes.

4. Earnings per share

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

	Six months ended 30 September 2016	Six months ended 30 September 2015
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	**504,502,788**	502,658,156
Effect of dilutive potential ordinary shares: share options	**254,371**	1,745,095
Weighted average number of ordinary shares for the purpose of diluted EPS	**504,757,159**	504,403,251

Earnings

	Six months ended 30 September 2016			Six months ended 30 September 2015		
	Earnings £m	**Basic per share Pence**	**Diluted per share Pence**	Earnings £m	Basic per share Pence	Diluted per share Pence
Earnings from continuing operations	**142.7**	**28.3**	**28.3**	124.1	24.7	24.6
Add back:						
Amortisation of acquired intangible assets, net of tax	**45.7**	**9.1**	**9.0**	49.1	9.8	9.7
Impact of change in statutory tax rates	**(0.9)**	**(0.2)**	**(0.2)**	–	–	–
Earnings before amortisation, exceptional items and other	**187.5**	**37.2**	**37.1**	173.2	34.5	34.3

Notes to the consolidated financial statements continued

5. Dividends

An interim dividend of 6.50p per 60p ordinary share (2015: 6.05p per 60p ordinary share) was declared after the balance sheet date and will be paid on 16 January 2017 to shareholders registered on 9 December 2016.

6. Investment 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 2016 £m	Six months ended 30 September 2015 £m	**Six months ended 30 September 2016 £m**	Six months ended 30 September 2015 £m	**Six months ended 30 September 2016 £m**	Six months ended 30 September 2015 £m
At 1 April	**39.9**	36.3	**32.6**	38.6	**72.5**	74.9
Disposal of joint ventures and associates	**–**	3.2	**–**	(6.5)	**–**	(3.3)
Loans to/(repayments from) joint ventures and associates	**–**	1.8	**–**	(1.8)	**–**	–
Investment in joint ventures and associates	**–**	0.2	**–**	–	**–**	0.2
Share of profits	**25.6**	17.8	**–**	–	**25.6**	17.8
Interest accrued	**–**	–	**0.6**	1.3	**0.6**	1.3
Interest received	**–**	–	**(0.4)**	(0.5)	**(0.4)**	(0.5)
Dividend received	**(10.4)**	(7.3)	**–**	–	**(10.4)**	(7.3)
Fair value adjustment of derivatives	**(17.4)**	6.4	**–**	–	**(17.4)**	6.4
Tax on fair value adjustment of derivatives	**3.2**	(1.3)	**–**	–	**3.2**	(1.3)
Foreign exchange	**0.8**	0.2	**–**	–	**0.8**	0.2
Total	**41.7**	57.3	**32.8**	31.1	**74.5**	88.4

7. Other financial assets and liabilities

	Fair value			
	Assets		Liabilities	
	Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m	**Six months ended 30 September 2016 £m**	Six months ended 30 September 2015 £m
Non-current				
US private placement – currency and interest rate swaps	**120.3**	40.1	**–**	–
Non-controlling interest put option	**–**	–	**5.2**	7.9
Financial instruments	**120.3**	40.1	**5.2**	7.9
Finance leases granted	**11.1**	8.5	**–**	–
Total non-current other financial assets and liabilities	**131.4**	48.6	**5.2**	7.9
Current				
Interest rate hedges	**–**	0.5	**–**	–
Other currency hedges	**14.4**	7.4	**14.3**	16.4
Financial instruments	**14.4**	7.9	**14.3**	16.4
Finance leases granted	**7.0**	3.8	**–**	–
Total current other financial assets and liabilities	**21.4**	11.7	**14.3**	16.4

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).

The fair value of the non-controlling interest put option is based on valuation techniques (level 3).

In South Africa the Group operates its own finance company to facilitate the sale of DAF vehicles. It obtains external borrowings and sells vehicles on finance leases to external customers. At the year end the present value of the minimum lease receivable amounted to £18.1 million (2015: £12.3 million), these were split as £7.0 million (2015: £3.8 million) due within one year and £11.1 million (2015: £8.5 million) between one and five years.

Notes to the consolidated financial statements continued

8. Reconciliation of operating profit to cash generated from operations

Year ended 31 March 2016 £m		Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m
	Cash flows from operating activities		
468.3	Operating profit before amortisation of acquired intangible and exceptional items	**221.5**	217.4
(115.8)	Amortisation of acquired intangible and exceptional items	**(55.9)**	(60.2)
352.5	**Group operating profit**	**165.6**	157.2
78.1	Depreciation of property, plant and equipment	**42.2**	38.5
123.7	Amortisation of intangible assets	**59.5**	63.8
1.2	Investment income	**0.5**	0.7
16.2	Equity share-based payments	**8.3**	8.2
(7.5)	Profit on disposal of joint ventures and associates	**–**	(7.5)
–	Loss on disposal of intangible assets	**0.1**	–
(2.4)	Profit on disposal of property, plant and equipment	**(2.3)**	(0.9)
561.8	**Operating cash flows before movement in working capital**	**273.9**	260.0
6.8	(Increase)/decrease in inventories	**(16.4)**	(1.8)
(33.4)	Decrease/(increase) in receivables	**23.8**	(34.8)
15.1	(Decrease)/increase in payables	**(26.4)**	15.7
(25.1)	Decrease in provisions	**(16.6)**	(2.2)
(34.9)	Retirement benefit payments in excess of income statement	**(0.7)**	(1.2)
490.3	**Cash generated from operations**	**237.6**	235.7

Notes to the consolidated financial statements continued

9. Movement in net debt

Year ended 31 March 2016 £m		Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m
52.9	Increase/(decrease) in cash in the year	**(22.2)**	8.0
112.4	Cash flow from the decrease in debt and lease financing	**26.5**	33.6
165.3	Change in net funds resulting from cash flows	**4.3**	41.6
–	Loans and finance leases acquired with subsidiaries	**(5.2)**	–
(19.7)	New finance leases – received	**–**	(16.6)
7.2	New finance leases – granted	**3.2**	2.9
(6.0)	Movement in joint venture and associates loans	**0.2**	(7.5)
(49.7)	Foreign currency translation differences and other	**(65.2)**	(10.5)
97.1	Movement in net debt in the year	**(62.7)**	9.9
(1,325.6)	Net debt at the beginning of the year	**(1,228.5)**	(1,325.6)
(1,228.5)	**Net debt at the end of the year**	**(1,291.2)**	(1,315.7)

10. Changes in net debt

	At 1 April 2016 £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange/ other movement £m	30 Sept 2016 £m
Cash and bank balances	185.9	(33.7)	(5.5)	–	5.9	**152.6**
Bank overdrafts	(17.1)	17.2	(0.2)	–	(0.3)	**(0.4)**
Cash, cash equivalents and bank overdrafts	168.8	(16.5)	(5.7)	–	5.6	**152.2**
Debt	(1,378.6)	13.0	(5.2)	–	(113.9)	**(1,484.7)**
Finance leases – received	(137.2)	15.4	–	–	(8.1)	**(129.9)**
Finance leases – granted	14.2	(1.9)	–	3.2	2.6	**18.1**
	(1,501.6)	26.5	(5.2)	3.2	(119.4)	**(1,596.5)**
Net debt before derivatives and joint venture and associate loans	(1,332.8)	10.0	(10.9)	3.2	(113.8)	**(1,444.3)**
Net debt derivative	71.7	–	–	–	48.6	**120.3**
Joint venture and associate loans	32.6	0.2	–	–	–	**32.8**
Net debt	(1,228.5)	10.2	(10.9)	3.2	(65.2)	**(1,291.2)**

Notes to the consolidated financial statements continued

11. Retirement benefits and liabilities

Analysis of movement in the Group balance sheet

	Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m
Fair value of plan assets (including reimbursement rights)		
At 1 April	**3,824.8**	3,938.0
Interest on assets	**65.5**	66.5
Actuarial gain/(loss) on assets	**859.3**	(181.0)
Change in reimbursement rights	**(39.5)**	6.4
Employer contributions	**16.7**	24.5
Employee contributions	**0.7**	1.6
Benefits paid	**(90.0)**	(89.7)
At 30 Sept	**4,637.5**	3,766.3
Present value of benefit obligations		
At 1 April	**4,027.7**	4,106.6
Service cost	**17.9**	21.1
Incurred expenses	**1.9**	2.1
Interest cost	**66.8**	66.7
Employee contributions	**0.7**	1.6
Experience (gain)/losses	**(27.0)**	3.7
Actuarial gain – demographics	**–**	–
Actuarial loss /(gain) – financial	**900.4**	(233.1)
Benefits paid	**(90.0)**	(89.7)
At 30 Sept	**4,898.4**	3,879.0
Present value of unfunded obligations	**(0.2)**	(0.1)
Net deficit at 30 Sept	**(261.1)**	(112.8)

The amounts recognised in the Group income statement are as follows:

	Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m
Current service cost	**17.9**	21.1
Incurred expenses	**1.9**	2.1
Total included within operating profit	**19.8**	23.2
Net interest cost	**3.2**	2.6
Total included within income statement	**23.0**	25.8

As at 30 September 2016 the key assumptions used in valuing pension liabilities were:

Discount rate	2.4% (30 September 2015: 3.8%)
Inflation rate (RPI)	3.1% (30 September 2015: 3.0%)

Notes to the consolidated financial statements continued

12. Acquisitions

30 September 2016

In April 2016 the Group acquired 100% of Heli Aviation GmbH for £5.7 million plus acquired loans of £5.2 million giving a total cost of £10.9 million. Heli Aviation GMBH provides helicopter services in mission critical operations.

Deferred consideration of £7.6 million in respect of the Defence Support Group and £7.2 million in respect of Scandinavian AirAmbulance AB was paid during the period.

The goodwill arising on the acquisition derives from the market position of the entities involved and the value of the workforce acquired. Details of the provisional fair value of assets acquired and the provisional goodwill are as follows:

30 September 2016	Heli Aviation GmbH £m
Cost of acquisition	
Cash paid	**5.7**
Fair value of assets acquired (see below)	**4.0**
Goodwill	**1.7**

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

30 September 2016	Heli Aviation GmbH Fair value acquired £m
Acquired intangibles*	**5.0**
Property plant and equipment	**7.0**
Deferred tax	**(1.5)**
Income tax	**(0.1)**
Bank Loan	**(5.2)**
Inventory	**0.8**
Current assets	**2.5**
Current and non-current liabilities	**(3.3)**
Provisions	**(1.2)**
Net assets acquired	**4.0**

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

Cash outflow to acquire businesses net of cash acquired:

30 September 2016	Heli Aviation GmbH £m	Other £m	Total £m
Purchase consideration paid in cash	5.7	–	**5.7**
Deferred consideration paid in cash		14.8	**14.8**
Cash, cash equivalents and bank overdrafts	–	–	**–**
Cash outflow in period	5.7	14.8	**20.5**

The revenue and operating profit of acquired businesses since the date of acquisition and as if they had been acquired on 1 April 2016 are:

	Heli Aviation GmbH	
30 September 2016	Since date of acquisition £m	For six months ended 30 September 2016 £m
Group revenue	2.9	**3.0**
Group operating loss	0.2	**0.4**
Underlying operating loss	0.2	**0.4**

30 September 2015

There were no acquisitions in the previous period.

The deferred consideration of £1.3 million in respect of S. MacNeillie and Son Limited was paid during the previous period as well as an additional £0.5 million in respect of Skills2Learn Limited.

Notes to the consolidated financial statements continued

13. Disposals

There have been no disposals during the period.

During both the current and the previous period the Group paid certain accrued costs on previously disposed of businesses.

In the previous period on 17 April 2015 the Group sold its investment in Lewisham Schools for the Future joint venture for £14.3 million at a profit on disposal of £7.5 million.

In the previous period on 5 July 2015 the Group disposed of its investment in Norsk Helikopterservice AS("Norsk") for NOK100.

Details of the final assets disposed of are:

	30 September 2016		30 September 2015			
	Previously disposed of business £m	**Total £m**	Lewisham £m	Norsk £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/deferred consideration	**–**	**–**	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	**(0.2)**	**(0.2)**	–	(1.1)	(0.7)	**(1.8)**
Net cash inflow/(outflow)	**(0.2)**	**(0.2)**	14.3	(2.1)	(0.7)	**11.5**

14. Related party transactions

Related party transactions in the half year to 30 September 2016 are: sales to joint ventures and associates of £85.7 million (2015: £91.4 million) and purchases from joint ventures and associates of £0.9 million (2015: £0.5 million).

15. 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 2016 were approved by the Board on 24 May 2016 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 2016 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 risk-transfer and potential pricing risks for our businesses and our contracts typically contain strict key performance indicators, failure to meet them 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, wherever we do business**,** 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; **pension risks**: we have a number significant defined benefit pension schemes that carry cost and funding risks and the risk of accounting volatility; **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; **currency exchange rates**: as we expand outside the UK we are increasingly exposed to the impact of foreign currency exchange rates; **acquisitions:** we have grown and expect to continue to grow through acquisitions as well as organically but 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 64 to 74 of the 2016 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 announcement are forward-looking statements. Such statements may relate to Babcock's business, strategy and plans. Statements that are not historical facts, including statements about Babcock's or its management's beliefs and expectations, are forward-looking statements. Words such as 'believe', 'anticipate', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', and variations of these words and similar future or conditional expressions are intended to identify forward-looking statements but are not the exclusive means of doing so. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions, some known and some unknown, many of which are beyond Babcock's control, that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Nor are they indicative of future performance and Babcock's actual results of operations and financial condition and the development of the industry and markets in which Babcock operates may differ materially from those made in or suggested by the forward-looking statements. You should not place undue reliance on forward-looking statements because such statements relate to events and depend on circumstances that may or may not occur in the future. Except as required by law, Babcock is under no obligation to update (and will not) or keep current the forward-looking statements contained herein or to correct any inaccuracies which may become apparent in such forward-looking statements.

Forward-looking statements reflect Babcock's judgement at the time of preparation of this announcement and are not intended to give any assurance as to future results.

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 2016 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:

Archie Bethel
Chief Executive

Franco Martinelli
Group Finance Director

21 November 2016