



Babcock International Group PLC

half year results for the period ended 30 September 2020

25 November 2020

Resilient revenue but operating profit reflects disposals, the impact of civil nuclear insourcing, COVID-19 and weakness in civil aviation

Financial results

	30 September 2020	30 September 2019
Order book	£17.2bn	£16.9bn
Revenue	£2,109.6m	£2,194.8m
Underlying revenue ¹	£2,243.7m	£2,457.8m
Operating profit	£76.2m	£168.7m
Underlying operating profit ²	£143.1m	£250.6m
Basic earnings per share	10.5p	25.6p
Underlying basic earnings per share ³	15.7p	32.5p
Cash generated from operations	£149.3m	£150.5m
Underlying free cash flow (post pension payments) ⁴	£58.4m	£6.8m
Net debt incl. lease obligations	£1,519m	£1,754.2m
Net debt excl. lease obligations ⁵	£871.3m	£1,138.0m
Net debt/EBITDA ⁶	2.0x	1.9x

See notes on page 2.

David Lockwood, Chief Executive Officer, said:

"I have been enormously impressed by the way in which our people have adapted to the COVID-19 pandemic and continued to prioritise meeting the needs of our customers. Nevertheless, while demand for our critical services has remained resilient overall, the additional costs incurred and inefficiencies created have impacted our profitability. Our operating profit performance in the first half reflects this COVID-19 impact as well as disposals, the impact of government insourcing of Magnox and Dounreay, and weak trading in civil aviation."

"In my first three months at Babcock I have spent time seeing many parts of the business. Our strengths are clear. We have many high-quality businesses, with a deep understanding of our customers, operating in markets where demand for our expertise is strong. At the same time, there are areas that need to be addressed if we are to achieve our full potential. The most important aspect will be delivering sustainable free cash flow."

"In the coming months, we will be reviewing our strategic priorities, execution and delivery. I look forward to reporting back on this in May. In the meantime, we remain focused on delivering for our customers, employees and shareholders and continue to look to the future with confidence."

Financial highlights

- **Underlying revenue** down 9% (down 7% excl. disposals and FX). Excluding Magnox, rest of businesses down 2%
- **Underlying operating profit** down 43% (down 39% excl. disposals and FX)
- Nuclear JVs profit declined £12 million year-on-year with the rest of the businesses down 34%, mainly reflecting COVID-19 and weak trading in our civil aviation businesses
- **Statutory operating profit** of £76 million was down 55% on last year
- **Exceptional items (net of tax)** of £2 million with a gain on disposals offset by new charges. Small associated net cash costs
- **Free cash flow** of £58 million with working capital better than expected, including a £40 million VAT timing benefit across Europe
- **Net debt (excl. leases)** reduced to £871 million, partly from self-help of Holdfast disposal
- **Net debt / EBITDA** of 2.0 times, well within covenant levels; BBB credit rating confirmed
- **Significant liquidity** with £1.4 billion headroom at September 2020
- **No interim dividend** declared given continued uncertainty around the impact of COVID-19

Operational highlights

- **COVID-19** saw a huge response across our businesses. Demand held up in the majority of areas but there was a disproportionate impact on profitability with additional costs and reduced efficiency limiting our margin in many areas
- **Contract wins:** Dreadnought programme, extensions to Met Police vehicle contract and c.£500 million of new civil aviation contracts
- **Type 31** UK frigate programme on track
- **Dounreay** contract to be taken in-house by the NDA in March 2021
- **Restructuring programmes** progressing for civil aviation and civil nuclear businesses
- Progress on **fleet rationalisation programme** with more to follow
- **Completed sales** of Holdfast business (joint venture) in June for £85 million and Conbras in October for £7 million

Outlook

- Our performance is typically second half weighted. This weighting is expected to be more pronounced this year as we gradually improve our efficiency month by month under COVID-19
- Uncertainty remains around the impact of the pandemic in our markets including government and customer responses. Given this, we continue to not provide financial guidance for this financial year

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Results presentation:

A virtual meeting for investors and analysts will be held on 25 November 2020 at 9.00 am.

The presentation will be webcast live at www.babcockinternational.com/investors and subsequently will be available on demand at www.babcockinternational.com/investors/results-and-presentations. A transcript of the presentation and Q&A will also be made available on our website.

Notes:

The adjustments described below are made to derive the underlying results of the Group. The underlying figures provide a consistent measure of business performance year-to-year, thereby enabling comparison and understanding of Group financial performance. Results are discussed throughout this document with a focus on the underlying results. Details of the adjustments between statutory and underlying and a reconciliation between the two is provided on page 10.

1. Underlying revenue includes the Group's share of joint ventures' and associates' revenues.
2. 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 operating profit excludes exceptional charges of £9 million (pre-tax).
3. 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.
4. Includes pension payments in excess of income statement of £42 million.
5. Excludes lease obligations. This measure now excludes £38 million of lease obligations which were previously treated as finance leases.
6. Group net debt (excluding non-recourse JV debt and all lease obligations) divided by underlying Group EBITDA (pre-leases) and JV dividends received. This is comparable to our covenant measure of net debt / EBITDA which includes finance leases but also makes some adjustments to EBITDA. A summary calculation is on page 15.

Trading overview

The COVID-19 pandemic dominated the first half of the year, both operationally and financially. Our main focus has been on the health, safety and wellbeing of our employees, including limiting the number on site at any time, changing shift patterns, restricting working in proximity and supplying personal protective equipment (PPE). The response of our staff has been immense, with additional work carried out in many areas and innovative ways of working created in many parts of the business. For example, in Italy we pioneered the use of biocontainment isolation stretchers and in the UK we responded to the Government's Ventilator Challenge and developed and produced the Zephyr Plus ventilator for the NHS.

Our revenue performance demonstrates how the demand for most of our products and services has remained high throughout the pandemic. In our defence businesses, work has continued on key programmes and in many areas where activity has been impacted, the customer has maintained capability. Some parts of our business, however, have seen a significant reduction in activity including much of the civil work in our Land sector.

Our operating profit performance reflects the significant impact that COVID-19 has had across our businesses, both in additional costs and inefficiencies, particularly due to restricted access to customer sites and limits on close proximity working. These restrictions led to slower progress and impacted our ability to earn margin on some long term contracts. This situation has slowly improved over the year but continued progress is dependent on the extent of the pandemic across the countries we operate in. The impact of COVID-19 was particularly significant for the Group as we are a people business where much of our work is on sites where the customer controls access and many of our people normally work in close proximity, for example on ships and submarines. In addition, trading reflects the impact of disposals, the impact of insourcing of civil nuclear joint ventures and weak trading in our civil aviation businesses, as discussed in detail on page 9.

Our cash performance was better than expected in the period and, combined with self-help actions, enabled us to reduce net debt compared to March 2020. Net debt at 30 September 2020 was £267 million lower than at 30 September 2019.

Underlying results

	30 September 2020	30 September 2019
Group underlying revenue	£2,109.6m	£2,194.8m
JV underlying revenue	£134.1m	£263.0m
Total underlying revenue	£2,243.7m	£2,457.8m
Group underlying operating profit	£111.9m	£209.6m
JV underlying operating profit	£31.2m	£41.0m
Total underlying operating profit	£143.1m	£250.6m
<i>Group underlying margin</i>	<i>5.3%</i>	<i>9.5%</i>
<i>JV underlying margin</i>	<i>23.3%</i>	<i>15.6%</i>
<i>Total underlying margin</i>	<i>6.4%</i>	<i>10.2%</i>
Net finance cost – Group	£(35.1)m	£(36.3)m
Net finance cost – JV	£(11.2)m	£(11.7)m
IAS 19 pension credit/(charge)	£2.1m	£(0.1)m
Total net interest	£(44.2)m	£(48.1)m
Underlying profit before tax	£98.9m	£202.5m
Tax	£(19.8)m	£(36.4)m
Underlying profit after tax	£79.1m	£166.1m
Non-controlling interests	-	£(1.7)m
Underlying basic EPS	15.7p	32.5p

Underlying revenue of £2,244 million was down 8.7% compared to last year and down 6.6% on an organic basis at constant currency (see page 11 for an organic growth summary). Last year included £120 million of revenue from the Magnox contract that ended in August 2019 and excluding this, underlying revenue was down 1.7% on an organic basis at constant currency. This represents strong growth in our Marine sector, led by the Type 31 programme ramping up, offset by a significant impact of COVID-19 on revenues in our Land sector with South Africa, civil training and airports particularly hit. Revenues in our Aviation sector were mixed with lower flying hours across oil and gas and aerial medical emergency services, especially early on in the period, partly offset by a strong firefighting season. The Nuclear sector saw strong growth in the defence business and lower revenue in civil.

Underlying operating profit of £143 million was down 43% compared to last year and down 39% on an organic basis at constant currency. Included within this was a £5 million loss in our Dounreay contract as we adjusted our assumptions around contract milestone profit achievability in a shortened timeframe. Excluding Nuclear JVs, the remainder of the businesses' underlying operating profit was down 34%. This reflects lower profits in every sector, primarily as a result of COVID-19. Trading in civil aviation was weak and was exacerbated by COVID-19. We have extended our restructuring and fleet rationalisation plans to help address this.

The underlying operating profit **contribution from joint ventures** declined from £41 million to £31 million, reflecting the absence of Magnox and the loss in Dounreay. Performance across other joint ventures was strong and dividends from our joint ventures in the period were £15 million, a lower amount than last year which included Magnox exit dividends.

The Group **total underlying margin** fell from 10.2% to 6.4% with the majority of the decline due to the adverse impact of COVID-19 on our operations, most notably in Aviation.

Exceptional items

In the 2019 and 2020 financial years we took exceptional charges in relation to the business challenges across the Group, most notably in our civil aviation business. As part of our journey of rightsizing the civil aviation business we have incurred additional exceptional costs this half year, both in restructuring and fleet rationalisation. We have also incurred costs related to pensions and business exits, offset by a gain on disposal.

	Income statement charge / (credit)
Exits and disposals	£(16.9)m
Restructuring	£11.0m
Fleet rationalisation	£7.4m
Pension costs	£7.5m
Total	£9.0m
Tax	(£6.7m)
Net	£2.3m

Exits and disposals

In the first half we disposed of Holdfast and incurred some additional costs relating to businesses exited in the last financial year. We also recognised a provision for the loss on sale of Conbras, which was sold in October 2020. Exit and disposal costs of £8.7 million were more than offset by the gain on business disposals.

Restructuring

We started the restructuring of our civil aviation business at the end of the last financial year and made progress in the period, particularly in rightsizing the sector's central costs. Progress in delivering savings in Europe was slowed due to COVID-19 restrictions and we now plan to move the sector restructuring forward further, recognising a charge of £9 million for this. Additional restructuring costs were incurred in Marine and Land, mainly resulting from COVID-19.

Fleet rationalisation

Our fleet rationalisation programme seeks to reduce both the overall size of our fleet, which is currently 492 owned and leased aircraft, and the number of variants, currently 31 types of aircraft. This will be done through a combination of aircraft sales and ending leases. This will generate cash, improve utilisation levels and deliver maintenance and inventory cost savings. There will, however, be some associated one-off costs for each aircraft removed, either through non-cash write downs or early lease termination charges.

We expect to approve a formal extended fleet-wide plan in the second half and we started to make some early progress in the first half with fleet transactions approved on a case-by-case basis to reduce the fleet by seven aircraft and reduce the number of types by two. This created an income statement charge of £7.4 million and generated £3 million of exceptional cash inflows in the first half, with a further £3 million to follow in the second half. In addition, £4 million of leases were removed in the first half.

Pension costs

The charge of £7.5 million is a curtailment accounting loss on the closure of the Rosyth pension scheme to future accrual, which significantly reduces the pension risk in the Group.

Exceptional cash costs (excluding proceeds from disposals)

In the period there was £31 million of exceptional cash costs which included a net £3 million cash cost from the above FY21 actions plus £28 million in relation to the exceptional items recognised in the two previous financial years' income statements. Note that this excludes the proceeds from the sale of Holdfast of £85 million.

Looking ahead, we currently expect exceptional cash costs for this financial year to be around £60 million, including around £7 million from the actions above plus around £54 million from charges in previous financial years. This is less than previously expected as the Rosyth top up payments have been phased into the next two financial years and the Italian anti-trust fine is expected to be phased over the next few financial years, subject to the outcome of our appeal.

We currently expect exceptional cash costs of around £60 million in the 2022 financial year, including tax credits and the first additional payments into the Rosyth scheme. In the 2023 financial year we currently expect exceptional cash costs of around £50 million.

Cash performance

Cash performance in the half was ahead of our expectations and self-help actions resulted in lower net debt compared to March 2020 and a £267 million reduction year on year. A full table of cash movements is shown on page 13.

Underlying operating cash flow of £226 million was £24 million higher than last year despite a profit shortfall with an improved working capital performance offsetting the lower operating profit. The working capital outflow of £15 million included a £40 million VAT timing benefit in Europe across the Group and reflects a better than expected performance with some progress on receivables.

Capital expenditure was lower year on year with tight control of expenditure in the COVID-19 environment offsetting the impact of not doing any sale and leaseback transactions as the market remains unattractive.

Underlying free cash flow was £58 million after pension payments in excess of the income statement of £42 million and including dividends from joint ventures of £15 million. Underlying free cash flow was higher than the £7 million in the first half of last year given the performance on working capital and capex control and despite the reduction in Group profits.

Net debt at 30 September 2020 including lease obligations was £1,519 million and includes a negative impact of £34 million from foreign exchange translation. **Net debt excluding lease obligations** at 30 September 2020 was £871 million, a £51 million reduction on the position at March 2020 with self-help actions including capex control, VAT timing benefits, the Holdfast disposal and not paying a final dividend for the last financial year.

Business development

At 30 September 2020, the Group's order book was £17.2 billion, with an intake of £1.9 billion in the period. The Group's pipeline was around £17 billion, the same level as at March 2020. The largest contracts won in the period were for the Dreadnought programme in the UK, the Nuclear Technical Support Provider contract at HMNB Clyde, an extension of our Met Police fleet management contract and around £500 million of contracts in civil aviation. The largest opportunity added to our pipeline was the Fleet Solid Support ships for the UK's Royal Fleet Auxiliary and the biggest opportunity removed was Project Miter for UK Army construction vehicles, which was lost in the period.

UK defence spending

We welcome the UK Government's announcement of a significant multi-year uplift in British defence spending, with a £16.5 billion increase over four years. This is encouraging news ahead of the Integrated Review expected in early 2021.

Ongoing rationalisation

The Group has ongoing programmes to address market weakness, business performance and drive value for shareholders in the medium term through improved performance and greater cash generation. In civil aviation we are restructuring the business to remove overheads and simplify how we operate and we have continued fleet rationalisation to reduce costs and realise cash for the Group. In civil nuclear we are restructuring to reduce overheads and across the Group we have taken various self-help actions to generate and preserve cash.

Acquisitions and disposals

In June 2020, we completed the sale of our 74% shareholding in Holdfast to HICL Infrastructure for £85 million. Holdfast was a joint venture in the Group created in 2008 to undertake a 30-year contract for the Ministry of Defence to provide training infrastructure and services for the Royal School of Military Engineering (RSME). Babcock continues to provide services for RSME on its subcontract.

In October 2020 we sold the Conbras business in Brazil for a net consideration of £7 million. Conbras was a standalone support services business within our Land sector and contributed £49 million of revenue and around £3 million of operating profit in the last financial year.

In November 2020, we increased our stake in the AirTanker Ltd joint venture to 15% (from 13%) for £9 million, using our pre-emption rights when a previous shareholder sold their interest. The price paid values our stake at around £80 million. Following acquisition, we have received dividends from AirTanker equivalent to the purchase price of the additional 2% stake.

Capital allocation and liquidity

Our net debt to EBITDA ratio (on a covenant basis) at 30 September 2020 was 2.0 times. While this is above the Group's target range of 1.0 to 1.5 times, it is well within our covenant levels of 3.5 times and gives the Group significant headroom on its facilities.

This measure does not include the pension funding deficit of around £450 million. This measure also does not include our proportion of net debt held in joint ventures of £266 million as this is non-recourse to the Group.

In the period our BBB credit rating was confirmed by both S&P Global and DBRS following their annual credit reviews.

The Group has access to around a total of £2.4 billion of borrowings and facilities of mostly long-term maturities. This includes our revolving credit facility (RCF) of up to £775 million which expires in August 2025, including a one-year extension agreed in the period. This was fully drawn down at 31 March 2020 at the height of the COVID-19 pandemic. We have since paid this down and at 30 September 2020 the Group had £702 million of cash on its balance sheet, part of which will be used to pay the £307 million USSP expiring in March 2021.

At 30 September 2020, the Group had liquidity headroom of £1.4 billion, consisting of cash and the undrawn RCF.

We have decided not to declare an interim dividend given the continued uncertainty around the outturn for this financial year. We recognise the importance of dividends to our shareholders and we will review the final dividend for this financial year at the year end.

Brexit transition

Under all reasonably foreseeable scenarios, we believe we are well prepared for the UK's transition to a new relationship with the European Union. We have modest levels of imports and exports and have plans in place to ensure the continued supply of key materials, including maintaining sufficient inventory levels to cope with any potential short term shocks. There may be secondary impacts from a new UK/EU arrangement in the markets we operate in but these are impossible to quantify at present.

Strategy update

In our Capital Markets Day in June 2019, the Group outlined its strategy and medium term targets. As we said in June 2020, those medium term targets will not be achieved in the current financial year. We are in the early stages of reviewing our strategy and will provide an update on this in May 2021.

Management team

David Lockwood joined the Board as Chief Executive Officer (CEO) on 14 September 2020, following the retirement of Archie Bethel, and David Mellors will take over as Chief Financial Officer (CFO) on 30 November 2020, with Franco Martinelli retiring at that point.

To support the changes we are making to strengthen the Group, two new roles have been created on the Group's Executive Committee:

- Jon Hall as Chief Innovation and Technology Officer will drive innovation, technology application and development and knowledge-sharing across the Group.
- John Howie as Chief Corporate Affairs Officer will further develop our relationships with key government customers in the UK and internationally. John will be responsible for corporate communications, group strategy, sustainability and international development. John was previously Chief Executive – Marine and Derek Jones has taken over this role.

Board changes

Sir Andrew Parker was appointed as a non-executive director in November 2020 and Sir David Omand, a non-executive director and former Senior Independent Director, will retire from the Board at the end of this financial year.

Marine

		30 September 2020	30 September 2019
Underlying revenue	Group	£606.9m	£546.0m
	JV	£27.7m	£18.4m
	Total	£634.6m	£564.4m
Underlying operating profit	Group	£47.4m	£70.5m
	JV	£2.4m	£2.0m
	Total	£49.8m	£72.5m
Underlying operating margin	Group	7.8%	12.9%
	JV	8.7%	10.9%
	Total	7.8%	12.8%

JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue

Financial review

Underlying revenue grew by 12%, led by the ramp up of work on the Type 31 programme, continued strength in our LGE business and ventilators in the UK. This more than offset the impact of COVID-19 on activity in some areas and the £30 million year-on-year impact from the end of the QEC programme last year.

Underlying operating profit of £49.8 million was down 31% with margin falling to 7.8%. The reduction in profit mainly reflects the impact of COVID-19, with lower efficiency on some UK defence programmes, lower activity in high margin consultancy work and the shutdown of our Oman training site for most of the period with limited opportunities to mitigate costs. The lower margin this period also reflects the business mix of the sector, with most revenue growth coming from Type 31 work which has a lower initial margin.

Operational review

UK defence

Revenue across our businesses in UK Defence was higher as growth in the Type 31 programme offset lower warship support, training activity and the lack of QEC revenues.

Warship support activity was lower with work on the Type 23 frigate programme paused at the start of the COVID-19 pandemic. Activity levels across warship support have now returned to more normal levels and HMS Bulwark successfully docked in Devonport in September to start a maintenance period.

Training support to the Royal Navy under our FOAP contract continued throughout the period but with lower activity levels in the early stages given COVID-19 restrictions. We are one of two parties down-selected for Project Selborne, which will consolidate the majority of Royal Navy training contracts into a single contract for the next 10-12 years. A decision is expected before the end of this calendar year.

In the period we secured two contracts with BAE Systems worth around £100 million over a nine year period to support the continuation of the manufacture of key components for the Dreadnought class submarine programme. As a result of this work, we will be building an additional production facility in Bristol with manufacturing expected to start in mid-2021.

The Fleet Solid Support ships (FSS) opportunity for the UK's Royal Fleet Auxiliary has now re-entered our bidding pipeline.

International defence

Revenue was higher in our Australian and New Zealand businesses with increased maintenance activity in our NSM joint venture, a full six month contribution from our LHD contract in Australia and increased work packages in New Zealand. In Canada, activity across our Victoria Class in Service Support Contract (VISSC) was in line with last year with work starting on HMCS Chicoutimi as work on HMCS Corner Brook nears completion. We have been pre-qualified for the VISSC II re-bid competition that starts in 2022.

In South Korea, we are providing our weapons handling and launch systems for the fourth boat in the Jangbogo-III Submarine programme and we continue to develop our presence and in-country capability. Meanwhile our base in Oman was closed for the whole period given local COVID-19 restrictions.

Looking ahead we see opportunities for export orders for our Arrowhead 140 frigate design used for the Type 31 programme and we are working with a cross UK Government General Purpose Frigate Export Working Group to explore opportunities around the world.

Energy and Marine

Revenue growth was strong across our Energy and Marine businesses with continued high demand for complex liquid gas transportation systems.

We continue to win contracts across our LGE business, for both LPG and ecoSMRT® systems, with orders of over £100 million so far this year as the business continues to win market share. We sold six of our patented ecoSMRT® systems in the period, bringing the total sold to date to 45. In the period we sold ten reliquefaction systems for liquefied petroleum gas (LPG) ships. We have started to sell into the ethane ships market, increasing our exposure to the Chinese market for gas powered ships.

Revenue in the period also included work on our Zephyr Plus ventilators for the UK.

Nuclear

		30 September 2020	30 September 2019
Underlying revenue	Group	£458.8m	£419.8m
	JV	£31.9m	£168.2m
	Total	£490.7m	£588.0m
Underlying operating profit	Group	£36.7m	£50.2m
	JV	£(5.0)m	£7.4m
	Total	£31.7m	£57.6m
Underlying operating margin	Group	8.0%	12.0%
	JV	(15.7)%	4.4%
	Total	6.5%	9.8%

JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue

Financial review

Underlying revenue in our Nuclear sector was 17% lower than last year with the reduction relating to the lack of Magnox revenues, which contributed £120 million of revenue in the first half last year. Excluding Magnox, underlying revenue grew by 4% in the period with strong growth in defence and a small decline in civil.

Underlying operating profit of £31.7 million includes a £12.4 million year-on-year decline in joint venture contribution following the end of the Magnox contract and a £5 million loss from Dounreay given the early termination as we adjusted our assumptions around contract milestone profit achievability in a shortened timeframe. Excluding joint ventures, underlying operating profit was down 23% with an 8.0% margin. This reflects COVID-19 inefficiencies and additional costs as well as a lower margin in the extension year of the MSDF contract in defence.

Operational review

Defence

The defence business saw strong growth led by increased work on submarine infrastructure programmes, including planning for the first deep maintenance of the Astute Class at Devonport in the next few years. Revenue across our submarine support business at both HMNB Clyde and HMNB Devonport remained high throughout the period despite the challenges of COVID-19 given the criticality of the work we do. In Devonport, we continue to work on the Revalidation Assisted Maintenance Period (RAMP) programme for the Trafalgar Class and work has continued on the first life extension of the Vanguard Class.

Negotiations for the Future Maritime Support Programme (FMSP), which covers the majority of the work we do in our nuclear defence business, are ongoing and the new contract is expected to start in April 2021.

During the period we won the Nuclear Technical Services Provider (NTSP) contract worth around £100 million over seven years for support work at HMNB Clyde. This will be served through a joint venture with Atkins.

Civil

Revenue in our non-JV businesses was lower due to the impacts of COVID-19, especially through reduced access to customer sites. Furthermore, customer funding continues to be a challenge both for EDF and the Nuclear Decommissioning Authority (NDA), who cut site funding at Dounreay for this year.

In July 2020, the NDA announced that the Dounreay decommissioning contract will be taken in-house with a target date of March 2021. Given this, we have adjusted our assumptions around the contract milestone profit achievability and this resulted in a £5 million operating loss in the period.

The civil nuclear market remains challenging in the short term and we made good progress on our restructuring programme across the sector in the first half as we look to reduce overheads and simplify our structure to adapt to these challenges. There are, however, significant opportunities in the medium term across the UK and potential opportunities in Canada and Japan, two markets where we already have a small presence.

Land

		30 September 2020	30 September 2019
Underlying revenue	Group	£602.0m	£781.2m
	JV	£9.1m	£9.2m
	Total	£611.1m	£790.4m
Underlying operating profit	Group	£24.0m	£50.5m
	JV	£8.9m	£7.3m
	Total	£32.9m	£57.8m
Underlying operating margin	Group	4.0%	6.5%
	JV	97.8%	79.3%
	Total	5.4%	7.3%

JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue. The effect of this is that no JV revenue was recognised in relation to our Holdfast (RSME) JV

Financial review

Underlying revenue was down 23% on last year and includes a £37 million negative impact from foreign exchange movements. Excluding FX and disposals, underlying revenue was down 18% with COVID-19 impacting activity levels in our UK civil and South Africa businesses.

Underlying operating profit was down 43% to £32.9 million with the decline directly linked to the weaker revenue, with a disproportionate impact on profit reflecting the operational gearing of these businesses. Inefficiencies and additional costs from COVID-19 also impacted margin in our defence business. The contribution from joint ventures was slightly higher year-on-year, helped by a higher margin in the final period of Holdfast before its disposal in June.

Operational review

Defence

Trading across most of our defence businesses held up well throughout the pandemic given the criticality of the work we do. Activity was slowed in some areas such as training due to COVID-19 and our work supporting the UK Army in Germany continues to reduce in scope.

Activity levels remained high across our Defence Support Group (DSG) business though reduced efficiency reduced the pace of progress. We have now completed the implementation of SAP across the business and should now start to see the benefits. We continue to look at opportunities supporting the UK Army's fleet and we are bidding for the Warrior Capability Sustainment Programme (WCSP) that is being led by Lockheed Martin. COVID-19 had an impact on activity levels across our defence training businesses in the early months of the pandemic but things are now returning to near normal levels. We continue to work closely with our customer as they develop their Collective Training Transformation Programme and we are negotiating the successor to our existing contract with the Defence College of Technical Training. Work continues on the RSME military training contract with Babcock as the subcontractor to the new owners of Holdfast. We are in the process of teaming up to bid on the Defence Training Estate Programme, a contract that would be worth over £400 million to Babcock.

In June 2020, we sold our stake in the Holdfast joint venture for £85 million and our ALC joint venture ends in May 2021.

Emergency Services

Trading across our emergency services business held up well in the period given the critical nature of the work that we do for the London Fire Brigade and Metropolitan Police Service.

Our fleet support contract for the Met Police performed well and we have been awarded a two year contract extension worth around £60 million. We are mobilising the £300 million contract for the Met Police Education and Qualification Framework (PEQF) with the programme now fully accredited and ready for launch in early 2021. Our fleet support and training contracts for the London Fire Brigade continue to perform well.

Other civil markets

The impact of COVID-19 was most severe across many of our other markets in the Land sector, both in terms of revenue and operating profit. In our civil training business, the start of the COVID-19 pandemic saw customer facilities closed and no face-to-face training. The majority of our civil training employees were placed on the UK Government's furlough scheme. As we progressed through the pandemic we created new ways of working, with more virtual learning. Most customer sites are now open but activity levels are still well below pre-COVID-19 levels.

Our airports businesses have seen a dramatic reduction in volumes given the global decline in passenger numbers and our Heathrow airport baggage contract came to an end in October 2020. Work across our rail and power businesses continued throughout the pandemic to ensure the critical power and infrastructure we help provide remained uninterrupted.

Our business in South Africa had a tough first half of the year, breaking even in the first quarter and returning to profit in the second quarter. COVID-19 had a direct impact on both power work levels, with delayed power station outages, and the equipment business but both are now starting to see a return to more normal levels.

In October 2020, we completed the sale of the Conbras business in Brazil for a net consideration of £7 million.

Aviation

		30 September 2020	30 September 2019
Underlying revenue	Group	£441.9m	£447.8 m
	JV	£65.4m	£67.2 m
	Total	£507.3m	£515.0 m
Underlying operating profit	Group	£7.4m	£41.7 m
	JV	£24.9m	£24.3 m
	Total	£32.3m	£66.0 m
Underlying operating margin	Group	1.7%	9.3%
	JV	38.1%	36.2%
	Total	6.4%	12.8%

JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue

Financial review

Underlying revenue was 1.5% lower than last year with lower flying hours in aerial emergency medical services and oil and gas, partly offset by higher activity in firefighting, especially in the later part of the season. Revenue across our defence programmes was broadly flat.

Underlying operating profit of £32.3 million mostly reflects earnings from our joint ventures, AirTanker and Ascent, which performed well in the period despite the operational challenges of COVID-19. Excluding JVs, underlying operating profit was down £34.3 million on last year. While there was some inefficiency in our defence business, the profit decline primarily reflects a weak profit performance across our civil aviation businesses.

As set out before, our civil aviation business has a cost structure too high for the revenue we generate under existing contracts while our oil and gas business operates in a challenging market, breaking even at pre-COVID activity levels.

The impact of these operational challenges was magnified in the first half by COVID-19, which reduced flying hours in the early stages of the pandemic and created additional costs across the business. These costs included PPE, the refitting of aircraft and the inefficiencies of flying in a COVID-secure way, for example flying at lower capacity. In many cases these additional costs were not recovered in our contract pricing. The impact of COVID-19 was exacerbated by the mix of activity and contract structures across our markets.

Operating profit performance was also impacted by a higher depreciation charge this period and comparison to some trading benefits in prior periods.

We are progressing our sector-wide restructuring programme to address our cost base but progress has been delayed by COVID-19 with restrictions on staff redundancies in some countries. We continue to work on our aircraft fleet rationalisation programme to generate cash, improve utilisation levels and deliver maintenance and inventory cost savings.

Operational review

Defence

Revenue across our defence businesses was broadly flat in the period as critical work continued. In the UK, support work continued across RAF sites and flying training, in both the training served by Babcock and by our Ascent joint venture. AirTanker saw a small impact on activity levels from COVID-19. We have been named as preferred bidder by BAE Systems on the Hawk 2020 programme to support the delivery of fast-jet training to the RAF. This will be a 13 year contract replacing our existing work.

In France, we continued to deliver on our Fomedec pilot training contract, with the first pilots graduating on the PC-21 aircraft in September, and we are progressing with our contract to deliver four Airbus H160 aircraft for the French Navy which we will then maintain.

Aerial Emergency Services

Revenue across our aerial emergency services businesses was broadly flat in the period with heavily reduced flying activity in the early months of the COVID-19 pandemic offset by increased activity in the second quarter of the year and higher flying hours across our firefighting operations.

Performance in aerial emergency medical services was the most severely hit by COVID-19, with some territories suspending flights in the early stages. Our firefighting operations across Europe and Canada saw higher activity levels compared to last year, particularly in Spain and Italy, following a slow start to the season. The response to COVID-19 led to a significant increase in operating costs in the business as we provided PPE to all staff and repurposed aircraft for COVID-secure patient transfer across aerial emergency medical services.

In the first half we secured rebids in Italian aerial emergency medical services worth around £250 million following long delays and with delayed start dates. Bidding activity across the business remains high with bids due to be decided in the second half of this year but delays continue.

Oil and Gas

Market conditions for our oil and gas business remain extremely tough and we made a small loss in the period. Revenue was lower than last year with significantly lower flying hours given COVID-19 and the impact of contracts lost in the last financial year offsetting growth from the start of a new contract in July. In July we won contracts worth around £200 million over five years operating in the UK and in Denmark.

Financial review

Adjustments between statutory and underlying

Our underlying results include some adjustments to our statutory results that we make to provide a consistent measure of business performance year to year. Underlying results are used by management to measure operating performance and as a basis for forecasting and the Group believes they are used by investors in analysing business performance. The adjustments made are:

- Underlying revenue, underlying operating profit and underlying net finance costs include the Group's share of equity-accounted joint ventures and associates. These are included as they are a key part of our business and the way work is conducted in the markets in which we operate, with joint venture structures common in the defence industry
- Underlying operating profit includes investment income arising under IFRIC 12 (Service Concession Arrangements) which is presented as financial income in the Income Statement. Like joint ventures, the income we receive under IFRIC 12 relates to key parts of our business and its contribution is dependent on the performance of the business. IFRIC 12 income is earned in our AirTanker, Ascent and ALC asset joint ventures
- Underlying operating profit excludes the amortisation of acquired intangibles. This item is excluded from underlying results as it is a non-cash item that does not change each year based on the performance of the business
- Underlying operating profit excludes exceptional items. Details of these items are included on page 4 of this statement

Statutory to underlying reconciliation

	Statutory £m	Joint ventures and associates Revenue and operating profit £m	Finance costs £m	Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Exceptional items £m	Underlying £m
30 September 2020								
Revenue	2,109.6	134.1						2,243.7
Operating profit	76.2	18.7			13.0	27.8	7.4	143.1
Share of profit from JV	11.6	(18.7)	11.2	3.9	(12.5)	2.9	1.6	–
Investment income	0.5				(0.5)			–
Net finance costs	(33.0)		(11.2)					(44.2)
Profit before tax	55.3	–	–	3.9	–	30.7	9.0	98.9
Tax	(2.5)			(3.9)		(6.7)	(6.7)	(19.8)
Profit after tax	52.8	–	–	–	–	24.0	2.3	79.1
Return on revenue	3.6%							6.4%
30 September 2019								
Revenue	2,194.8	263.0						2,457.8
Operating profit	168.7	27.9			13.7	40.3		250.6
Share of profit from JV	19.6	(27.9)	11.7	6.8	(13.1)	2.9		–
Investment income	0.6				(0.6)			–
Net finance costs	(36.4)		(11.7)					(48.1)
Profit before tax	152.5	–	–	6.8	–	43.2	–	202.5
Tax	(21.4)			(6.8)		(8.2)		(36.4)
Profit after tax	131.1	–	–	–	–	35.0	–	166.1
Return on revenue	7.7%							10.2%

Income statement

Statutory performance

Statutory revenue was £2,110 million (2019: £2,195 million), with strong growth in our Marine sector offsetting lower revenue in the Land sector given a significant impact of COVID-19 on activity levels.

Statutory operating profit of £76.2 million was 55% lower than last year following the impact of disposals, an adverse impact of COVID-19 on profitability in many operations and weak trading in our civil aviation businesses.

Statutory profit before tax of £55.3 million (2019: £152.5 million) also reflects a lower contribution from joint ventures given the end of the Magnox contract in 2019 and the loss on the Dounreay contract in the period as we adjusted our assumptions around the contract milestone profit achievability in a shortened timeframe.

Basic earnings per share, as defined by IAS 33, was 10.5 pence per share (2019: 25.6 pence).

Underlying organic growth

	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Underlying revenue						
Six months ended 30 September 2019	564.4	588.0	790.4	515.0	–	2,457.8
Exchange rate adjustment	(3.1)	–	(36.6)	0.8	–	(38.9)
Disposals	(13.6)	–	(0.5)	–	–	(14.1)
Organic growth	86.9	(97.3)	(142.2)	(8.5)	–	(161.1)
Six months ended 30 September 2020	634.6	490.7	611.1	507.3	–	2,243.7
Underlying revenue growth	12.4 %	–16.5 %	–22.7 %	–1.5 %	–	–8.7 %
Organic growth at constant exchange rates	15.4 %	–16.5 %	–18.0 %	–1.7 %	–	–6.6 %
Underlying operating profit						
Six months ended 30 September 2019	72.5	57.6	57.8	66.0	(3.3)	250.6
Exchange rate adjustment	(0.3)	–	(3.7)	–	–	(4.0)
Disposals	0.1	–	(5.6)	–	–	(5.5)
Organic growth	(22.5)	(25.9)	(15.6)	(33.7)	(0.3)	(98.0)
Six months ended 30 September 2020	49.8	31.7	32.9	32.3	(3.6)	143.1
Underlying operating profit growth	–31.3 %	–45.0 %	–43.1 %	–51.1 %	–9.1 %	–42.9 %
Organic growth at constant exchange rates	–31.0 %	–45.0 %	–27.0 %	–51.1 %	–9.1 %	–39.1 %

Underlying revenue performance

Underlying revenue for the half year at £2,244 million was 8.7% lower than last year (2019: £2,458 million) and reflected a 6.6% decline on an organic basis at constant currency. Last year included £120 million of revenue from the Magnox contract that ended in August 2019. Underlying revenue for the remaining businesses on an organic basis at constant currency was down 1.7% with strong growth in our Marine sector offset by a significant impact of COVID-19 on revenues in our Land sector.

Underlying operating profit performance

Underlying operating profit of £143.1 million was down 43% compared to last year and down 39% on an organic basis at constant currency. Included within this is a £12.4 million year-on-year difference in the contribution from Nuclear joint ventures with Magnox ending last year and Dounreay making a loss in the period.

Underlying operating profit across the rest of the businesses, on an organic basis at constant currency, was 34% lower with an adverse impact of COVID-19 on profitability in many operations and weak trading in our civil aviation businesses.

The impact of COVID-19 was partly mitigated by the Group's use of the UK's Furlough Scheme, which contributed £9 million in the period.

Exceptional items

During the period we incurred exceptional costs which were offset by a gain on business disposals. Further details are on page 4.

Finance costs

Total net finance costs before pension interest decreased to £46.3 million (2019: £48.0 million) with lower debt levels offset by higher interest rates following the Group's refinancing in September 2019. The Group's share of joint venture net interest expense was £11.2 million (2019: £11.7 million) and Group pension interest was a credit of £2.1 million (2019: £0.1 million charge).

Tax charge

The underlying tax charge, including the Group's share of joint venture tax of £3.9 million (2019: £6.8 million), totalled £19.8 million (2019: £36.4 million), representing an effective underlying tax rate of 20.0% (2019: 18.0%). The effective tax rate is calculated by using the Group's underlying profit before tax and therefore excludes the tax effect of amortisation of acquired intangibles, together with the tax credit in respect of exceptional items.

The underlying tax rate for this financial year will be dependent on country mix post COVID-19 but is not expected to exceed 20%.

Pensions

The Group's net pension deficit on an IAS19 basis was £104 million (March 2020: £145 million surplus), reflecting the reduction in corporate bond yields to 1.6% compared to 2.4% at March 2020. In addition, RPI inflation assumptions increased to 2.8% compared to 2.6% at March 2020.

Amortisation of acquired intangibles

Amortisation of acquired intangibles, which represents the amortisation of the value attributed on business acquisitions to customer relationships (both contractual and non-contractual), was £30.7 million in the period and lower than last year (2019: £43.2 million) as certain prior acquisition amortisation ended.

Exchange rates

The impact of foreign currency movements resulted in a decrease in underlying revenue of £38.9 million and a £4.0 million decrease in underlying operating profit. The main currencies that have impacted our results are the South African Rand and the Euro. The currencies with the greatest potential to impact our results are the Euro, the South African Rand and the Canadian Dollar:

- A 10% movement in the Euro against Sterling would affect underlying revenue by around £44 million and underlying operating profit by around £2 million per annum (pro-rata based on these half year results)
- A 10% movement in the South African Rand against Sterling would affect underlying revenue by around £20 million and underlying operating profit by around £2 million per annum (pro-rata based on these half year results)
- A 10% movement in the Canadian Dollar against Sterling would affect underlying revenue by around £14 million and underlying operating profit by around £2 million per annum (pro-rata based on these half year results)

Earnings per share

Underlying basic earnings per share for the year was 15.7 pence (2019: 32.5 pence) reflecting the lower underlying operating profit. Basic continuing earnings per share, as defined by IAS 33, was 10.5 pence (2019: 25.6 pence) reflecting statutory earnings.

Cash flow and net debt

The table below compares our underlying and statutory cash flows. Our underlying cash flows are used by management to measure operating performance as they provide a more consistent measure of business performance year to year.

	2020			2019	2019
	Underlying £m	Underlying adjustments* £m	Statutory £m	Underlying £m	Statutory £m
Operating profit before amortisation of acquired intangibles	111.4	(35.2)	76.2	209.0	209.0
Amortisation, depreciation and impairments	55.5	31.8	87.3	51.4	51.4
Depreciation of right of use asset – IFRS 16	69.0	–	69.0	59.4	59.4
Profit on disposal of subsidiaries and JVs	–	(25.6)	(25.6)	–	–
Other non-cash items	2.9	5.6	8.5	2.8	2.8
Working capital (excluding excess retirement benefits)	(14.7)	(2.4)	(17.1)	(106.9)	(107.0)
Provisions	1.5	(15.8)	(14.3)	(14.1)	(24.4)
Operating cash flow	225.6	(41.6)	184.0	201.6	191.2
Capital expenditure (net)	(47.6)	6.2	(41.4)	(71.1)	(71.1)
IFRS 16 additions less exceptional payments**	(34.4)	(3.0)	(37.4)	(52.7)	(60.0)
Operating cash flow after capital expenditure	143.6	(38.4)	105.2	77.8	60.1
Cash conversion % – after capital expenditure	129%	–	138%	37%	29%
Interest paid (net)	(16.5)	–	(16.5)	(15.5)	(15.5)
Interest paid – IFRS 16	(11.5)	–	(11.5)	(12.4)	(12.4)
Taxation	(30.0)	–	(30.0)	(43.0)	(52.8)
Dividends from joint ventures	15.0	–	15.0	37.3	37.3
Free cash flow before pension contribution in excess of income statement	100.6	(38.4)	62.2	44.2	16.7
Retirement benefit contributions in excess of income statement	(42.2)	7.5	(34.7)	(37.4)	(40.7)
Free cash flow	58.4	(30.9)	27.5	6.8	(24.0)
Disposals net of cash/debt acquired	84.6	–	84.6	(0.3)	(0.3)
Investments in joint ventures	–	–	–	(0.2)	(0.2)
Movement in own shares	(2.2)	–	(2.2)	(2.9)	(2.9)
Dividends paid	(0.3)	–	(0.3)	(116.3)	(116.3)
Other	–	–	–	0.2	0.2
Exceptional cash movement	(30.9)	30.9	–	(30.8)	–
Movement in net debt excluding exchange rates	109.6	–	109.6	(143.5)	(143.5)

Net debt reconciliation

Opening net debt	(1,594.9)	(957.7)
IFRS 16 transition	–	(617.5)
Movement in net debt excluding exchanges rates	109.6	(143.5)
Exchange difference	(33.7)	(35.5)
Closing net debt	(1,519.0)	(1,754.2)

*Adjustments for exceptional cash flows (including lease payments) and acquired intangible amortisation

**Additional leases entered into during the year less exceptional payments which we include in underlying cash flow for the purposes of explaining net debt movement

Our underlying free cash flow excludes exceptional lease cash payments. Cash flows relating to onerous leases before the adoption of IFRS 16 continue to be considered exceptional cash flows.

The IFRS 16 additions line has been adjusted by the amount of exceptional lease payments; being defined as the net increase to lease obligations (additions) after underlying lease principal payments and foreign exchange impact are removed.

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

	2020			2019	2019
	Underlying £m	Exceptional items £m	Statutory £m	Underlying £m	Statutory £m
Cash generated from operations	183.4	(34.1)	149.3	164.2	150.5
Retirement benefit contributions in excess of income statement	42.2	(7.5)	34.7	37.4	40.7
Operating cash flow	225.6	(41.6)	184.0	201.6	191.2

IFRS 16 impact

The adoption of IFRS 16 impacts various cash flows and as such there are differences in cash flow figures from the previous accounting treatment (IAS 17) and the new (IFRS 16). There was an additional £11.2 million of operating profit, a £69.0 million depreciation charge of the right of use assets, £34.4 million of IFRS 16 additions less exceptional payments, and £11.5 million interest on the lease liabilities. The PPE depreciation charge excludes £2.7 million related to leases designated as finance leases prior to the adoption of IFRS 16. This is now included in the depreciation of right of use assets.

The net impact of IFRS 16 accounting treatment compared to IAS 17 treatment is to increase free cash flow by £31.6 million, reflecting the different definitions of net debt.

Cash performance

Operating cash flow

Underlying operating cash flow in the period was £225.6 million (2019: £201.6 million) which includes a benefit of £69.0 million (2019: £59.4 million) of right of use asset depreciation this year. Underlying operating cash flow after capital expenditure was £143.6 million (2019: £77.8 million), representing cash conversion of 129% (2019: 37%), much higher than last year and mainly reflecting our working capital performance and lower capital expenditure.

Working capital

The underlying working capital cash outflow in the period was £14.7 million, with a £9.0 million outflow in receivables, a £3.5 million inflow in inventories and a £9.2 million outflow in payables. The Group typically has an outflow of receivables at the half year point as many customer balances are settled towards year end. Receivables are milestone driven and this half year timing was significantly better than last half year.

The working capital performance in the half was ahead of our expectations and significantly better than the £106.9 million outflow last year. The main drivers of the performance were a benefit from VAT timing across Europe of around £40 million and progress on collecting receivables.

The Group factors receivables in its Southern European Aviation operations. At 30 September 2020, the level of factoring was approximately £130 million, a similar level to September 2019, and slightly higher than at March 2020 as the Group typically has a higher level of factoring at the half year, primarily reflecting the peak of the firefighting season across Southern Europe.

Provisions

Underlying operating cash flow includes a £1.5 million inflow due to underlying provision movements (2019: £14.1 million outflow) relating to contracts, onerous leases, personnel (taxation and reorganisation) and property. During the period there was a net charge to the income statement of £3.0 million relating to underlying provisions.

Capital expenditure

Excluding IFRS 16, net capital expenditure of £47.6 million was lower than the £71.1 million last year with tight capex control as a cash preservation measure during the COVID-19 pandemic. Gross capital expenditure was £50.0 million (2019: £95.5 million) and net capital expenditure was 0.9 times depreciation (2019: 1.4 times). This capex control more than offset the lack of sale of leaseback transactions given that the market continues to be unattractive.

We expect net capital expenditure to increase in the second half as we start the build of the Type 31 frigate assembly hall.

In addition to net capital expenditure, £37.4 million of additional operating leases were entered into in the period. This, less £3.0 million of onerous lease payments, led to £34.4 million of other IFRS 16 cash flows included within our underlying free cash flow. Onerous lease payments are not included in our underlying free cash flow as cash flows relating to what would have been onerous leases before the adoption of IFRS 16 continue to be considered exceptional. Total net capital spend was £82.0 million (2019: £123.8 million).

Cash interest paid

Net Group cash interest paid, excluding that paid by joint ventures, was £28.0 million (2019: £27.9 million), flat year on year with lower debt levels offset by higher interest rates following the refinancing in 2019.

Taxation

Underlying cash tax payments of £30.0 million (2019: £43.0 million) represent payments on account for the expected full year tax payable.

Pensions

Pension cash outflow in excess of the income statement charge excluding exceptionals was £42.2 million (2019: £37.4 million).

The uneven distribution of funding deficits between our three large schemes will result in more volatility in pensions funding over the coming years. An estimate of the current technical provisions actuarial deficit for the main schemes is around £450 million, down from around £500 million at the full year. This differs from the accounting valuation which is based on discounting using corporate bond yields where credit spreads have increased. This resulted in an IAS 19 position of a £104.3 million net deficit at 30 September 2020.

The additional pension payments into the Rosyth scheme of around £90 million are currently expected to be spread over the 2022 and 2023 financial years.

For this financial year the underlying cash outflow in excess of the income statement charge for pensions is expected to be around £75 million.

Dividends from joint ventures

During the period the Group received £15 million in dividends from its joint ventures compared to £37 million last year which included Magnox exit dividends. We currently expect dividends from joint ventures to be around £30 million this financial year.

Free cash flow

Free cash flow was £58.4 million compared to £6.8 million last year, with lower capital expenditure and the lower working capital outflow offsetting the lower profits.

Exceptional cash movement

In the period there were £30.9 million of exceptional cash costs which included a net £3.2 million from the actions outlined on page 4 plus £27.7 million in relation to the exceptional items booked in the two previous financial years.

Net debt

The Group's net cash inflow was £109.6 million (2019: £143.5 million outflow). Net debt at 30 September 2020 was £1,519.0 million. Net debt excluding lease obligations was £871.3 million.

Our average net debt in the period was around £350 million higher than at the 30 September 2020 position, reflecting the normal and expected phasing of our business.

Net debt to EBITDA

Net debt to EBITDA of 2.0 times at 30 September 2020 was higher than a year ago as lower net debt was offset by lower profits. This level remains well below our covenant level of 3.5 times. On an IFRS 16 basis, net debt to EBITDA was 2.6 times.

Pre IFRS 16 (per debt covenants):

	30 September 2020 Last 12 months £m	30 September 2019 Last 12 months £m
Underlying operating profit excl. JVs (pre-IFRS 16)	297.8	429.1
Depreciation (excl. lease depreciation)	84.2	91.8
Amortisation of software and development costs	15.4	15.3
EBITDA	397.4	536.2
JV dividends	29.7	61.9
EBITDA + JV dividends	427.1	598.1
Net debt excl. lease obligations	871.3	1,138.0
Net debt / EBITDA	2.0x	1.9x

Post-IFRS 16:

	30 September 2020 Last 12 months £m	30 September 2019 Last 12 months £m
EBITDA + JV dividends (pre-IFRS 16)	427.1	598.1
IFRS 16 EBITDA adjustment	153.7	157.8
EBITDA + JV dividends (post-IFRS 16)	580.8	755.9
Net debt excl. leases payable	871.3	1,138.0
Leases payable	647.7	616.2
Net debt (post-IFRS 16)	1,519.0	1,754.2
Net debt / EBITDA	2.6x	2.3x

The increase in leases payable in the second half of the last financial year was not fully reversed in the first half of this year.

Interest cover

Interest cover pre-IFRS 16 is another metric used in the covenants for some of our debt. At 30 September 2020, interest cover was 9.3 times, comfortably ahead of the debt covenants of 4.0 times.

Pre IFRS 16 (per debt covenants):

	30 September 2020 Last 12 months £m	30 September 2019 Last 12 months £m
EBITDA + JV dividends (pre-IFRS 16) (as above)	427.1	598.1
Finance costs (pre-IFRS 16)	(58.3)	(62.3)
Finance income	12.4	14.2
Net group finance costs (pre-IFRS 16)	(45.9)	(48.1)
Interest cover	9.3x	12.4x

Pensions

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,999 million in comparison to a valuation of the liabilities based on AA corporate bond yields of £5,103 million. The net accounting position, pre-tax, of the Group's combined defined benefit pension schemes deficit was £104 million (30 September 2019: £15 million).

Discount rate	1.6% (30 September 2019: 1.8%)
Inflation rate (RPI)	2.8% (30 September 2019: 3.0%)

Group income statement

Year ended 31 March 2020 £m	Note	Six months ended 30 September 2020		Six months ended 30 September 2019	
		£m	Total £m	£m	Total £m
4,449.5 Revenue ¹	2		2,109.6		2,194.8
(3,940.5) Cost of revenue			(1,877.8)		(1,889.3)
509.0 Gross profit			231.8		305.5
(9.3) Distribution expenses			(5.2)		(5.0)
(344.3) Administration expenses			(176.0)		(131.8)
(395.0) Goodwill impairment			–		–
74.7 Profit on disposal of subsidiaries and joint ventures and associates			25.6		–
Operating profit/(loss) before share of results of joint ventures and associates					
(164.9) associates	2		76.2		168.7
58.6 Share of results of joint ventures and associates	2, 8		11.6		19.6
Group and joint ventures and associates					
497.2 Operating profit before amortisation of acquired intangibles and exceptional items		130.1		236.9	
27.0 Investment income		13.0		13.7	
524.2 Underlying operating profit ²	2	143.1		250.6	
(87.3) Amortisation of acquired intangibles	3	(30.7)		(43.2)	
(500.8) Exceptional items – Group	3	(7.4)		–	
(2.1) Exceptional items – joint ventures and associates	3	(1.6)		–	
(1.1) Investment income – Group		(0.5)		(0.6)	
(22.8) Joint ventures and associates finance costs		(11.2)		(11.7)	
(16.4) Joint ventures and associates income tax expense		(3.9)		(6.8)	
(106.3) Operating profit/(loss)			87.8		188.3
Finance costs					
1.1 Investment income		0.5		0.6	
(0.1) Retirement benefit interest	15	2.1		(0.1)	
(85.9) Finance costs	4	(40.6)		(42.4)	
13.0 Finance income	4	5.5		6.1	
(71.9)			(32.5)		(35.8)
(178.2) Profit/(loss) before tax	2		55.3		152.5
(15.0) Income tax expense	5		(2.5)		(21.4)
(193.2) Profit/(loss) for the year			52.8		131.1
Attributable to:					
(195.2) Owners of the parent			52.8		129.4
2.0 Non-controlling interest			–		1.7
(193.2)			52.8		131.1
Earnings/(loss) per share					
(38.6)p Basic	6		10.5p		25.6p
(38.6)p Diluted			10.4p		25.6p

1. Revenue does not include the Group's share of revenue from joint ventures and associates of £134.1 million (2019: £263.0 million).

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

Group statement of comprehensive income

Year ended 31 March 2020 £m	Note	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
(193.2) Profit/(loss) for the year		52.8	131.1
Other comprehensive income/(loss)			
Items that may be subsequently reclassified to income statement			
(26.3) Currency translation differences		25.1	25.1
(12.0) Fair value adjustment of interest rate and foreign exchange hedges		4.5	(13.6)
2.5 Tax on fair value adjustment of interest rate and foreign exchange hedges		(0.9)	2.6
(14.4) Fair value adjustment of joint ventures and associates derivatives	8	(0.4)	(20.0)
Tax, including rate change impact, on fair value adjustment of joint ventures and 2.3 associates derivatives	8	0.1	3.1
Items that will not be subsequently reclassified to income statement			
99.9 Remeasurement of retirement benefit obligations		(286.3)	(28.0)
(20.2) Tax on remeasurement of retirement benefit obligations		54.3	4.5
0.9 Impact of change in UK tax rates		-	-
32.7 Other comprehensive (loss)/income, net of tax		(203.6)	(26.3)
(160.5) Total comprehensive (loss)/income		(150.8)	104.8
Total comprehensive (loss)/income attributable to:			
(160.4) Owners of the parent		(151.1)	102.9
(0.1) Non-controlling interest		0.3	1.9
(160.5) Total comprehensive (loss)/income		(150.8)	104.8

Group statement of changes in equity

	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 2019	303.4	873.0	768.8	30.6	998.2	(74.4)	(32.1)	2,867.5	17.4	2,884.9
Total comprehensive income/(loss)	-	-	-	-	105.9	(27.9)	24.9	102.9	1.9	104.8
Dividends	-	-	-	-	(115.7)	-	-	(115.7)	(0.6)	(116.3)
Share-based payments	-	-	-	-	1.9	-	-	1.9	-	1.9
Tax on share-based payments	-	-	-	-	2.1	-	-	2.1	-	2.1
Own shares	-	-	-	-	(2.9)	-	-	(2.9)	-	(2.9)
Transition to IFRS 16	-	-	-	-	(19.6)	-	-	(19.6)	-	(19.6)
Net movement in equity	-	-	-	-	(28.3)	(27.9)	24.9	(31.3)	1.3	(30.0)
At 30 September 2019	303.4	873.0	768.8	30.6	969.9	(102.3)	(7.2)	2,836.2	18.7	2,854.9
At 1 April 2020	303.4	873.0	768.8	30.6	710.8	(96.0)	(56.3)	2,534.3	15.7	2,550.0
Total comprehensive (loss)/income	-	-	-	-	(179.2)	3.3	24.8	(151.1)	0.3	(150.8)
Dividends	-	-	-	-	-	-	-	-	(0.3)	(0.3)
Share-based payments	-	-	-	-	1.8	-	-	1.8	-	1.8
Tax on share-based payments	-	-	-	-	1.5	-	-	1.5	-	1.5
Own shares	-	-	-	-	(2.2)	-	-	(2.2)	-	(2.2)
Net movement in equity	-	-	-	-	(178.1)	3.3	24.8	(150.0)	-	(150.0)
At 30 September 2020	303.4	873.0	768.8	30.6	532.7	(92.7)	(31.5)	2,384.3	15.7	2,400.0

The other reserve relates to the rights issue of new ordinary shares on 7 May 2014 and the capital redemption reserve relates to the issue and redemption of redeemable "B" preference shares in 2001.

Group statement of financial position

As At 31 March 2020 £m	Note	As at 30 September 2020 £m	As at 30 September 2019 £m
Assets			
Non-current assets			
2,171.3 Goodwill		2,184.1	2,601.3
379.5 Other intangible assets		357.5	420.3
951.1 Property, plant and equipment		961.1	1,035.2
638.8 Right of use assets		620.9	578.5
148.0 Investment in joint ventures and associates	8	91.5	119.0
48.6 Loans to joint ventures and associates	8, 14	44.6	51.4
325.3 Retirement benefit surpluses	15	186.5	256.1
12.8 IFRIC 12 financial assets		12.2	14.2
21.5 Other financial assets	11	17.4	139.4
190.6 Deferred tax asset		213.6	154.1
4,887.5		4,689.4	5,369.5
Current assets			
193.5 Inventories		192.7	211.4
930.8 Trade and other receivables	9	977.9	971.8
13.6 Income tax recoverable		37.3	22.5
153.9 Other financial assets	11	130.1	36.7
1,351.4 Cash and cash equivalents	14	702.1	458.6
2,643.2		2,040.1	1,701.0
7,530.7 Total assets		6,729.5	7,070.5
Equity and liabilities			
Equity attributable to owners of the parent			
303.4 Share capital		303.4	303.4
873.0 Share premium		873.0	873.0
647.1 Capital redemption and other reserves		675.2	689.9
710.8 Retained earnings		532.7	969.9
2,534.3		2,384.3	2,836.2
15.7 Non-controlling interest		15.7	18.7
2,550.0 Total equity		2,400.0	2,854.9
Non-current liabilities			
2,050.0 Bank and other borrowings	14	1,356.8	1,739.8
534.8 Lease liabilities	14	500.7	465.2
2.1 Trade and other payables	10	1.9	2.0
115.2 Deferred tax liabilities		81.0	93.3
35.6 Other financial liabilities	11	24.7	34.6
180.1 Retirement benefit deficits	15	290.8	271.5
30.4 Provisions for other liabilities	12	57.6	28.7
2,948.2		2,313.5	2,635.1
Current liabilities			
400.1 Bank and other borrowings	14	385.7	53.1
138.0 Lease liabilities	14	147.0	151.0
1,366.3 Trade and other payables	10	1,398.2	1,337.9
5.9 Income tax payable		2.8	1.5
9.0 Other financial liabilities	11	3.6	7.1
113.2 Provisions for other liabilities	12	78.7	29.9
2,032.5		2,016.0	1,580.5
4,980.7 Total liabilities		4,329.5	4,215.6
7,530.7 Total equity and liabilities		6,729.5	7,070.5

Group cash flow statement

Year ended 31 March 2020 £m	Note	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
(164.9) Operating profit/(loss) before share of results of joint ventures and associates	2	76.2	168.7
94.2 Depreciation and impairment of property, plant and equipment		51.4	43.9
143.6 Depreciation and impairment of right of use assets		69.0	59.4
96.5 Amortisation of intangible assets		35.9	47.8
395.0 Goodwill impairment		–	–
1.1 Investment income	2	0.5	0.6
2.9 Equity share-based payments		1.8	1.9
(74.7) Profit on disposal of subsidiaries, businesses and joint ventures and associates	16	(25.6)	–
3.3 Loss on disposal of property, plant and equipment		6.2	0.3
0.2 Loss on disposal of intangible assets		–	–
Cash generated from operations before movement in working capital and retirement benefit payments			
497.2 Cash generated from operations		215.4	322.6
(10.9) Decrease/(increase) in inventories		3.6	(12.5)
(8.4) Increase in receivables		(11.5)	(39.6)
7.4 (Decrease)/increase in payables		(9.2)	(54.9)
62.4 (Decrease)/increase in provisions		(14.3)	(24.4)
(73.5) Retirement benefit payments in excess of income statement		(34.7)	(40.7)
Net cash flows from operating activities		91.3	69.8
Cash flows from investing activities			
101.6 Disposal of subsidiaries and joint ventures and associates, net of cash disposed	16	84.6	(0.3)
52.0 Dividends received from joint ventures and associates		15.0	37.3
30.1 Proceeds on disposal of property, plant and equipment		8.6	24.4
(145.5) Purchases of property, plant and equipment		(39.7)	(79.8)
(29.1) Purchases of intangible assets		(10.3)	(15.8)
(6.4) Investment in, loans to and interest received from joint ventures and associates	8	4.0	(9.1)
Net cash flows from investing activities		62.2	(43.3)
Cash flows from financing activities			
(152.1) Dividends paid		–	(115.7)
(175.0) Lease payments		(70.3)	(84.6)
19.9 Lease assets advanced and repaid		(0.6)	10.6
(140.0) Bank loans and facilities repaid		(731.4)	(139.8)
1,202.4 Loans raised and facilities drawn down		–	487.8
(1.8) Dividends paid to non-controlling interest		(0.3)	(0.6)
(2.9) Movement on own shares		(2.2)	(2.9)
Net cash flows from financing activities		(804.8)	154.8
Net (decrease)/increase in cash, cash equivalents and bank overdrafts	13	(651.3)	181.3
Cash, cash equivalents and bank overdrafts at beginning of year		1,348.7	275.2
(10.1) Effects of exchange rate fluctuations		1.9	2.1
Cash, cash equivalents and bank overdrafts at end of year	14	699.3	458.6

1. Basis of preparation and significant accounting policies

The consolidated half year financial statements have been prepared in accordance with the Disclosures and Transparency Rules of the Financial Services Authority, the Listing Rules and IAS 34, 'Interim financial reporting' as adopted by the European Union (EU). They should be read in conjunction with the Annual Report for the year ended 31 March 2020 (the 'Annual Report'), which was prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The accounting policies used and presentation of these consolidated half year financial statements are consistent with those in the Annual Report, except as noted below and to comply with amendments to IFRS.

Significant accounting policies

There are no new standards, amendments or interpretations that are not yet effective that are expected to have a material impact on the Group's operations.

Going concern

The financial statements have been prepared on the going concern basis because the directors have a reasonable expectation that the Group has adequate resources to support operations for a period of at least 12 months from the date of the approval of the financial statements.

In assessing the appropriateness of the going concern basis, the directors reviewed the Group's latest forecast and considered the resources available to the Group in the form of cash and committed facilities. These resources consist of a £775 million five year multi-currency revolving credit facility, three tranches of medium term notes (€550 million 1.75% notes, £300 million 1.875% notes and €550 million 1.375% notes) issued under the Group's Euro Bond programme, together with US\$500 million loan notes repayable during March 2021.

The latest forecast includes improved operating performance during the second half of FY21 and further improvement during the following year. Significant uncertainty remains, however, in relation to the impact of COVID-19 and the forecast was subject to a downside stress scenario which reflected no improvement in trading during the next 18 months, together with mitigating actions including the deferral of future dividends. The downside stress scenario reflected a continuing strong liquidity position during the next 18 months.

Having considered the forecast, the resources available to the Group and the down side stress scenario, the directors do not believe there are any material uncertainties to disclose in relation to the Group's ability to continue as a going concern for at least the next 12 months.

The half year report for the six months ended 30 September 2020 was approved by the Directors on 24 November 2020. The half year report has not been audited.

2. Segmental information

The Group has four reporting segments, determined by reference to the goods and services they provide and the markets they serve.

Marine – through life support of naval ships and infrastructure in the UK and internationally.

Nuclear – through life support of submarines and complex engineering services in support of major decommissioning programmes and projects, training and operation support, new build programme management and design and installation in the UK.

Land – large scale critical vehicle fleet management, equipment support and training for military and civil customers worldwide.

Aviation – critical engineering services to defence and civil customers worldwide, including pilot training, equipment support, airbase management and operation of aviation fleets delivering emergency and offshore services.

The Group Chief Executive Officer, the chief operating decision maker as defined by IFRS 8, monitors the results of these reporting segments and makes decisions about the allocation of resources. The Group's business in South Africa meets the definition of an operating segment, as defined by IFRS 8. However the business represents less than 10% of the Group's revenues, profits and assets and, as permitted by IFRS 8, the Group includes the business in the Land sector reporting segment on the basis that they have similar economic characteristics (assessed with reference to their operating profit margins) and that the nature of the services provided, the type of customer and the methods used to deliver services are similar to those of the Land sector.

30 September 2020	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	634.6	490.7	611.1	507.3	–	2,243.7
Less: joint ventures and associates revenue	27.7	31.9	9.1	65.4	–	134.1
Revenue	606.9	458.8	602.0	441.9	–	2,109.6
Operating profit/(loss) before share of results of joint ventures and associates	38.5	36.1	35.3	(30.1)	(3.6)	76.2
Exceptional items	8.5	0.6	(20.0)	18.3	–	7.4
Acquired intangible amortisation - Group	0.4	–	8.2	19.2	–	27.8
Operating profit*	47.4	36.7	23.5	7.4	(3.6)	111.4
IFRIC 12 investment income – Group	–	–	0.5	–	–	0.5
Share of operating profit/(loss) – joint ventures and associates	2.4	(5.0)	8.2	13.1	–	18.7
Share of IFRIC 12 investment income – joint ventures and associates	–	–	0.7	11.8	–	12.5
Underlying operating profit	49.8	31.7	32.9	32.3	(3.6)	143.1
Share of finance costs – joint ventures and associates	(0.1)	–	–	(11.1)	–	(11.2)
Share of tax – joint ventures and associates	(0.7)	1.0	(1.9)	(2.3)	–	(3.9)
Acquired intangible amortisation – Group	(0.4)	–	(8.2)	(19.2)	–	(27.8)
Share of acquired intangible amortisation – joint ventures and associates	–	–	(1.0)	(1.9)	–	(2.9)
Net finance costs – Group	–	–	–	–	(33.0)	(33.0)
Exceptional items – Group	(8.5)	(0.6)	20.0	(18.3)	–	(7.4)
Exceptional items – joint ventures and associates	–	–	(1.6)	–	–	(1.6)
Profit/(loss) before tax	40.1	32.1	40.2	(20.5)	(36.6)	55.3

* Before amortisation of acquired intangibles and exceptional items.

2. Segmental information (continued)

30 September 2019	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	564.4	588.0	790.4	515.0	–	2,457.8
Less: joint venture and associate revenue	18.4	168.2	9.2	67.2	–	263.0
Revenue	546.0	419.8	781.2	447.8	–	2,194.8
Operating profit/(loss) before share of results of joint ventures and associates	68.2	50.0	32.3	21.5	(3.3)	168.7
Acquired intangible amortisation - Group	2.2	0.2	17.7	20.2	–	40.3
Operating profit*	70.4	50.2	50.0	41.7	(3.3)	209.0
IFRIC 12 investment income – Group	0.1	–	0.5	–	–	0.6
Share of operating profit – joint ventures and associates	2.0	7.4	6.6	11.9	–	27.9
Share of IFRIC 12 investment income – joint ventures and associates	–	–	0.7	12.4	–	13.1
Underlying operating profit	72.5	57.6	57.8	66.0	(3.3)	250.6
Share of finance costs – joint ventures and associates	(0.2)	–	0.1	(11.6)	–	(11.7)
Share of tax – joint ventures and associates	(0.5)	(1.8)	(2.1)	(2.4)	–	(6.8)
Acquired intangible amortisation – Group	(2.2)	(0.2)	(17.7)	(20.2)	–	(40.3)
Share of acquired intangible amortisation – joint ventures and associates	–	–	(1.0)	(1.9)	–	(2.9)
Net finance costs – Group	–	–	–	–	(36.4)	(36.4)
Profit before tax	69.6	55.6	37.1	29.9	(39.7)	152.5

* Before amortisation of acquired intangibles and exceptional items.

The analysis of revenue for the six months ended 30 September 2020 is as follows:

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Sale of goods – transferred at a point in time	215.5	290.8
Sale of goods – transferred over time	65.2	44.9
Sale of Goods	280.7	335.7
Provision of services – transferred over time	1,825.6	1,854.8
Rental income	3.3	4.3
Revenue	2,109.6	2,194.8

The sale of goods at a point in time is mainly in the Land sector. This includes revenue subject to judgement as to whether the Group operates as principal or agent. The sale of goods over time is in the Marine sector. Provision of services over time is across all sectors.

The geographic analysis of revenue by origin of customer for the six months ended 30 September 2020 and 2019 are as follows:

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
United Kingdom	1,433.0	1,454.5
Rest of Europe	271.3	277.3
Africa	110.3	187.5
North America	86.4	88.9
Australasia	112.4	101.7
Rest of World	96.2	84.9
Revenue	2,109.6	2,194.8

3. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Exit and disposals	(18.5)	–	1.6	–	(16.9)	–
Restructuring	11.0	–	–	–	11.0	–
Fleet rationalisation	7.4	–	–	–	7.4	–
Pension costs	7.5	–	–	–	7.5	–
Exceptional items	7.4	–	1.6	–	9.0	–
Tax on exceptional items	(6.4)	–	(0.3)	–	(6.7)	–
Exceptional items – net of tax	1.0	–	1.3	–	2.3	–
Acquired intangible amortisation	27.8	40.3	2.9	2.9	30.7	43.2
Tax on acquired intangibles amortisation	(6.1)	(7.6)	(0.6)	(0.6)	(6.7)	(8.2)
Acquired intangible amortisation – net of tax	21.7	32.7	2.3	2.3	24.0	35.0

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

Exits and disposals

In the first half we disposed of Holdfast and incurred some additional costs relating to businesses exited in the last financial year. We also recognised a provision for the loss on sale of Conbras, which was sold in October 2020. Exit and disposal costs of £8.7 million were more than offset by the gain on business disposals.

Restructuring

We started the restructuring of our civil aviation business at the end of the last financial year and made progress in the period, particularly in rightsizing the sector's central costs. Progress in delivering savings in Europe was slowed due to COVID-19 restrictions and we now plan to move the sector restructuring forward further, recognising a charge of £9 million for this. Additional restructuring costs were incurred in Marine and Land, mainly resulting from COVID-19.

Fleet rationalisation

Our fleet rationalisation programme seeks to reduce both the overall size of our fleet, which is currently 492 owned and leased aircraft, and the number of variants, currently 31 types of aircraft. This will be done through a combination of aircraft sales and ending lease obligations. This will generate cash, improve utilisation levels and deliver maintenance and inventory cost savings. There will, however, be some associated one-off costs for each aircraft removed, either through non-cash write downs or early lease termination charges.

We expect to approve a formal extended fleet-wide plan in the second half and we started to make some early progress in the first half with fleet transactions approved on a case-by-case basis to reduce the fleet by seven aircraft and reduce the number of types by two. This created an income statement charge of £7.4 million.

Pension costs

The charge of £7.5 million is a curtailment accounting loss on the closure of the Rosyth pension scheme to future accrual, which significantly reduces the pension risk in the Group.

4. Net finance costs

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	25.8	22.6
Lease interest	12.2	14.6
Amortisation of issue costs of bank loan	0.2	0.9
Other	2.4	4.3
Total finance costs	40.6	42.4
Finance income		
Bank deposits, loans and leases	5.5	6.1
Total finance income	5.5	6.1
Net finance costs	35.1	36.3

5. Income tax expense

The charge for taxation of £2.5 million (2019: £21.4 million charge) is after including an exceptional tax credit of £6.4 million (2019: £nil million), a tax credit of £6.1 million (2019: £7.6 million) relating to acquired intangible amortisation and a credit of £nil million (2019: £0.9 million charge) in respect of deferred tax rate changes. Additionally, there are credits of £0.3 million (2019: nil) (exceptional items) and £0.6 million (2019: £0.6 million) (acquired intangible amortisation) included in the share of profit from JVs and associates. The charge for taxation gives an underlying effective rate of 20% (2019: 18.0%).

6. Earnings per share

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

	Six months ended 30 September 2020 Number	Six months ended 30 September 2019 Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	505,098,025	505,227,109
Effect of dilutive potential ordinary shares: share options	1,148,510	986,826
Weighted average number of ordinary shares for the purpose of diluted EPS	506,246,535	506,213,935

Earnings

	Six months ended 30 September 2020			Six months ended 30 September 2019		
	Earnings £m	Basic per share Pence	Diluted per share Pence	Earnings £m	Basic per share Pence	Diluted per share Pence
Earnings from continuing operations	52.8	10.5	10.4	129.4	25.6	25.6
Add back:						
Amortisation of acquired intangible assets, net of tax	24.0	4.7	4.7	35.0	6.9	6.9
Exceptional items, net of tax	2.3	0.5	0.5	–	–	–
Earnings before amortisation, exceptional items and other	79.1	15.7	15.6	164.4	32.5	32.5

7. Dividends

No interim dividend has been declared this financial year (2019: 7.2p per 60p ordinary share).

8. 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 2020 £m	Six months ended 30 September 2019 £m	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
At 1 April	148.0	153.2	48.6	42.5	196.6	195.7
Disposal of joint ventures and associates (see note 16)	(53.2)	–	–	–	(53.2)	–
Loans repaid by joint ventures and associates	–	–	(4.6)	–	(4.6)	–
Investment in joint ventures and associates	–	0.2	–	–	–	0.2
Share of profits	11.6	19.6	–	–	11.6	19.6
Amounts accrued and capitalised	–	–	1.9	10.0	1.9	10.0
Interest received	–	–	(1.3)	(1.1)	(1.3)	(1.1)
Dividends received	(15.0)	(37.3)	–	–	(15.0)	(37.3)
Fair value adjustment of derivatives	(0.4)	(20.0)	–	–	(0.4)	(20.0)
Tax on fair value adjustment of derivatives	0.1	3.1	–	–	0.1	3.1
Foreign exchange	0.4	0.2	–	–	0.4	0.2
At 30 September	91.5	119.0	44.6	51.4	136.1	170.4

Included within investment in joint ventures and associates is goodwill of £1.2 million (2019: £1.2 million).

The total investment in and loans to joint ventures and associates is attributable to the following segments:

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Marine	6.3	6.6
Nuclear	20.5	23.8
Land	24.8	82.0
Aviation	84.5	58.0
Net book value	136.1	170.4

8. Investment in and loans to joint ventures and associates (continued)

Included within joint ventures and associates are:

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit/(loss)* £m	Total comprehensive income/(loss) £m	% interest held
30 September 2020							
Holdfast Training Services Limited (see note 16)	United Kingdom	–	–	–	3.2	2.5	–
ALC (Superholdco) Limited	United Kingdom	29.1	(10.6)	9.0	5.1	3.2	50%
AirTanker Limited	United Kingdom	422.0	(389.0)	20.6	6.6	5.1	13%
AirTanker Services Limited	United Kingdom	38.5	(20.7)	12.6	1.1	0.1	22%
Ascent Flight Training (Holdings) Limited	United Kingdom	123.4	(90.4)	29.3	5.3	4.4	50%
Naval Ship Management (Australia) Pty Limited	Australia	14.3	(12.6)	26.5	2.4	1.7	50%
Cavendish Dounreay Partnership Limited	United Kingdom	38.5	(19.9)	31.9	(5.0)	(4.1)	50%
Cavendish Fluor Partnership Limited	United Kingdom	1.8	–	–	–	–	65%
Other		19.0	(7.3)	4.2	–	(1.3)	
		686.6	(550.5)	134.1	18.7	11.6	
30 September 2019							
Holdfast Training Services Limited (see note 16)	United Kingdom	53.7	(5.1)	–	2.1	1.1	74%
ALC (Superholdco) Limited	United Kingdom	35.3	(16.1)	9.2	4.5	3.8	50%
AirTanker Limited	United Kingdom	413.2	(398.5)	16.8	2.2	1.2	13%
AirTanker Services Limited	United Kingdom	34.6	(0.6)	13.7	4.0	3.6	22%
Ascent Flight Training (Holdings) Limited	United Kingdom	94.5	(87.6)	34.0	5.6	4.7	50%
Naval Ship Management (Australia) Pty Limited	Australia	10.0	(8.8)	16.3	1.7	1.2	50%
Cavendish Dounreay Partnership Limited	United Kingdom	37.6	(17.1)	48.6	4.2	3.4	50%
Cavendish Fluor Partnership Limited	United Kingdom	3.1	–	120.0	3.2	2.3	65%
Other		38.0	(15.8)	4.4	0.4	(1.7)	
		720.0	(549.6)	263.0	27.9	19.6	

* Before amortisation of acquired intangibles and exceptional items.

Joint ventures and associates revenue excluding Group sub-contract revenue is £171.1 million (2019: £324.7 million).

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed.

None (2019: none) of the joint ventures or associates had material amounts of other comprehensive income or profits from discontinued operations and therefore the total comprehensive income noted in the table above is in line with profits from continuing operations.

Cavendish Fluor Partnership Limited is, and Holdfast Training Services Limited was, equity accounted as unanimous decision making is required over key decisions which drive the relevant activities of the business. Both the Holdfast Training Services Limited and Cavendish Fluor Partnership Limited joint arrangements are shown as joint ventures as the Group has the right to net assets of the joint arrangement rather than separate rights and obligations to the assets and liabilities of the joint arrangement respectively. The Magnox decommissioning contract being delivered by the Cavendish Fluor Partnership Limited completed on 31 August 2019.

AirTanker Limited is included as an associate due to the level of management input and the relative share ownership.

No joint ventures and associates are deemed individually material to the Group.

9. Trade and other receivables

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Current assets		
Trade receivables	256.6	247.8
Contract assets	468.5	485.6
Other debtors	252.8	238.4
	977.9	971.8

Trade and other receivables are stated at amortised cost.

Significant changes in contract assets during the year are as follows:

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
31 March 2020	431.7	462.1
Transfers from contract assets recognised at the beginning of the year to receivables	(259.8)	(317.2)
Increase due to work done not transferred from contract assets	286.5	323.6
Amounts capitalised	11.8	20.0
Amortisation of contract assets	(7.0)	(6.5)
On disposal of subsidiaries	(0.5)	–
Exchange adjustment	5.8	3.6
30 September 2020	468.5	485.6

10. Trade and other payables

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Current liabilities		
Trade creditors	401.3	460.9
Contract liabilities	484.9	419.0
Other creditors	512.0	458.0
Total current trade and other payables	1,398.2	1,337.9
Non-current liabilities		
Other creditors	1.9	2.0

Included in creditors is £18.2 million (2019: £12.5 million) relating to capital expenditure which has therefore not been included in working capital movements within the cash flow.

Significant changes in contract liabilities during the year are as follows:

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
31 March 2020	462.9	421.3
Revenue recognised that was included in the contract liability balance at the beginning of the year	(124.0)	(134.3)
Increase due to cash received, excluding amounts recognised as revenue	141.9	133.5
Amounts accrued	189.2	142.8
Amounts utilised	(187.0)	(146.0)
On disposal of subsidiaries	(0.6)	–
Exchange adjustment	2.5	1.7
30 September 2020	484.9	419.0

11. Other financial assets and liabilities

	Fair value			
	Assets		Liabilities	
	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Non-current				
US private placement – derivative	–	99.8	–	–
US private placement – interest rate swaps	–	7.7	–	–
8 year Eurobond September 2027 – derivative	4.5	–	–	6.8
8 year Eurobond September 2027 – interest rate swaps	–	–	17.6	13.1
Interest rate hedge	–	–	0.8	0.9
Other currency hedges	3.5	12.4	6.3	13.8
Financial derivatives	8.0	119.9	24.7	34.6
Leases granted	9.4	19.5	–	–
Total non-current other financial assets and liabilities	17.4	139.4	24.7	34.6
Current				
US private placement – derivative	80.0	–	–	–
US private placement – interest rate swaps	4.7	–	–	–
Interest rate hedge	–	–	0.1	0.1
Other currency hedges	14.8	4.2	3.5	7.0
Financial derivatives	99.5	4.2	3.6	7.1
Leases granted	30.6	32.5	–	–
Total current other financial assets and liabilities	130.1	36.7	3.6	7.1

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. There is no material ineffectiveness on any of the Group's hedging activities.

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

The fair values of the financial instruments are based on valuation techniques (level 2) using underlying market data and discounted cash flows.

12. Provisions for other liabilities

	Insurance provisions (a) £m	Contract/ warranty (b) £m	Employee benefits and business reorganisation costs (c) £m	Property and other (d) £m	Expected credit losses £m	Total provisions £m
At 1 April 2020	0.6	17.3	60.9	64.4	0.4	143.6
Net charge to income statement	–	0.5	16.9	(1.7)	–	15.7
Utilised in year	–	(2.3)	(20.4)	(3.1)	–	(25.8)
Foreign exchange	–	0.1	1.2	1.5	–	2.8
At 30 September 2020	0.6	15.6	58.6	61.1	0.4	136.3

Included within net charge to income statement is £12.7 million relating to exceptional items, all relating to employee benefits and business reorganisation.

12. Provisions for other liabilities (continued)

Provisions have been analysed between current and non-current as follows:

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Current	78.7	29.9
Non-current	57.6	28.7
	136.3	58.6

- (a) The insurance provisions arise in the Group's captive insurance company, Chepstow Insurance Limited. They relate to specific claims assessed in accordance with the advice of independent actuaries.
- (b) The contract/warranty provisions relate to onerous contracts and warranty obligations on completed contracts and disposals.
- (c) The employee benefits and reorganisation costs arise mainly in relation to restructuring (see note 3), acquired businesses, personnel related costs and payroll taxes.
- (d) Property and other in the main relate to provisions for the fine in Italy, dilapidation costs and contractual obligations in respect of infrastructure.

Included within provisions is £5 million expected to be utilised over approximately ten years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

13. Movement in net debt

Year ended 31 March 2020 £m	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
1,083.6 (Decrease)/Increase / in cash in the year	(651.3)	181.3
(937.3) Cash flow from change in debt and lease financing	796.4	(297.9)
146.3 Change in net funds resulting from cash flows	145.1	(116.6)
3.1 Debt disposed of with subsidiaries	–	–
(128.1) Additional lease obligations	(41.3)	(60.0)
– Early termination of lease obligations	3.9	–
30.0 Leases – granted	5.9	24.2
6.1 Movement in joint ventures and associates loans	(4.0)	8.9
(53.8) Foreign currency translation differences	(33.7)	(35.5)
(640.8) Transition to IFRS 16	–	(617.5)
(637.2) Movement in net debt in the year	75.9	(796.5)
(957.7) Net debt at the beginning of the year	(1,594.9)	(957.7)
(1,594.9) Net debt at the end of the year	(1,519.0)	(1,754.2)

14. Changes in net debt

	31 March 2020 £m	Cash flow £m	Disposal of subsidiaries £m	Additional leases £m	Lease terminations £m	Exchange movement £m	30 September 2020 £m
Cash and bank balances	1,351.4	(651.0)	(0.4)	–	–	2.1	702.1
Bank overdrafts	(2.7)	0.1	–	–	–	(0.2)	(2.8)
Cash, cash equivalents and bank overdrafts	1,348.7	(650.9)	(0.4)	–	–	1.9	699.3
Debt	(2,447.4)	731.4	–	–	–	(23.7)	(1,739.7)
Leases – payable	(672.8)	70.3	–	(41.3)	3.9	(7.8)	(647.7)
Leases – granted	38.6	(5.3)	–	5.9	–	0.8	40.0
	(3,081.6)	796.4	–	(35.4)	3.9	(30.7)	(2,347.4)
Net debt before derivatives and joint ventures and associates loans	(1,732.9)	145.5	(0.4)	(35.4)	3.9	(28.8)	(1,648.1)
Net debt derivative	89.4	–	–	–	–	(4.9)	84.5
Joint ventures and associates loans	48.6	(4.0)	–	–	–	–	44.6
Net debt	(1,594.9)	141.5	(0.4)	(35.4)	3.9	(33.7)	(1,519.0)

15. Retirement benefits and liabilities

Analysis of movement in the Group statement of financial position.

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Fair value of plan assets (including reimbursement rights)		
At 1 April	4,411.3	4,582.2
Interest on assets	51.1	52.4
Actuarial gain on assets	609.3	437.0
Employer contributions	58.4	60.5
Employee contributions	0.1	0.1
Benefits paid	(131.1)	(144.7)
Settlements	–	(80.3)
At 30 September	4,999.1	4,907.2
Present value of benefit obligations		
At 1 April	4,266.1	4,610.2
Service cost	14.4	18.0
Incurred expenses	1.8	1.9
Interest cost	49.0	52.6
Employee contributions	0.1	0.1
Experience losses	18.1	3.5
Actuarial loss – demographics	12.9	–
Actuarial loss – financial	864.6	461.3
Benefits paid (including transfers)	(131.1)	(144.7)
Curtailments	7.5	–
Settlements	–	(80.3)
At 30 September	5,103.4	4,922.6
Net deficit at 30 September	(104.3)	(15.4)

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

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Current service cost	14.4	18.0
Incurred expenses	1.8	1.9
Curtailment	7.5	–
Total included within operating profit	23.7	19.9
Net interest (credit)/cost	(2.1)	0.1
Total included within income statement	21.6	20.0

As at 30 September 2020 the key assumptions used in valuing pension liabilities were:

Discount rate	1.6% (30 September 2019: 1.8%)
Inflation rate (RPI)	2.8% (30 September 2019: 3.0%)

16. Disposals of subsidiaries, businesses and joint ventures and associates

In June 2020, the Group completed the sale of its 74% shareholding in Holdfast Training Services Limited for a cash consideration of £85 million.

In September 2020, the Group disposed of Cavendish Nuclear Manufacturing Limited for no consideration.

In October 2020, the Group completed the sale of Conbras Servicios Tecnicos de Suporte Ltda for a net consideration of £6.6 million. While this disposal took place after the half year end, a provision of £4.0 million has been made to account for the loss on disposal in the period ending 30 September 2020.

During the previous year the Group paid certain accrued costs on previously disposed of businesses of £0.3 million.

	2020			2019	
	Holdfast Training Services Limited	Cavendish Nuclear Manufacturing Limited £m	Total £m	Previously disposed of businesses £m	Total £m
Investments in joint ventures and associates	53.2	–	53.2	–	–
Inventory	–	0.5	0.5	–	–
Current assets	–	0.7	0.7	–	–
Cash, cash equivalents and bank overdrafts	–	0.4	0.4	–	–
Current liabilities	–	(1.0)	(1.0)	–	–
Net assets disposed	53.2	0.6	53.8	–	–
Disposal costs	1.6	–	1.6	–	–
Profit on disposal of subsidiaries and joint ventures	30.2	(0.6)	29.6	–	–
Sale proceeds	85.0	–	85.0	–	–
Sale proceeds less cash disposed of	85.0	(0.4)	84.6	–	–
Less costs paid in the year	–	–	–	(0.3)	(0.3)
Net cash inflow/(outflow)	85.0	(0.4)	84.6	(0.3)	(0.3)

17. Related party transactions

Related party transactions for the year to 30 September 2020 are: sales to joint ventures and associates of £37.6 million (2019: £70.6 million) and purchases from joint ventures and associates of £nil million (2019: £0.1 million).

For annualised key management compensation, please refer to note 7 and the Remuneration Report in the Annual Report for the year ended 31 March 2020.

For transactions with Group defined benefit pension schemes, please refer to note 15 above and note 26 in the Annual Report for the year ended 31 March 2020.



18. Contingent liabilities

In the normal course of business the Group is subject to certain claims and litigation against it. Other than elsewhere disclosed, as at 30 September 2020, the Group is not subject to any litigation that the directors believe may result in a material loss. Certain aspects of specific issues are set out below:

- (a) Pursuant to the Rosyth Dockyard privatisation agreement, the MOD will share in the net proceeds of sale or development of the dockyard following planning enhancement, on terms set out in the asset purchase agreement between the RRDL and the MOD dated 30 January 1997. By way of security for the MOD's rights to such share, the Company has granted a fixed charge (standard security) over the dockyard in favour of the Authority.
- (b) The Group has given certain indemnities and warranties in the course of disposing of businesses and companies and in completing contracts. The Group believes that any liability in respect of these is unlikely to have a material effect on the Group's financial position.
- (c) The Group is involved in disputes and litigation which have arisen in the course of normal trading. The Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position.
- (d) As part of its role in the Submarine Enterprise Performance Program, the Group has provided a £9 million financial guarantee for a supplier to ensure continuity of supply.

19. Subsequent events

There were no material subsequent events.

20. 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 ending 31 March 2020 were approved by the Board on 11 June 2020 and have been 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 a statement under Section 498(2) or (3) of the Companies Act 2006.

Risks and uncertainties

The Directors consider that the principal risks and uncertainties affecting the Group remain substantially unchanged from those described in the 2020 Annual Report and are those arising from:

COVID-19: the pandemic has significantly impacted all markets, including those we serve. Restrictions imposed to reduce the spread of the virus can reduce the demand for our products and services. They may reduce the budgets of our major clients leading them to reduce their demand or delay projects. The re-imposition of restrictions may depress demand and slow any recovery further. As well as impacting our customers, the pandemic has changed the ways we work as we have implemented measures to limit the spread of the virus, including social distancing, PPE requirements, improved cleaning regimes and increased remote working. However, these measures create inefficiencies in some of our businesses. The pandemic may also impact our suppliers leading to failures in the supply chain, which may adversely impact our ability to deliver our programmes;

Our customer profile: we rely on winning and retaining large contracts with a relatively limited number of major clients (particularly the UK MOD). Our clients are affected by political and public spending reviews and decisions, which exposes the Group to political and public spending risks and which could be impacted by Brexit and the current pandemic. The current pandemic may impact demand in the markets we serve and may create inefficiencies in our businesses that serve them;

The nature of our contracts, bid processes and our markets: bidding is a time consuming and expensive process; bids can be delayed, especially in the current environment; 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;

Culture & values: 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;

Regulatory and compliance: 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; compliance with some regulatory requirements is a pre-condition to being able to carry on a business activity at all (for example, parts of our Aviation business are subject to ownership and control requirements in the EU); the cost of compliance can be high; failure to meet the requirements could result in loss of existing business or future business opportunities;

Brexit: in addition to the above, Brexit may create uncertainty in the markets we serve and operate in;

Health, safety and environment: 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: our ability to deliver our 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: we have a number of significant defined benefit pension schemes that carry cost and funding risks and the risk of accounting volatility;

IT and security: 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 83 to 92 of the 2020 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).

Approved by the Board and signed on behalf of the Directors by:

David Lockwood

Chief Executive Officer

Franco Martinelli

Group Finance Director

24 November 2020