babcock™

Babcock International Group PLC
Half year results for the six months ended 30 September 2022

22 November 2022

Driving operational improvement, building resilience, and pursuing growth

Statutory results

	30 September 2022	30 September 2021 (restated)*
Revenue	£2,144.0m	£2,126.1m
Operating profit	£72.8m	£75.4m
Basic earnings per share	6.8p	10.3p
Cash generated from operations	£75.2m	£(10.5)m

Underlying results (note ii)

	30 September 2022	30 September 2021 (restated)*
Contract backlog *(note iii)*	£9.9bn	£10.4bn
Underlying operating profit *(note iv)*	£121.7m	£115.3m
Operating margin	*5.7%*	5.4%
Underlying basic earnings per share	15.8p	15.3p
Free cash flow	£(24.7)m	£(160.6)m
Net debt	£(1,039.4)m	£(1,346.9)m
Net debt excluding operating leases	£(629.3)m	£(938.3)m
Net debt/EBITDA (covenant basis)	1.9x	2.8x

* Prior period restatement is outlined in note i on page 3.

David Lockwood, Chief Executive Officer, said:

"Babcock has made strong progress over the past six months. We have enhanced our operational efficiency, cash flow performance and financial resilience, whilst improving delivery for our customers. Whilst there is still more to be done, the significant contracts won this year underpin our confidence in our potential to deliver sustained growth and capture margin upside over the medium term.

"We are operating in a macro economic and geopolitical environment that remains volatile. We are focused on effectively addressing the challenges our business faces, most notably inflationary pressures, whilst also ensuring we maximise the increased opportunity set we are seeing in a market backdrop that is supportive for defence. Babcock now has a solid, well-defined foundation from which to deliver our customers' key requirements of availability, affordability and capability."

Financial highlights *(note ii)*

- **Strong contract backlog** maintained through the period at £9.9 billion with over 90% FY23 revenue under contract at 30 September 2022. Backlog reduced from HY22 due to the impact of disposals and trading of long-term contracts
- **Revenue** up 5% organically to £2,144 million. Organic growth across all divisions
- **Underlying operating profit** up 10% organically to £121.7 million due to revenue growth and cost management. Underlying operating margin increased 30 basis points to 5.7%
- **Statutory operating profit** of £72.8 million compares to £75.4 million in HY22
- **Underlying basic earnings per share** up 3% to 15.8p. Profit growth and lower net interest costs were partially offset by lower joint venture profits and £6 million 'other income' in HY22, which was non-recurring
- **Improved underlying free cash flow**: an outflow of £24.7 million (HY22: £160.6m outflow), better than expected due to favourable timing of customer receipts, lower net capital expenditure and other timing related factors
- **Balance sheet resilience, with Net debt to EBITDA** (covenant basis): 1.9x (HY22: 2.8x) better than originally expected at this point and within our target range of 1.0x to 2.0x

Outlook

- **FY23 outlook.** We are maintaining our overall financial expectations for the current year:
  - With over 90% of FY23 revenue contracted as at 30 September 2022, we have good visibility of the top line
  - External macroeconomic challenges remain, including ongoing wage inflation challenges. For FY23, we continue to expect to offset inflationary pressure through operating efficiencies
  - Turning free cash flow positive in the second half of FY23 (for retained Group)

Key highlights
Entering the period, we outlined three strategic pillars for the business: to further stabilise our foundations; to optimise execution; and to pursue growth opportunities. We have made significant progress against each.

Stabilise
We are concluding our portfolio alignment programme with the agreement to sell part of our Aerial Emergency Services and civil training businesses. With the balance sheet now stronger and our new operating model, people strategy and ESG strategy in place, we have largely achieved our aim of stabilising the business as we progress through the second year of our turnaround.

Execute
Driving operational excellence

- Risk management process for global procurement implemented
- Increasing operational performance and improving customer delivery demonstrated by transformation of Defence Support Group (DSG) contract
- Introduced a new centre-led commercial function with a focus on optimising commercial risk management
- Launched a global Business Management System designed to standardise processes across the Group
- Significant progress in driving cultural change, completing first Group-wide survey of employees in more than 10 years, with high response rates
- Increased focus on ESG to achieve targets, mitigate risk and win business, as we embed environmental factors more frequently in bidding

Enhancing resilience

- Largely mitigated inflation effects during the period through efficiencies and savings, with visibility through FY23 from UK pay deal (93% agreed) and improved commercial process to minimise future pricing risks
- Strengthened balance sheet with the repayment of €550 million Euro bond in October 2022, and reduced exposure to interest rate fluctuations with around 85% of the Group's debt at fixed rates, up from c.70%. No requirement for refinancing until 2026 for c.£1.5 billion debt facilities

Grow
- Actions taken to create a more focused Group, capable of delivering our customers' need for affordability, availability and capability, mean Babcock is well placed to capture emerging near and longer-term growth opportunities against an increasingly supportive defence backdrop:
  - Secured two further contracts in HY23 relating to Poland's MIECZNIK frigate programme, and in active discussions with other potential Arrowhead 140 export customers
  - Signed a c.£500 million, 10-year contract to upgrade, operate and support Australia's defence high frequency communications capability
  - Won a six-year contract with the Royal Navy to install and provide in-service support for the maritime Communications Electronic Support Measures capability on Type 23 frigates
  - Won five-year contract to manage the sustainment of Royal Australian Navy ships
  - Supporting the UK MOD's short-term operational requirements in Eastern Europe, including demand for training and equipment refurbishment

Results presentation:
A webcast presentation for investors and analysts will be held on 22 November 2022 at 09:00 am (UK time). The presentation will be webcast live 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.

A conference call dial-in is also available for analyst Q&A:

International Access:	+44 (0) 33 0551 0200
UK Toll Free:	0808 109 0700

For further information:

Andrew Gollan, Director of Investor Relations	+44 (0)7850 978 741
Kate Hill, Group Director of Communications	+44 (0)20 7355 5312
Tulchan Communications	+44 (0)20 7353 4200

Notes to statutory and underlying results on page 1

Note i – Prior period adjustments: As announced in the FY22 preliminary results, the Group has re-examined the presentation of revenue and cost of revenue in relation to pass-through revenue on three of the Group's contracts. The Group had previously taken the judgement that it acted as a principal in these arrangements, informed by the contractual terms and practical delivery of the contract to the customer. This approach was disclosed as a judgemental area in the annual report. Following the transition to the Group's new auditors, this has been further considered and the Group has reassessed this judgement, which had always been a finely balanced one. This change of judgement means that revenue and cost of revenue are now presented net for these contracts. Restatement of the financial information in accordance with the new accounting policy results in a decrease in revenue and a decrease in cost of revenue of £97 million in the six months ended 30 September 2021 (no impact on profit). The restatement also removed pass-through revenue from the contract backlog of £510 million.

Further detail on prior period restatements is given in Note 3 to the interim financial statements.

Note ii – Alternative performance measures: The Group provides alternative performance measures, which we use to monitor the underlying performance of the Group. These measures are not defined by International Financial Reporting Standards (IFRS) and are therefore considered to be non-GAAP (Generally Accepted Accounting Principles) measures. The Group has defined and outlined the purpose of its alternative performance measures in the Financial Glossary starting on page 24. The Group's alternative performance measures are consistent with the period ended 30 September 2021 except for Contract Backlog which is redefined to be consistent with the revenue accounting policy change (note (i) above).

Note iii – Contract backlog: Contract backlog represents amounts of future revenue under contract. This measure does not include £3.4 billion of work expected to be done by Babcock as part of framework agreements (HY22: £3.0 billion).

Note iv – Underlying operating profit: Underlying operating profit is a key alternative performance measure (described in note ii) for the Group. It is defined as IFRS statutory operating profit adjusted for specific adjusting items. See page 9 for a reconciliation of underlying operating profit to statutory operating profit and Note 2 of the interim financial statement for an analysis of specific adjusting items.

CEO STATEMENT

We are starting to see good progress from our focus on better execution, with improvements in both our financial resilience and operational delivery. This puts us on a stronger footing to deliver sustained, profitable growth, with new business wins demonstrating our ability to provide solutions that meet our customers' needs of affordability, availability and capability. I believe we are now well-placed to capture the near and longer-term opportunities emerging in our core defence market.

The first 18 months of the turnaround have delivered significant improvements in transparency and standardisation across the Group. This has helped us have more control over the activities within the Group, which has become even more important given the increasingly uncertain and volatile macro economic and geopolitical environment we are facing. The changes we have effected mean we are better placed to manage the challenges our business faces, most notably from persistently elevated inflation (see below for more details), whilst also ensuring that we maximise the increased opportunity set we are seeing in global defence markets as a consequence of heightened national security concerns.

In the period, improvements to both underlying operating profit and operating margin reflect the increased efficiency and cost savings achieved as we continue to embed our new operating model. Although there is still much to be done, overall trading is in line with our expectations with a strong organic profit performance in Marine and Land, up 22% and 40% respectively. This more than offset weaker performance in Nuclear, due to an additional £6 million programme provision, and Aviation, due largely to higher fuel costs. Our stronger focus on cash flow is changing how programmes are negotiated and implemented to improve cash flow in the business.

Stabilise: strengthened base

We have continued to build on the positive momentum set in motion in FY22, our first year of turnaround.

The portfolio alignment programme is now broadly complete, with the agreements to sell our Spanish, Italian, Portuguese and Scandinavian Aerial Emergency Services (AES) and Land civil training businesses, which are expected to complete in the coming months. As a result, defence will comprise more than two-thirds of our portfolio, with the remainder being the provision of critical services in the civil sector.

Our net debt to EBITDA gearing ratio is 1.9x on covenant basis (HY22: 2.8x), lower than we expected at this stage and within our target range of 1.0x to 2.0x, despite significant cash outflow related to pension deficit "catch-up" payments. We have £1.2 billion of financial liquidity headroom following repayment of the €550 million bond that matured on 6 October, and c.£1.5 billion of our bonds and debt facilities do not expire until 2026, giving us a strong funding base with little near-term refinancing risk.

Execute: improving operational delivery

We have taken further steps to improve operational delivery across the Group, benefiting from the greater focus provided by our operating model. These revised ways of working are enhancing our ability to deliver effectively and decreasing performance risks within our business. Whilst our businesses are not all expected to improve performance at the same rate, our focus on operational excellence has been evidenced in Land, for example, where the transformation programme within the DSG contract has led to improved delivery. This has enhanced our ability to support our British Army customer as it plans for the future of equipment support.

We continue to drive cultural change across the business with the introduction of new processes and systems. We have formed a centre-led Commercial function to drive commonality and best practice across the Group, with a focus on commercial risk management and the development of our commercial talent. We are developing a new Internal Audit, Risk Assurance and Insurance function to enhance our controls, governance and risk management across the business, and our global Procurement and Supply Chain function is actively working with the supply chain to manage sourcing pressures. We have established a centre-led Programme Management Function to professionalise the planning, estimating, execution and control of our projects. We have also launched the first phase of a global Business Management System designed to improve execution by standardising processes across the Group.

In October, we concluded the first Group-wide survey of employees for more than 10 years. The wide-ranging survey achieved an impressive response rate of 79%, showing a willingness of employees to get involved. Its results will inform the action plans being developed as part of our comprehensive People Strategy. I am delighted that around 80% of respondents were familiar with our Principles and our Purpose: *to create a safe and secure world, together*.

Our Purpose is also helping anchor our focus on ESG, which increasingly is a differentiated part of our bid submissions. The independent report by Oxford Economics published earlier this month concluded that the Group makes a significant contribution to the UK economy. In FY22 we provided a £3.3 billion contribution to the UK's GDP, supported 56,800 UK jobs and spent £290 million with suppliers in areas classified as a 'high priority' for the UK Government's Levelling Up fund.

Execute: managing financial risk

The actions taken to stabilise the Group's financial base taken in FY22 have enabled us to proactively manage financial risks and enhance our resilience in HY23 against a volatile macro-economic environment.

On **inflation and supply chain**: Approximately 70% of our revenue base has some measure of protection for inflation – either because costs can be fully recovered or there are indexation allowances, or similar, within these contracts. Of the remaining c.30% of revenue the group has assumed the inflation risk through "firm" fixed price contracts. The largest contract has approximately three years remaining, but many of the fixed price contracts are short term (1-2 years), giving us the opportunity to replace them with improved terms and/or updated pricing.

The group's largest exposure to inflation is rising labour costs (approximately 50% of the cost base of the fixed price contracts), particularly within the UK. As previously announced, the Group addressed labour cost in the UK for FY23 with an innovative pay deal from 1 April 2022 that targeted all but the higher paid employees to assist in the cost-of-living increases. This pay deal resulted in a c.£25 million FY23 cost increase over and above the costs that could be recovered through extant contracts. We are expecting to offset this through operating efficiencies in FY23.

Outside of labour costs, the Group has incurred increases in other costs such as aviation fuel, energy and raw materials. Whilst these are, overall, smaller categories of cost, businesses and programmes incurring such costs intend to offset these increases through efficiencies or commercial negotiation over the course of the year. Through the new centre-led Commercial function, the Group has limited the commercial risk of future inflation in new contracts where it cannot be mitigated

Planning for FY24 is in the early stages and the FY24 pay cycle is yet to commence, so the level of mitigation achievable through other efficiencies and commercial discussions with customers/suppliers has not yet been determined. Once completed, this will then be used to update estimates to complete on programmes that are accounted for as long-term contracts.

Our new Procurement and Supply Chain organisation continues to closely monitor and manage supplier resilience as a key risk. We have implemented technology solutions to monitor resilience within our supplier ecosystem, which is supported by a process to mitigate identified risks. Some of our suppliers are experiencing increases in input-cost inflation coupled with shortages of supply. To overcome this, we continue to work closely with our key suppliers to deliver solutions that can offset costs and de-risk the supply chain.

On the **balance sheet,** we have reduced gross debt, repaying the €550 million Euro bond in October 2022 using proceeds from our disposal programme. We further reduced our exposure to current fluctuations in interest rate with around 85% of our £793 million total bond debt now fixed rate, which would have been c.70% without action, and meaning that only £125 million of our drawn debt is exposed to variable interest rates.

On **pensions**, we made £76 million of pension deficit payments in the first half as planned. In late September and October, the UK gilt market experienced significant volatility. The Group's three largest pension schemes have liability driven investment portfolios (LDIs). The Trustees of these schemes actively managed the collateral positions of these portfolios to ensure sufficient headroom throughout this volatile period. In common with many schemes, the Trustees of our three main UK schemes decided, in consultation with us, to reduced inflation hedging from between 88% and 96% to between 60% and 84% (of the deficits on a self-sufficiency basis) to limit the amount of asset disposals required to fund collateral positions and provide the headroom they felt required in the volatile environment. The intention is to rebuild this hedging position.

Grow: capturing opportunities

The market environment remains supportive for defence, and opportunities continue to emerge as our customers reassess their defence and security priorities. Global financial pressures mean that our ability to provide affordable solutions which still deliver the capability and availability customers require is increasingly important.

Our successes in the period include:

- Securing two further contracts relating to Poland's MIECZNIK (Swordfish) frigate programme. We are in active discussions with several other potential Arrowhead 140 (T31 export variant) frigate customers
- Signed a major c.£500 million, 10-year contract to upgrade, operate and support Australia's high frequency communications capability for the Australia Defence Force. Babcock is now a leading provider of strategic defence high frequency communications in the world, built on a common mission system architecture that is both scalable and interoperable
- Selected to manage the sustainment of Royal Australian Navy ships at the country's new Regional Maintenance Centre West over the next five years through our newly fully consolidated Naval Ship Management (NSM) business in Australia
- Won a six-year contract with the UK Royal Navy to install and provide in-service support for the maritime Communications Electronic Support Measures capability on Type 23 frigates
- Supporting the UK MOD's short-term operational requirements in Eastern Europe, including demand for training and equipment refurbishment

Outlook

We expect to see continued operational progress from our focus on execution and growth. We are maintaining our overall financial expectations for the current year. The disciplined execution of our strategy, together with a streamlined portfolio, gives the Board confidence in its expectations of delivering increasingly profitable growth and improved cash flow into the medium term.

Over the medium and long-term, we are focused on delivering value for all our stakeholders, including:

- **Improved outcomes for our customers:** consistent delivery and partnering with customers to solve their challenges
- **A better place to work for our employees:** an open, collaborative and diverse workplace that engages our employees
- **Returns for our shareholders:** a return to growth with improving margins and better cash conversion

David Lockwood OBE
Chief Executive

OTHER INFORMATION

Dividend

No ordinary dividends have been paid or declared for the six months ended 30 September 2022.

Board changes

Two Non-Executive Directors retired in the period. In July 2022 Russ Holden retired after two years of service, and Kjersti Wiklund retired in September 2022 after four years of service. Kjersti was succeeded in her role as Remuneration Committee Chair by Carl-Peter Forster. In October the Board announced the appointment of Jane Moriarty as Non-Executive Director with effect from 1 December 2022.

FINANCIAL REVIEW

Group statutory results

	30 September 2022 £m	30 September 2021 (restated)* £m
Revenue	2,144.0	2,126.1
Operating profit	72.8	75.4
Other income	–	6.2
Share of results of joint ventures and associates	6.6	9.6
Investment income	0.4	0.4
Other net finance costs	(28.6)	(32.8)
Profit before tax	51.2	58.8
Income tax expense	(14.2)	(4.6)
Profit after tax for the year	37.0	54.2
Basic EPS	6.8p	10.3p
Diluted EPS	6.7p	10.2p

* Refer to Note 3 of the interim financial statements for details regarding the prior period restatement

Statutory performance

Revenue increased by 1% to £2,144 million, comprising 5% organic growth, a 5% reduction due to the net effect of disposals and an acquisition, and a small positive impact from foreign exchange translation. The year-on-year increase reflects organic growth in all divisions, as well as sales consolidated from NSM, acquired in March 2022.

The £2.6 million reduction in statutory operating profit to £72.8 million was down due to the effect of disposals (£(6) million) and a non-cash mark-to-market movement on currency derivative contracts of £28.7 million, which offset higher underlying profit and positive impacts from the NSM acquisition (£6 million) and completion of restructuring in the prior period (HY22: charge £9.4 million).

Other income of £6.2 million in HY22 related to pre-completion guarantee fees received in relation to the disposal of the Oil and Gas business.

The Group's share of results in JVs and associates was a profit after tax of £6.6 million (HY22: £9.6 million). The disposal of our 15.4% stake in AirTanker Holdings in February 2022 and removal of NSM, which was fully consolidated from March 2022, were the primary reasons for the year-on-year reduction. AirTanker Holdings and NSM contributed £1.8 million and £2.0 million respectively, to the HY22 share of results of JVs and associates.

Net finance costs decreased to £28.6 million (HY22: £32.8 million), due to lower borrowings and a pension interest credit of £3.6 million (HY22 charge: £2.6 million), partly offset by higher finance charge associated with non-cash movements in derivatives hedging foreign leases.

Basic earnings per share, as defined by IAS 33, was 6.8 pence per share (HY22: 10.3 pence per share), on lower profit before tax and a higher reported tax charge.

A full statutory income statement can be found on page 29.

Underlying results

Statutory to underlying

As described in the 'Financial Glossary – alternative performance measures' on page 24, the Group provides underlying measures to better understand the performance and earnings trends of the Group. Underlying operating profit and underlying earnings per share exclude certain specific adjusting items that can distort the reporting of underlying business performance, as set out in Note 2 of the interim statement on page 36. The reconciliation from the IFRS statutory income statement to underlying income statement is shown below:

	30 September 2022			30 September 2021 (restated)*		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Revenue	2,144.0	–	2,144.0	2,126.1	–	2,126.1
Operating profit/(loss)	121.7	(48.9)	72.8	115.3	(39.9)	75.4
Other income	–	–	–	6.2	–	6.2
Share of results of joint ventures and associates	6.6	–	6.6	9.6	–	9.6
Investment income	0.4	–	0.4	0.4	–	0.4
Other net finance costs	(23.1)	(5.5)	(28.6)	(32.8)	–	(32.8)
Profit/(loss) before tax	105.6	(54.4)	51.2	98.7	(39.9)	58.8
Income tax (expense)/benefit	(23.1)	8.9	(14.2)	(19.6)	15.0	(4.6)
Profit/(loss) after tax for the year	82.5	(45.5)	37.0	79.1	(24.9)	54.2
Basic EPS	15.8p	(9.0)p	6.8p	15.3p	(5.0)p	10.3p
Diluted EPS	15.5p	(8.8)p	6.7p	15.1p	(4.9)p	10.2p

* Refer to Note 3 of the interim financial statements for details regarding the prior period restatement

Specific adjusting items

Specific adjusting items within operating profit of £(48.9) million (HY22: £(39.9) million) includes amortisation of acquired intangibles of £8.1 million (HY22: £10.6m), charges resulting from acquisitions and disposals of £12.1 million (HY22: £21.1 million), and a non-cash charge on revaluation of derivative contracts of £28.7 million (HY22: £nil) within operating profit and £5.5 million (HY22: nil) within net finance costs. There were no material restructuring charges in the period (HY22: £9.4 million).

Underlying results

	30 September 2022 £m	30 September 2021 (restated)* £m
Revenue	2,144.0	2,126.1
Underlying operating profit	121.7	115.3
Other income	–	6.2
Share of results of joint ventures and associates	6.6	9.6
Investment income	0.4	0.4
Other net finance costs	(23.1)	(32.8)
Underlying profit before tax	105.6	98.7
Income tax	(23.1)	(19.6)
Underlying profit after tax	82.5	79.1
Non-controlling interests	(2.4)	(2.0)
Underlying profit attributable to shareholders	80.1	77.1
Underlying basic EPS	15.8p	15.3p

* Refer to Note 3 of the interim financial statements for details regarding the prior period restatement

Revenue performance

	30 September 2021 (restated)* £m	FX impact £m	Acquisitions & disposals £m	Other trading £m	30 September 2022 £m
Marine	627.4	8.2	18.8	12.0	666.4
Nuclear	516.3	–	–	41.9	558.2
Land	510.1	3.6	(43.9)	8.4	478.2
Aviation	472.3	2.3	(79.0)	45.6	441.2
Total	2,126.1	14.1	(104.1)	107.9	2,144.0

* Refer to Note 3 of the interim financial statements for details regarding the prior period restatement

Revenue increased 5% on an organic basis. Growth was led by strong year-on-year increases in Nuclear and Aviation driven by the continued ramp up of infrastructure activity and new contracts, respectively.

The main variances year-on-year are:

- **FX impact 1%** – primarily relates to foreign exchange translation on our businesses in Canada, South Africa and Australia.
- **Acquisitions and disposals (5)%** – Reflects the net impact from acquisitions and disposals in the prior period: Oil and Gas Aviation (sold in August 2021 – Aviation), Frazer-Nash Consultancy Ltd (sold in October 2021 – Marine), UK Power (sold in December 2021 – Land), and a £64 million contribution from NSM (acquired in March 2022 – Marine).
- **Other trading 5%** – All sectors grew organically: Marine up 2%, Nuclear up 8%, Land up 2%, and Aviation 10%.

Underlying operating profit performance

	30 September 2021 £m	FX impact £m	Acquisitions & disposals £m	Other trading £m	30 September 2022 £m
Marine	38.9	0.6	(0.9)	8.7	47.3
Nuclear	36.2	–	–	(6.1)	30.1
Land	29.8	0.4	(4.0)	11.8	38.0
Aviation	10.4	0.5	(2.2)	(2.4)	6.3
Total	115.3	1.5	(7.1)	12.0	121.7

Underlying operating profit increased 10% on an organic basis. The year-on-year increase was driven by revenue growth and further cost savings and efficiencies across the Group. Strong performance in Marine and Land more than offset a decline in Nuclear, as a due to a programme provision of £6 million, and Aviation, due to higher fuel costs.

Underlying operating margin increased 30 basis points to 5.7%. Marine margin increased by 90 basis points to 7.1% and Land increased by 210 basis points to 7.9%, Nuclear margin declined by 160 basis points to 5.4% and Aviation declined by 80 basis points to 1.4%.

The main variances year-on-year are:

- **FX impact 1%** – primarily relates to foreign exchange translation on the results, most notably Canada, South Africa, Southern Europe and Australia.
- **Acquisitions and disposals (6)%** – lower net contribution following completed transactions in the prior period.
- **Other trading 10%** – as described above.

Further analysis of our revenue and underlying operating profit performance is included in each sector's operating review on page 17 to 23.

Net finance costs

Underlying net finance costs of £23.1 million (HY22: £32.8 million) reduced due to lower borrowings and a pension interest credit of £3.6 million (HY22: charge: £2.6 million).

Tax charge

The tax charge on underlying profits was £23.1 million (HY22: £19.6 million) representing an effective underlying tax rate of 23% (HY22: 24%). The underlying effective tax rate is calculated on underlying profit before tax excluding the share of income from JVs and associates (which is a post-tax number). The Group's effective underlying rate of tax for this financial year will be dependent on country profit mix and the timing of the completion of the AES disposal announced in July 2022. The current assumption is 23% to 25%. In the medium term, we expect our effective tax rate to increase in conjunction with UK corporation tax rate increases.

Exchange rates

The translation impact of foreign currency movements, in particular recent weakness of GBP, resulted in an increase in revenue of £14.1 million and an increase in underlying operating profit of £1.5 million. The main currencies that have impacted our results are the Canadian Dollar, South African Rand, Euro and Australian Dollar. 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 revenue by around £25 million and underlying operating profit by around £0.5 million per annum.
- A 10% movement in the South African Rand against Sterling would affect revenue by around £14 million and underlying operating profit by around £1.7 million per annum
- A 10% movement in the Australian Dollar against Sterling would affect revenue by around £11 million and underlying operating profit by around £0.6 million per annum
- A 10% movement in the Canadian Dollar against Sterling would affect revenue by around £6 million and underlying operating profit by around £0.5 million per annum

Disposal programme

Our plan for disposals has been assessed and does not meet the criteria for any assets to be classed as held for sale under IFRS 5.

Cash flow and net debt

Statutory cash flow summary

	30 September 2022 £m	30 September 2021 (restated)* £m
Profit for the year	37.0	54.2
Net cash flows from operating activities	48.9	(40.3)
Net cash flows from investing activities	(29.8)	(38.8)
Net cash flows from financing activities	38.4	(86.5)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	57.5	(165.6)

* Refer to Note 3 of the interim financial statements for details regarding the prior period restatement

Cash flows from operating activities

Net cash from operating activities of £48.9 million inflow compared to a £40.3 million outflow last year due mainly to the timing of customer receipts and prepayments and lower outflows associated with the unwinding of historical working capital management practices around period ends. Pension deficit payments in excess of income statement of £76.2 million reduced slightly on the prior period, as expected. We continue to expect a total pensions outflow of around £100m in the current financial year.

Cash flows from investing activities

Net cash outflow from investing activities of £29.8 million was down on the prior period (HY22: £38.8 million), due to lower gross capex of £52.8 million (HY22: £77.7 million), higher proceeds from fixed asset disposals of £22.7 million (HY22: £10.3 million), and disposal proceeds of £8.0 million in the prior period from sale of the Oil and Gas, offset by lower dividends from JVs of £5.1 million (HY22: £24.7 million).

Cash flows from financing activities

Net cash inflow from financing activities of £38.4 million compared to an outflow in HY22 of £86.5 million, reflecting lower lease principal payments following disposal of the Oil and Gas business in August 2021, and net drawdowns/paybacks of cash from/to borrowing facilities in the period. A full statutory cash flow statement can be found on page 33.

Movement in net debt

	30 September 2022 £m	30 September 2021 (restated)* £m
Net increase/(decrease) in cash in the year	57.5	(165.6)
Cash flow from the (increase) / decrease in debt	(54.4)	76.1
Change in net debt resulting from cash flows	3.1	(89.5)
Net additional lease obligations	(37.0)	(21.7)
New leases granted	14.3	–
Disposal of subsidiaries	–	129.7
Other non-cash movements and changes in fair value	(5.2)	3.2
Foreign currency translation differences	(45.9)	(15.0)
Movement in net debt in the year	(70.7)	6.7
Opening net debt	(968.7)	(1,353.6)
Closing net debt	(1,039.4)	(1,346.9)

* Refer to Note 3 of the interim financial statements for details regarding the prior period restatement

Underlying cash flow and net debt

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.

	30 September 2022 Underlying £m	30 September 2021 Underlying £m
Operating profit	**72.8**	**75.4**
Add back: specific adjusting items	48.9	39.9
Underlying operating profit	**121.7**	**115.3**
Other income	–	6.2
Depreciation & amortisation	45.7	39.9
ROU asset depreciation	52.5	59.7
Non-cash items	(2.2)	3.0
Working capital movements	(48.8)	(140.1)
Provisions	(0.8)	(1.2)
Net capital expenditure	(36.9)	(72.1)
Lease principal payments	(54.2)	(69.6)
Underlying operating cash flow	**77.0**	**(58.9)**
Cash conversion % excl. one-off CPBS adjustment	*63%*	(51)%
Pension contributions in excess of income statement	(76.2)	(88.5)
Interest paid	(14.1)	(18.4)
Tax paid	(12.2)	(10.3)
Dividends from joint ventures and associates	5.1	24.7
Cash flows related to exceptional items	(4.3)	(9.2)
Underlying free cash flow	**(24.7)**	**(160.6)**
Net acquisitions and disposals of subsidiaries	(12.1)	8.0
Cash outflow from settlement of derivative	–	(5.4)
Lease principal payments	54.2	69.6
Leases disposed of with subsidiaries	–	129.7
Other non-cash debt movements	(0.8)	–
Fair value movement in debt and related derivatives	(4.4)	–
Net new lease arrangements	(37.0)	(19.6)
Exchange movements	(45.9)	(15.0)
Movement in net debt	**(70.7)**	**6.7**
Opening net debt	(968.7)	(1,353.6)
Closing net debt	**(1,039.4)**	**(1,346.9)**
Add back: operating leases	410.1	408.6
Closing net debt excluding operating leases	**(629.3)**	**(938.3)**

Underlying cash performance

Underlying operating cash flow
Underlying operating cash flow for the period after capital expenditure was an inflow of £77.0 million, compared to an outflow of £58.9 million in the prior period. This represented operating cash conversion of 63% (HY22: (51) %) on the underlying operating profit. Underlying operating cash flow is defined as cash flow before pension deficit payments, dividends from JVs, interest and tax payments, and cash flows related to exceptional items.

Movements in working capital
The movement in working capital for the period was an outflow of £48.8 million compared to an outflow of £140.1 million last year, which included higher payments associated with the unwind of the past practice of period-end management of working capital. In addition, HY23 included earlier than anticipated customer receipts on large contracts.

Capital expenditure
Net capital expenditure decreased to £36.9 million (HY22: £72.1) million). Gross capex of £52.8 million (HY22: £77.7 million) was lower than anticipated due to project phasing. In addition, the period included higher receipts from asset disposals (£22.7 million verses HY22: £10.3 million), primarily reflecting aircraft sales in our Aviation sector. We continue to expect that gross capital expenditure will remain at an elevated level in FY23, as a result of further investment in submarine infrastructure in Devonport and roll-out of enterprise resource planning (ERP) in Nuclear.

Lease principal payments
The lower level of lease principal payments of £54.2 million in the period (HY22: £69.6 million), representing the capital element of payments on lease obligations, reflects lower leasing requirements following disposal of the Oil & Gas Aviation business in 2022. This is reversed out below underlying free cash flow as the payment reduces our lease liability (i.e. no net effect on net debt).

Pensions
Pension cash outflow in excess of the income statement charge was £76.2 million (HY22: £88.5 million). We continue to expect the pension cash outflow in excess of the income statement charge to be around £100 million in FY23.

Interest
Net interest paid, excluding that paid by JVs and associates, decreased to £14.1 million (HY22: £18.4 million) due to lower net debt and a reduction in interest on leases as a result of the divestment in the Oil and Gas business.

Taxation
Cash tax paid in the year was £12.2 million (HY22: £10.3 million). We expect a cash tax outflow in the current financial year of approximately £15 million to £20 million.

Dividends from joint ventures and associates
During the period the Group received £5.1 million in dividends from its JVs and associates (HY22: £24.7 million). The reduction reflects the disposal of AirTanker Holdings and acquisition of NSM, and close-out dividends on the termination of the ALC and Dounreay JVs in HY22. We expect dividends from JVs and associates to be around £8 million in FY23.

Exceptional cash flows
The cash outflow related to exceptional items was £4.3 million in the period (HY22: £9.2 million) relating to restructuring costs charged in the prior period.

Underlying free cash flow
Underlying free cash outflow of £24.7 million (HY22: £160.6 million outflow) reflects the reduction in working capital outflow and lower capex and principal lease payments.

New lease arrangements
In addition to net capital expenditure, and not included in free cash flow, £37.0 million (HY22: £19.6 million) of additional leases were entered into in the period. These represent new lease obligations and so are included in our main net debt figure but do not involve any cash outflows at inception.

Net debt
Net debt at 30 September 2022 was £1,039.4 million, or £629.3 million excluding operating leases. The £70.7 million increase in net debt since 31 March 2022 reflects the free cash outflow and foreign exchange impacts on translation of debt.

Funding and liquidity

As of 30 September 2022, the Group had access to a total of £2.3 billion of borrowings and facilities of mostly long-term maturities. These comprised:

- €550 million bond maturing 6 October 2022, hedged at £482 million
- £300 million RCF maturing 20 May 2024
- £775 million RCF, with £45 million maturing 28 August 2025 and £730 million extended to 28 August 2026
- £300 million bond maturing 5 October 2026
- €550 million bond, hedged at £493 million, maturing 13 September 2027

At 30 September 2022, the Group's net cash balance was £815 million. This was used, in part, to repay the €550m bond maturing 6 October 2022. After this action, with remaining cash and undrawn amounts under our committed revolving credit facilities (RCF) gave us liquidity headroom of around £1.2 billion.

Capital structure

While there are several facets to balance sheet strength, the primary measurement relevant to Babcock is the net debt/EBITDA gearing ratio within our debt covenant of 3.5x. The net debt/EBITDA gearing ratio at 30 September 2022 of 1.9x is better than we expected at the start of the period, and within our medium-term target of between 1.0x and 2.0x. The slight increase since the FY22 results reflects the timing of final pension deficit "catch-up" payments and completion of planned business disposals.

Net debt to EBITDA (covenant basis)

This is the measure used in the covenant in our RCF and makes a number of adjustments from reported net debt and EBITDA. The covenant level is 3.5 times. As set out below, our net debt to EBITDA (covenant basis) decreased to 1.9 times for HY23 driven by the reduction in net debt.

	30 September 2022 £m Last twelve months	30 September 2021 £m Last twelve months
Underlying operating profit	**244.1**	231.6
Depreciation and amortisation	80.2	99.0
Covenant adjustments[1]	16.4	(15.2)
EBITDA	**340.7**	315.4
JV and associate dividends	22.0	46.5
EBITDA + JV and associates dividends (covenant basis)	**362.7**	361.9
Net debt	**(629.3)**	(938.3)
Covenant adjustments[2]	(56.4)	(77.9)
Net debt (covenant basis)	**(685.7)**	(1,016.2)
Net debt/EBITDA	**1.9x**	2.8x

[1]Various adjustments made to EBITDA to reflect accounting standards at the time of inception of the original RCF agreement. The main adjustments are to the treatment of leases within operating profit and pension costs

[2]Removing loans to JVs, finance lease receivables

Interest cover (covenant basis)

This measure is also used in the covenant in our RCF, with a covenant level of 4.0 times.

	30 September 2022 £m Last twelve months	30 September 2021 £m Last twelve months
EBITDA (covenant basis) + JV and associate dividends	362.7	361.9
Net finance costs	(66.6)	(61.0)
Covenant adjustments	15.7	20.0
Net Group finance costs	(50.9)	(41.0)
Interest cover	**7.1x**	8.8x

Return on invested capital, pre-tax (ROIC)

This measure is one of the Group's key performance indicators.

	30 September 2022 £m Last twelve months	30 September 2021 £m Last twelve months
Underlying operating profit	244.1	231.6
Share of JV PAT	17.1	21.7
Underlying operating profit plus share of JV PAT	**261.2**	**253.3**
Net debt excluding operating leases	629.3	938.3
Operating leases	410.1	408.6
Shareholder funds	662.5	388.6
Retirement (surplus)/deficit	(147.4)	79.0
Invested capital	**1,554.5**	1,814.5
ROIC	**16.8%**	14.0%

Pensions

IAS 19

At 30 September 2022, the IAS 19 valuation for accounting purposes was a net surplus of £147.4 million (31 March 2022 of £191.6 million). In the first half, pension liabilities reduced by £1,206.8 million to £3,334.7 million, primarily as result of higher discount rates. Negative net asset returns drove a c.£1,251.0 million decrease in the fair value of plan assets to £3,482.1 million. The key movements in fair value of the assets and liabilities of the Group pension schemes at 30 September 2022 are set out in note 14 of the interim statement.

	30 September 2022 £m	31 March 2022 £m
Fair value of plan assets	3,482.1	4,733.1
Present value of benefit obligations	(3,334.7)	(4,541.5)
Net surplus/(deficit) at 30 September	**147.4**	**191.6**

As at 30 September 2022 the key assumptions used in valuing pension liabilities were:

Discount rate 4.7% - 5.1% (31 March 2022: 2.7%, 30 September 2021: 2.0%)

Inflation rate (RPI) 12.2% for one-year and long-term rates of 3.5% - 3.7% (31 March 2022: 3.4% - 3.7%, 30 September 2021: 3.4%)

Income statement charge

The charge included within underlying operating profit in HY23 was £(16.5) million (HY22: £19.5 million), of which £13.1 million (HY22: £15.8 million) related to service costs and £3.4 million (HY22: £3.7 million) related to expenses. In addition to this, there was a pension interest credit of £3.6 million (HY22: charge of £2.6 million).

Actuarial valuations

An estimate of the actuarial deficits of the Group's defined benefit pension schemes, including all longevity swap funding gaps calculated using each Scheme's respective technical provisions basis, was approximately £300 million at 30 September 2022 (31 March 2022: c.£350 million). Such valuations use discount rates based on UK gilts – which differs from the corporate bond approach of IAS 19. This technical provision estimate is based on the assumptions used within the latest agreed valuation prior to 30 September 2022 for each of the three main schemes and does not fully allow for the impact of RPI reform which will be fully reflected in future technical provisions valuations.

The valuation dates of the three largest schemes are set so that only one scheme is undertaking its valuation in any one year, in order to spread the financial impact of market conditions. The valuation of the Devonport Royal Dockyard Pension Scheme as at 31 March 2020 completed in the last half of FY21, the valuation of the Rosyth Royal Dockyard Pension Scheme as at 31 March 2021 was completed in HY23, and work commenced on the valuation of the Babcock International Group Pension Scheme at 31 March 2022.

OPERATIONAL REVIEWS

Marine

Financial review

	30 September 2022	30 September 2021
Contract backlog	£2.4bn	£2.6bn
Revenue	£666.4m	£627.4m
Underlying operating profit	£47.3m	£38.9m
Underlying margin	7.1%	6.2%

Revenue and underlying operating profit bridge:

	30 September 2021 £m	FX Impact £m	Acquisitions and disposals £m	Other trading £m	30 September 2022 £m
Revenue	627.4	8.2	18.8	12.0	666.4
Underlying operating profit	38.9	0.6	(0.9)	8.7	47.3

Revenue grew by 6% to £666 million, or 2% on an organic basis. Growth was mainly from our Mission Systems business, including for current military operations, continued strong demand for our LGE products and higher activity on our South Korean submarine contract, partly offset by lower revenue on Type 31 due to programme phasing. The combined net impact of the NSM acquisition in March 2022 and disposal of Frazer Nash Consultancy Ltd in August 2021 was a 3% increase in revenue.

Underlying operating profit grew by 22% to £47.3 million on a reported and organic basis. The year-on-year increase was driven by growth in higher margin revenues outlined above and cost savings from restructuring in the prior period with some improved cost recoveries in the period. Underlying operating margin improved by 90 basis points to 7.1%.

Integration of NSM with our Australian operations is on track. The business contributed revenue of c.£64 million in the first half.

Contract backlog was largely flat over the period at £2,426 million (FY22: £2,491 million) but down 7% on the prior year, as disposals and trading of contracts more than offset new orders.

Operational review

UK defence

The Type 31, Inspiration Class frigate programme remains on schedule, with keel laying on the first ship, HMS Venturer, and the first 177-tonne block of eight positioned, marking the start of the whole ship assembly.

Warship support activity remained elevated across our sites. During the period, we secured a 10-year contract to provide dry-dock maintenance for the Royal Navy’s Queen Elizabeth Class (QEC) aircraft carriers with October seeing HMS Prince of Wales return for docking. The Type 23 frigate life-extension (LIFEX) programme at Devonport continues at pace, including the first post-LIFEX upkeep on a Type 23 with overhaul of equipment and design changes for new capabilities. Additionally, through Mission Systems, Babcock was awarded a six-year contract to deliver, install and provide in-service support for Ardent Wolf, the maritime Communications Electronic Support Measures (CESM) capability for the UK Royal Navy's Type 23 frigates.

In Mission Systems, we are continuing to build our scope for the next generation UK submarine programme, working closely with BAE Systems to explore the future requirements for handling and launch systems. In defence digital and electronic warfare, the overall programme performance continues to improve after a challenging mobilisation period. We are building confidence with our customers and remain focused on achieving the required milestones throughout 2023.

Our Logistics Support Contract has been successfully mobilised and is moving into a steady operational delivery phase. We maintained a strong delivery performance in the period, attaining achievement on all KPIs and delivery milestones to date. Additionally in Mission Systems, we signed a Memorandum of Understanding (MoU) with Rafael Advanced Defence Systems to deliver capability into the UK Ministry of Defence’s wider Land Ground Based Air Defence (GBAD) programme and signed a further MoU with Israel Aerospace Industries’ (IAI) Group to offer a deep-find radar solution for the UK MODs SERPENS programme.

International defence

We support international defence markets from our UK operations and from our businesses in Canada, Australia, New Zealand, Oman, and South Korea.

In **Australia**, we are integrating the NSM business into our wider operations. After the period end NSM was selected as the preferred Regional Maintenance Provider West, to manage the sustainment of Royal Australian Navy ships in Western Australia over the next five years.

Following selection as preferred tenderer in late 2022, we have been awarded a c.£500 million contract for the upgrade and sustainment of the Defence High Frequency Communication System (DHFC) to support the Australian armed forces over the next 10 years.

In **New Zealand**, the new Maritime Fleet Sustainment Services (MFSS) contract with New Zealand Defence Force formally began in September 2022.

In **Canada**, Babcock continues to deliver on its Victoria Class In-Service Support (VISSC) contract and is preparing to support HMCS Cornerbrook's sea trials this autumn, before returning the submarine to the Royal Canadian Navy later this year. Planning and preparations are also underway for the deep maintenance period for HMCS Victoria.

In **Poland**, Babcock secured two further contracts on the Polish MIECZNIK (Swordfish) frigate programme, building on our selection as Design & Technology Partner to PGZ (the Polish Prime Contractor). The Class Design Contract and the Transfer of Knowledge & Technology (TOKAT) framework agreement, respectively support further development of the programme and shipbuilding capability in Poland.

In **Indonesia**, we continue to progress our design licence agreement with PT PAL for the AH140 frigate. The design licence will enable PAL to build two frigates in Indonesia with bespoke design modifications for the Indonesian Navy.

In **South Korea**, in June we commenced our first contract with the Republic of Korea Government (ROKG) Agency for Defence Development. In September, we received a first maintenance contract from Daewoo Shipbuilding and Marine Engineering (DSME) to support the first of the Jangbogo-III Class submarines, with a second phase of this work secured in October.

In **Oman**, our joint venture operation in Duqm successfully delivered fleet-time support to international navies.

In **Brazil**, we established an in-country project team to deliver through-life support to the Marinha do Brasil's flagship vessel, NAM Atlantico, formerly the UK Royal Navy platform HMS Ocean, and continue to explore future opportunities with the Marinha do Brasil's and other international navies as part of our global support programme.

Energy and Marine

Our Energy and Marine business (LGE) experienced continued success in the period, securing a further 20 contracts and projects together worth over £110 million in the LPG, LNG, and ethane markets. We are also partnering to develop liquefied CO^2 carrier designs which support the global adoption of carbon capture and storage - a crucial step towards decarbonisation – with the ability to transport large quantities of liquefied CO^2 by ship.

Nuclear

Financial review

	30 September 2022	30 September 2021
Contract backlog	£2.5bn	£3.0bn
Revenue	£558.2m	£516.3m
Underlying operating profit	£30.1m	£36.2m
Underlying margin	5.4%	7.0%

Revenue and underlying operating profit bridge:

	30 September 2021 £m	FX Impact £m	Acquisitions and disposals £m	Other trading £m	30 September 2022 £m
Revenue	516.3	–	–	41.9	558.2
Underlying operating profit	36.2	–	–	(6.1)	30.1

Revenue grew by 8% driven primarily by the continued strong ramp up in submarine infrastructure programmes on the Devonport site, as well as increased activity in civil nuclear.

Underlying operating profit fell by 17%, mainly due to an additional £6 million programme provision. Infrastructure revenue earns a lower margin (as it has lower delivery risk) and this, coupled with slightly lower margin on submarine support led to underlying margin falling to 5.4%.

Contract backlog unwound 9% in the period to £2,547 million (FY22: £2,789 million) and by 16% compared to the prior period, due to the trading of long-term contracts, specifically FMSP.

Operational review

Defence

The infrastructure programme at Devonport to support future submarine demand has seen good progress in the period. In addition to major work to evolve 10 Dock for the future Astute Class, work is now also underway at 9 Dock to deliver improvements in the maintenance, life extension and facility capability for the Vanguard Class submarines.

We are continuing to target and deliver improvements to ensure the ongoing availability of the Royal Navy platforms within the Future Maritime Support Programme (FMSP) contract. At Faslane, Scotland, we continue to successfully support the UK's enduring defence priority, Continuous At Sea Deterrent (CASD), from HMNB Clyde alongside Astute and Trafalgar Class submarines. Base Maintenance Periods have been completed on schedule on Vanguard and Astute Class submarines. Our submarine work has benefitted from collaboration with the Royal Navy and the Submarine Delivery Agency (SDA). All of these projects have been supported by the introduction of revised working patterns as part of transformative changes being implemented within the FMSP contract.

We have signed up to the Submarine Availability Partnership (SMAP) with the SDA to deliver a further step change in submarine availability for the UK, building on the good work already achieved across both organisations and bringing together existing plans to accelerate and enhance delivery in mission critical areas.

Civil

We are seeing continued momentum in the civil nuclear market and the business continues to position for future opportunities. Building on our experience and existing role at Hinkley Point C, we are continuing to engage on opportunities relating to the execution of the new Sizewell C Nuclear Power station.

A Memorandum of Understanding (MoU) has been signed with US nuclear reactor and fuel design engineering company X-energy to act as its deployment partner for High Temperature Gas Reactors in the UK. The MoU complements our civil nuclear business' support to all three nuclear streams of the UK Government's Energy Security Strategy: Large Gigawatt Reactors, Small Modular Reactors, and Advanced Modular Reactors, such as High Temperature Gas-Cooled Reactors with the capability to focus on industrial heat and hydrogen.

Recognising the similarities in UK and US nuclear plant design and operations, and the opportunity to collaborate with US partners to leverage our proven track record of managing UK nuclear sites comparable in size and scope, we have established a footprint in the US, opening an office in Arlington, Virginia.

Land

Financial review

	30 September 2022	30 September 2021 (restated)*
Contract backlog	£2.4bn	£2.4bn
Revenue	£478.2m	£510.1m
Underlying operating profit	£38.0m	£29.8m
Underlying margin	7.9%	5.8%

* Refer to Note 3 of the interim financial statements for details regarding the prior period restatement

Revenue and underlying operating profit bridge:

	30 September 2021 (restated)* £m	FX Impact £m	Acquisitions and disposals £m	Other trading £m	30 September 2022 £m
Revenue	510.1	3.6	(43.9)	8.4	478.2
Underlying operating profit	29.8	0.4	(4.0)	11.8	38.0

* Refer to Note 3 of the interim financial statements for details regarding the prior period restatement

Revenue declined 6%, with 2% organic growth offset by the impact of the UK Power disposal in December 2021. Higher rail volumes and increased demand for vehicles in the mining sector in South Africa were the key growth drivers, partially offset by the loss of the Eskom contract in South Africa in FY22.

Underlying operating profit increased 28% to £38.0 million, or 40% organically, reflecting revenue growth in South Africa and higher margin sales linked to short-term military operations, , a one-off profit adjustment of £3 million (net) and improved margins in UK fleet management and training. These resulted in a 210 basis point increase in underlying margin to 7.9%.

Contract backlog increased 5% in the period to £2,429 million (FY22: £2,309 million) and was broadly flat compared to a year ago. HY22 was restated to remove reclassified pass-through revenue (principal versus agent) of c.£510million.

Operational review

Defence

Performance in our defence equipment activity improved in the period, including our DSG contract following a successful transformation programme and we continue to support our British Army customer as they plan for the future of their equipment and how it is supported. Discussions have commenced on the extension of the contract. In addition, we successfully extended our Phoenix 2 contract which delivers the MoD's 'white fleet' service for a further two years. We continue to invest in our defence fleet management capability and are now tracking a number of defence equipment support opportunities in our core territories.

Through our existing contracts Babcock contributed to the British Army's support to the Armed Forces of Ukraine, refurbishing and regenerating equipment that has been gifted in kind by the UK government and supporting the training of Ukrainian nationals in a range of domains.

Our Defence Training business performed well across all contracts with new models of delivery post-COVID continuing to offer operational benefits for our customers. We have been working closely with our customers to contextualise the training we deliver in light of the conflict in Ukraine and are closely supporting the British Army's Mobilise campaign. We have submitted a rebid for our Armour Support Centre (ASC) contract and anticipate the result in the coming months. A range of significant opportunities exist in our UK pipeline including the Collective Training Transformation Programme (CTTP) and Next Generation Trade Training (NGTT).

Internationally, we continue to deliver and pursue Land defence opportunities in Australia. Babcock is one of four short-listed tenderers for the LAND-125 Phase 4 – Integrated Soldier System program, to integrate a wide range of connected technologies including un-crewed ground and aerial systems and self-learning machines for Australian soldiers.

Emergency Services

In our Assets business we have seen good performance in our London Fire Brigade (LFB) contract, with recognition for our support during the summer 2022 heatwave, which saw the busiest operational period for the LFB since World War Two. Delivery on our Metropolitan Police (MPS) contract has been stable through a challenging period that included a significant surge in demand during the funeral of HM Queen Elizabeth II.

Our training contracts also performed well in the period, with significant demand in both LFB and MPS contracts as both customers seek to meet recruitment targets. Our MPS PEQF training programme is now well established and performing well.

South Africa

Our business in South Africa had a strong half year with a record performance in the equipment business mainly driven by demand from the mining industry which has been created from energy supply shortages as well as battery minerals. This increase in demand is expected to be short-term but has offset the loss of the Eskom Boilerserve contract in FY22.

Other civil markets

Our Rail business had a good start to the year, and we continue to focus on delivery in our two key regions of Scotland and Northern Ireland. In September we agreed to sell our civil training business to Inspirit Capital. We expect to complete the transaction in the coming months.

Aviation

Financial review

	30 September 2022	30 September 2021
Contract backlog	£2.4bn	£2.4bn
Revenue	£441.2m	£472.3m
Underlying operating profit	£6.3m	£10.4m
Underlying margin	1.4%	2.2%

Revenue and underlying operating profit bridge:

	30 September 2021 £m	FX Impact £m	Acquisitions and disposals £m	Other trading £m	30 September 2022 £m
Revenue	472.3	2.3	(79.0)	45.6	441.2
Underlying operating profit	10.4	0.5	(2.2)	(2.4)	6.3

Revenue declined by 7% to £441 million, primarily due to the disposal of our Oil and Gas business in August 2021. Organic growth of 10% was driven by continued ramp-up of our French defence contracts (Mentor and H160) and higher activity in the Italian Aerial Emergency Services (AES) business.

Underlying operating profit decreased to £6.3 million (HY22: £10.4 million) despite further cost savings, due to increased fuel costs in our European AES business (£4 million) and continued high bid costs on a tender due to be submitted in H2. Underlying operating margin decreased by 80 basis points to 1.4%.

Contract backlog increased 7% in the period to £2,450 million (FY22: £2,294 million), due largely to renewal of the multi-year Hawk support contract.

Operational review

Defence

Activity across UK defence remains steady. In this period, our military business secured an 11-year contract with BAE Systems to continue supporting the Hawk TMk1 and TMk2 aircraft at RAF Valley. Aviation also won a new contract to support the Royal Air Force Aerobatics Team (Red Arrows) with line and depth maintenance from RAF Waddington.

Performance of HADES (RAF support) and LAFT2 (Light Aircraft Flying Task) remains good, with contract extensions secured on both contracts in FY22. Tutor recovery is making strong progress with 80 aircraft available to the customer.

Babcock will fulfil the critical role of support partner for the H175M Task Force, the UK-based industry team created to offer, supply and support the British-produced H175M helicopter for the UK's New Medium Helicopter (NMH) requirement.

In France, activity continues to ramp up on the Mentor contract, with delivery of the first two PC21 aircraft due in December. We have delivered around 28,000 flight hours and around 18,000 simulator hours to date as part of FOMEDEC contract in France. In addition, we delivered the first H160 aircraft to the French Navy and expect to deliver another unit in H2. During the first half we were awarded a new maintenance, repair and overhaul MRO contract awarded by The Spanish Army for the inspection and maintenance of eight EC135 helicopters.

Aerial emergency services

During the half year, our emergency services business secured a number of contract extensions. In the UK, we signed a five-year extension with the Great Western Air Ambulance and were awarded a three-year extension with the Hampshire and Isle of Wight Air Ambulance.

In Europe our crews helped extinguish around 1,800 fires, in a highly intense firefighting season across Europe, particularly Italy. Tragically in October two of our pilots lost their lives following an accident during a firefighting mission in Sicily.

In **France**, two EC135 aircraft were delivered to French Customs as part of the seven-year contract to service and support the French Customs and Gendarmerie Nationale fleet. While in **Canada**, this year's wildfire season in Manitoba saw fewer flying hours.

In **Australia**, Babcock submitted a tender for the South Australian State Police Ambulance & Rescue Aviation Service, which combines both fixed and rotary wing aviation emergency services under a single prime contract. We are currently the provider of the rotary wing rescue emergency services element to the South Australian Government.

In July 2022, we entered into an agreement to sell our European (Spanish, Italian, Portuguese and Scandinavian) AES businesses to Ancala Partners for a gross consideration of €136.2 million (c.£115 million) subject to closing adjustments. We continue to expect the sale completion in the coming months.

Financial Glossary – Alternative performance measures

The Group provides alternative performance measures, including underlying operating profit, to enable users to better understand the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. They are used by management to assess operating performance and as a basis for forecasting and decision-making, as well as the planning and allocation of capital resources. They are also understood to be used by investors in analysing business performance.

Further information on the Group's specific adjusting items, which is a critical accounting judgement, can be found in Note 2.

The Group's alternative performance measures are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies, and they are not intended to be a substitute for, or superior to, measures defined under IFRS.

The Group's alternative performance measures are consistent with the period ended 30 September 2021.

Measure	Closest equivalent IFRS measure	Definition and purpose	Adjustments to reconcile to IFRS measure (and reference to reconciliation)
Revenue measures			
Organic growth	Revenue growth year-on-year	Growth excluding the impact of foreign exchange (FX), and contribution from acquisitions and disposals over the prior and current year - Used to measure the year-on-year movement in Group revenue - It is a good indicator of business growth - Group KPI	FX, contribution of acquisitions and disposals in the current and prior period
Contract backlog	IFRS15	Contracted revenue excluding variable revenue, expected contract renewals, expected revenue from framework agreements and impact of termination for convenience clauses. - Used to measure revenue under contract as a good indicator of revenue visibility	
Profit measures			
Underlying operating profit	Operating profit	Operating profit before the impact of specific adjusting items[1] - Underlying operating profit is the headline measure of the Group's performance	specific adjusting items[1] - See table on page 9 - See note 2
Underlying operating margin	No direct equivalent	Underlying operating profit as a percentage of revenue - To provide a measure of operating profitability, excluding one-off items - Operating margin is an important indicator of operating efficiency across the Group - Group KPI	Ratio – N/A
Underlying net finance costs	Net finance costs	Net finance costs excluding adjusting items[1] - To provide an alternative measure of underlying finance costs excluding items such as fair value measurements which can fluctuate significantly on inputs outside of management's control	specific adjusting items[1] - See table on page 9
Underlying profit before tax	Profit before tax	Profit before tax adjusted for - The summation of the impact of all adjusting items on profit before tax	specific adjusting items[1] - See table on page 9
Underlying effective tax rate	Effective tax rate	Tax expense excluding the tax impact of specific adjusting items[1], as a percentage of underlying profit before tax (being the summation of the impact of all adjusting items on profit before tax) excluding the share of post-tax income from joint ventures and associates - To provide an indication of the ongoing tax rate across the Group, excluding one-off items	specific adjusting items[1] - See table on page 9

Measure	Closest equivalent IFRS measure	Definition and purpose	Adjustments to reconcile to IFRS measure (and reference to reconciliation)
Profit measures continued			
Underlying basic earnings per share	Basic earnings per share	Based on the Group's underlying profit before tax. It includes the Group's post-tax share of results of joint ventures and associates	specific adjusting items[1] - See table on page 9
EBITDA	Operating profit	Underlying operating profit plus depreciation and amortisation, and various covenant adjustments linked to the Revolving Credit Facility including the treatment of leases within operating profit and pension costs - Used as the basis to derive the gearing ratio net debt/EBITDA, which is a key measure of balance sheet strength and the basis of our debt covenant calculations	specific adjusting items[1] Depreciation and amortisation Covenant adjustments - See table on page 16
Balance sheet			
Net debt	No direct equivalent	Cash and cash equivalents and short-term investments, less bank and other borrowings, operating leases and net derivative financial instruments - Used as a general measure of the progress in generating cash and strengthening of the Group's balance sheet position	- See table on page 12 - See table on page 13
Net debt (excluding operating leases)	No direct equivalent	Net debt excluding lease liabilities as defined by IAS 17, the relevant standard at the inception of the banking facility. This net debt figure also includes finance lease (as defined by IAS 17) receivables and payables, loans from the Group to joint ventures and supply chain financing balances (of HY22: £2 million, HY22: £25 million). - Used by management to monitor the strength of the Group's balance sheet position and to ensure the Group's capital structure is appropriate - Used by credit agencies	- See table on page 13 -
Net debt (covenant basis)	No direct equivalent	Net debt (excluding operating leases), excluding loans to Joint Ventures, finance lease receivables and adjusting for an average FX rate for the previous 12 months - Used by debt investors - Used by credit agencies	- See table on page 16
Net debt/EBITDA (covenant basis)	No direct equivalent	Net debt (covenant basis) divided by EBITDA - A measure of the Group's ability to meet its payment obligations - Used by analysts and credit agencies - Group KPI	Ratio – N/A - See table on page 16
Return on invested capital (pre-tax) (ROIC)	No direct equivalent	Underlying operating profit plus share of JV PAT, divided by the sum of net debt, shareholders' funds and retirement deficit (surplus) - Used as a measure of profit earned by the Group generated by the debt and equity capital invested, to indicate the efficiency at which capital is allocated - Group KPI	Ratio – N/A - See table on page 16
Return on invested capital excluding one-off CPBS adjustments (pre-tax)	No direct equivalent	Underlying operating profit plus share of JV PAT excluding one-off CPBS adjustments, divided by the sum of net debt, shareholders' funds and retirement deficit (surplus) - Used as a measure of profit earned by the Group excluding the one-off impact of CPBS adjustments generated by the debt and equity capital invested, to indicate the efficiency at which capital is allocated	Ratio – N/A - See table on page 16

Cash flow measures			
Net capital expenditure	No direct equivalent	Property, plant and equipment and intangible assets, less proceeds on disposal of property, plant and equipment - Includes underlying operating cash flow to calculate underlying operating cash conversion	
Underlying operating cash conversion	No direct equivalent	Underlying operating cash flow after capital expenditure as a percentage of underlying operating profit - Used as a measure of the Group's efficiency in converting profits into cash	Ratio – N/A
Underlying free cash flow	No direct equivalent	Underlying free cash flow includes cash flows from exceptional items and the capital element of lease payment cash flows (rather than net new lease commitments, which are reflected as a debt movement) - Provides a measure of cash generated by the Group's operations after servicing debt and tax obligations, available for use in line with the Group's capital allocation policy	- See page 13

1. Refer to Note 2 in the interim financial statements

Risks and uncertainties

The principal risks and uncertainties affecting the Group are listed below and are set out in more detail in the Company's Annual Report and Financial Statements 2022, which should be read in conjunction with this announcement when published. This list is not a substitute for reading the Company's Annual Report and Financial Statements 2022 in full. The Group's principal risks and uncertainties are:

Existing markets: we rely heavily on winning and retaining large contracts with a relatively limited number of major clients, whether in the UK, particularly the Ministry of Defence, or overseas, many of whom are (directly or indirectly) owned or controlled by government (national or local) and/or are (wholly or partly) publicly funded

New markets: We seek new markets and contracts for our services both with existing and new customers, whether in territories where we are already established or in territories where we are not

Financial resilience: The Group is exposed to a number of financial risks, some of which are of a macroeconomic nature (for example, foreign currency, interest rates) and some of which are more specific to the Group (for example, liquidity, covenant headroom and credit risks)

Contract performance: We operate large contracts, which often requires us to price for the long term and for risk transfer. Our contracts may include fixed price which assumes inflation risk

Business interruption: Failure to withstand the impact of an event or a combination of events may significantly disrupt all or a substantial part of the Group's business

Operational resilience: We are undertaking multiple change programmes with the introduction of a new strategy, a new operating model to restructure the shape of the Group, and a new people strategy, as well as undertaking the rationalisation of both the business portfolio and our property portfolio. Additionally, there are several new material opportunities that the Group may pursue – some in new geographies – that may further stretch management bandwidth

Health, safety and environmental: Our operations entail the potential risk of significant harm to people, property or the environment, wherever we operate across the world

Regulatory and compliance burden: Our businesses are subject to the laws, regulations and restrictions of the many jurisdictions in which they operate

People: We operate in many specialised engineering and technical domains, which require appropriate skills and experience

Pensions: The Group has significant defined benefit pension schemes in the UK, which provide for a specified level of pension funds to scheme members

IT and security: A key factor for our customers is our ability to deliver secure IT and other information assurance systems to maintain the confidentiality of sensitive information

Acquisitions and disposals: We have built our core strengths organically and through acquisition. Decisions to acquire companies, as well as the process of their acquisition and integration, are complex, time-consuming and expensive. If we believe that a business is not "core" we may decide to sell that business

Emerging risks: In addition, as part of its risk work, the Group is monitoring two further risks. Both risks are not standalone risks but affect several of the Group's principal risks. The two risks are:

Inflation: The global economy is experiencing increasing inflationary pressure, both in terms of supplier costs and in terms of labour rates. The inflationary environment may be exacerbated by the conflict in Ukraine. The Group has a number of long-term contracts, which may include fixed price elements or saving commitments. We also have collective bargaining agreements with our workforce at certain sites. If we experience increased costs, which we are not able to pass on, this will affect the profitability of the contracts concerned and could mean that they become loss-making or that we are unable to meet our contractual commitments, leading to an adverse financial impact and a longer-term reputational impact.

Supplier resilience: Our supply chain is subject to the same global inflationary pressures. Furthermore, the global supply of raw materials and parts has not fully recovered from the Covid-19 pandemic and Brexit disruption, leading to supply interruptions. As with inflation, this could be exacerbated by the conflict in Ukraine. As a result, there is a risk that our suppliers may suffer financial distress and not be able to fulfil their contracted supply agreements with us. This could add additional cost and time to our programmes, which we may not be able to pass onto our end-customer. See comments in the CEO Statement on page 5 for an update on pensions, inflation and supply chain risks in HY23.

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.

The Group financial statements were approved by the Board of Directors on 22 November 2022 and are signed on its behalf by:

D Lockwood	**D Mellors**
Director	Director

Group income statement (unaudited)

	Note	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 (restated *) £m
Revenue	2,4	2,144.0	2,126.1
Cost of revenue		(1,920.7)	(1,889.2)
Gross profit		223.3	236.9
Administration and distribution expenses		(150.5)	(145.2)
Loss on divestments	15	–	(16.3)
Operating profit	2,4	72.8	75.4
Other income		–	6.2
Share of results of joint ventures and associates	2,4	6.6	9.6
Finance income	5	10.1	5.6
Finance costs	5	(38.3)	(38.0)
Profit before tax		51.2	58.8
Income tax expense	6	(14.2)	(4.6)
Profit for the period		37.0	54.2
Attributable to:			
Owners of the parent		34.6	52.2
Non-controlling interest		2.4	2.0
		37.0	54.2
Earnings per share	2		
Basic		6.8p	10.3p
Diluted		6.7p	10.2p

In the six months ended 30 September 2022, the Group restated the prior period financial information. Details of the restatement are contained in note 3.

Condensed consolidated statement of comprehensive income (unaudited)

	Note	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 (restated *) £m
Profit for the period		37.0	54.2
Other comprehensive (loss)/income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		7.7	(6.9)
Reclassification of cumulative currency translation reserve on disposal		–	(7.3)
Fair value adjustment of interest rate and foreign exchange hedges		–	(7.8)
Tax, including rate change impact, on fair value adjustment of interest rate and foreign exchange hedges		–	3.8
Hedging gains/(losses) reclassified to profit and loss		2.9	(3.1)
Share of other comprehensive income of joint ventures and associates		3.1	2.7
Items that will not be subsequently reclassified to income statement			
Remeasurement of retirement benefit obligations		(124.0)	113.7
Tax, including rate change impact, on remeasurement of retirement benefit obligations		31.0	(13.5)
Other comprehensive (loss)/income, net of tax		(79.3)	81.6
Total comprehensive (loss)/income		(42.3)	135.8
Total comprehensive (loss)/income attributable to:			
Owners of the parent		(44.0)	133.8
Non-controlling interest		1.7	2.0
Total comprehensive (loss)/income		(42.3)	135.8

In the six months ended 30 September 2022, the Group restated the prior period financial information. Details of the restatement are contained in note 3.

Condensed consolidated statement of changes in equity (unaudited)

	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 2021*	303.4	873.0	768.8	30.6	(1,671.7)	(42.7)	(48.4)	213.0	16.0	229.0
Profit for the period	–	–	–	–	52.2	–	–	52.2	2.0	54.2
Other comprehensive income (as restated **)	–	–	–	–	100.2	(4.4)	(14.2)	81.6	–	81.6
Total comprehensive income	–	–	–	–	152.4	(4.4)	(14.2)	133.8	2.0	135.8
Share-based payments	–	–	–	–	2.0	–	–	2.0	–	2.0
Tax on shared-based payments	–	–	–	–	0.9	–	–	0.9	–	0.9
Net movement in equity	–	–	–	–	155.3	(4.4)	(14.2)	136.7	2.0	138.7
At 30 September 2021 restated	303.4	873.0	768.8	30.6	(1,516.4)	(47.1)	(62.6)	349.7	18.0	367.7
At 1 April 2022	303.4	873.0	768.8	30.6	(1,241.4)	4.0	(56.4)	682.0	19.5	701.5
Profit for the period	–	–	–	–	34.6	–	–	34.6	2.4	37.0
Other comprehensive (loss)/income	–	–	–	–	(93.0)	6.0	8.4	(78.6)	(0.7)	(79.3)
Total comprehensive (loss)	–	–	–	–	(58.4)	6.0	8.4	(44.0)	1.7	(42.3)
Share-based payments	–	–	–	–	4.0	–	–	4.0	–	4.0
Tax on shared-based payments	–	–	–	–	(0.7)	–	–	(0.7)	–	(0.7)
Net movement in equity	–	–	–	–	(55.1)	6.0	8.4	(40.7)	1.7	(39.0)
At 30 September 2022	303.4	873.0	768.8	30.6	(1,296.5)	10.0	(48.0)	641.3	21.2	662.5

*Amount included in this line relates to amounts stated in the annual report for the year ended 31 March 2022.

** Other comprehensive income has been restated for the six months ended 30 September 2021. Further detail is included in note 3.

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.

Condensed consolidated statement of financial position (unaudited)

	Note	As at 30 September 2022 £m	As at 31 March 2022 (restated *) £m
Assets			
Non-current assets			
Goodwill	7	783.1	782.9
Other intangible assets		174.6	177.3
Property, plant and equipment		725.1	710.6
Right of use assets		312.9	334.3
Investment in joint ventures and associates		58.7	54.3
Loans to joint ventures and associates		10.1	12.1
Retirement benefit surpluses	14	177.4	300.9
Other financial assets		9.5	10.0
Lease receivables		23.2	24.1
Derivatives		11.1	–
Deferred tax asset		75.4	47.3
Trade and other receivables	9	10.8	9.7
		2,371.9	2,463.5
Current assets			
Inventories		141.7	142.7
Trade and other receivables	9	510.1	488.8
Contract assets	9	406.3	299.3
Income tax recoverable		18.8	25.4
Lease receivables		22.2	23.3
Derivatives		32.2	11.4
Cash and cash equivalents	13	1,137.9	1,146.3
		2,269.2	2,137.2
Total assets		4,641.1	4,600.7
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital		303.4	303.4
Share premium		873.0	873.0
Capital redemption and other reserves		761.4	747.0
Retained losses		(1,296.5)	(1,241.4)
Total equity attributable to owners of the parent		641.3	682.0
Non-controlling interest		21.2	19.5
Total equity		662.5	701.5
Non-current liabilities			
Bank and other borrowings		963.8	847.7
Lease liabilities		263.3	329.3
Trade and other payables	10	1.1	1.0
Deferred tax liabilities		9.4	9.6
Derivatives		46.0	59.3
Retirement benefit deficits	14	30.0	109.3
Provisions for other liabilities	12	50.4	60.3
		1,364.0	1,416.5
Current liabilities			
Bank and other borrowings		805.7	863.4
Lease liabilities		166.3	104.8
Trade and other payables	10	1,003.1	888.1
Contract liabilities	10	493.1	518.3
Income tax payable		23.7	17.7
Derivatives		60.4	34.8
Provisions for other liabilities	12	62.3	55.6
		2,614.6	2,482.7
Total liabilities		3,978.6	3,899.2
Total equity and liabilities		4,641.1	4,600.7

The Group has restated the statement of financial position at 31 March 2022. Details of the restatements are contained in note 3.

Condensed consolidated cash flow statement (unaudited)

	Note	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 (restated *) £m
Cash flows from operating activities			
Profit for the period		37.0	54.2
Share of results of joint ventures and associates		(6.6)	(9.6)
Income tax expense	6	14.2	4.6
Finance income	5	(10.1)	(5.6)
Finance costs	5	38.3	38.0
Depreciation and impairment of property, plant and equipment		37.2	31.4
Depreciation and impairment of right of use assets		52.5	62.4
Amortisation and impairment of intangible assets		16.6	18.3
Equity share based payments		4.0	2.0
Net derivative fair value movement through profit or loss		23.2	0.1
Loss on disposal of subsidiaries, businesses and joint ventures and associates	15	–	16.3
(Profit)/loss on disposal of property, plant and equipment		(0.6)	0.4
Profit on disposal of right of use assets		(0.1)	–
Loss on disposal of intangible assets		–	0.5
Cash generated from operations before movement in working capital and retirement benefit payments		205.6	213.0
Decrease/(increase) in inventories		1.1	(8.9)
Increase in receivables		(109.3)	(11.7)
Increase/(decrease) in payables		59.1	(110.7)
Decrease in provisions		(5.1)	(3.7)
Retirement benefit payments in excess of income statement		(76.2)	(88.5)
Cash generated from operations		75.2	(10.5)
Income tax paid		(12.2)	(10.3)
Interest paid		(20.9)	(23.9)
Interest received		6.8	4.4
Net cash flows from operating activities		48.9	(40.3)
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	15	–	8.0
Dividends received from joint ventures and associates		5.1	24.7
Proceeds on disposal of property, plant and equipment		22.7	10.3
Purchases of property, plant and equipment		(52.8)	(77.7)
Purchases of intangible assets		(6.8)	(4.7)
Loans repaid by joint ventures and associates		2.0	0.6
Net cash flows from investing activities		(29.8)	(38.8)
Cash flows from financing activities			
Lease principal payments		(54.2)	(69.6)
Cash outflow from non-hedging derivatives		–	(5.4)
Bank loans repaid		(60.7)	(15.3)
Loans raised and facilities drawn down		153.3	3.8
Net cash flows from financing activities		38.4	(86.5)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	13	57.5	(165.6)
Cash, cash equivalents and bank overdrafts at beginning of period		756.5	530.9
Effects of exchange rate fluctuations		1.1	1.2
Cash, cash equivalents and bank overdrafts at end of period	13	815.1	366.5

In the six months ended 30 September 2022, the Group restated the prior period financial information. Details of the restatement are contained in note 3.

1. Basis of preparation and significant accounting policies

These condensed consolidated half year financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting and the Disclosures and Transparency Rules of the Financial Services Authority, the Listing Rules and UK adopted International Financial Reporting Standards (IFRS). They should be read in conjunction with the Annual Report and financial statements for the year ended 31 March 2022, which were prepared in accordance with IFRS and the applicable legal requirements of the Companies Act 2006. These condensed consolidated half-yearly financial statements do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006. The annual report and financial statements for the year ended 31 March 2022 were reported upon by the Group's auditor and delivered to the registrar of companies. The report of the auditor on the annual report and financial statements for the year ended 31 March 2022 was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain statements under Section 498 (2) or (3) of the Companies Act 2006. The accounting policies used and presentation of these condensed consolidated half year financial statements are consistent with the accounting policies applied by the Group in its consolidated annual report and financial statements as at, and for the year ended, 31 March 2022, and comply with amendments to IFRS.

The half year report for the six months ended 30 September 2022 was approved by the Directors on 22 November 2022.

Significant accounting policies

New and amended standards adopted by the Group

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.

Basis of preparation

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

In assessing the appropriateness of the going concern basis of accounting, the Directors have considered whether the Group has adequate resources to continue in operational existence for at least 12 months from the date of signing. The Directors reviewed the resources available to the Group in the form of cash and committed facilities. As of 30 September 2022, the Group's committed facilities and bonds totalling £2.3 billion were the £300 million revolving credit facility (RCF), the £775 million five-year multi-currency RCF, and the three tranches of notes (€550 million 1.75% notes, £300m million 1.875% notes and €550 million 1.375% notes) issued under the Group's Eurobond programme. The €550 million 1.75% notes matured on 6 October 2022 and were settled using cash available in the balance sheet (being £1,137.9m cash, offset by £322.8m of overdrafts). The going concern assessment, and forecasting of covenants below, reflected this post balance sheet date event.

The RCFs are the only facilities with covenants attached. The key covenant ratios are (i) net debt to EBITDA (gearing ratio) and (ii) EBITDA to net interest (interest cover). These are measured twice per year, on 30 September and 31 March. To assess the level of headroom within the available facilities, a reverse stress test was performed to determine the level of performance deterioration against the base case budget (in both EBITDA and net debt) that would be required to challenge covenant levels. Of the remaining measurement points within the five-year period approved by the Board, the lowest required reduction in forecast EBITDA to hit the covenant level was 60% and the lowest net debt increase was 90%. Given the mitigating actions that are available and within management's control, such movements are not considered plausible. There have been no breaches of debt covenants during the reporting period.

The Directors have also considered the Group's forecasts when assessing going concern, having considered the 18-month period from the date of signing the Group's condensed consolidated financial statements for the six months ended 30 September 2022. These are prepared using a bottom-up approach, aggregating the budgets for the individual business units into Sector budgets. The Sector budgets and the consolidated Group budget is then reviewed by the Board and used to monitor business performance. The impacts of current economic conditions, including inflation, have been incorporated into the forecasts.

The Directors have performed sensitivity analyses on the latest Group forecast for the duration of the assessment period. These sensitivities include a reduction in bid pipeline closure (business winning), a reduction in the assumed restructuring savings, a deterioration in large programme performance across the Group, a deterioration in profitability arising from cost base inflation, a deterioration in the Group's working capital position and a regulator imposed cessation in flying two of the largest aircraft fleets in the Group. These sensitivities did not present any material uncertainties in relation to the Group's ability to continue as a going concern.

Having considered these matters, 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.

1. Basis of preparation and significant accounting policies (continued)

Key sources of estimation uncertainty

The application of the Group's accounting policies requires the use of estimates. The key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are set out below:

- **Revenue and profit recognition:** The Group's revenue recognition policies are set out in note 1 of the annual report for the year ended 31 March 2022. Management estimates outturn costs on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel. Estimates of cost to complete include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge, and judgements and estimates are reviewed regularly throughout the contract life based on latest available information and adjustments are made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn. One key contract for the Group includes a critical estimate around the realisation of future transformational savings. If these savings fail to be realised, this will impact on the margin for this contract and could result in a reduction to revenue and contract assets, and therefore profit, of £18 million.
- **Defined benefit pension schemes obligation:** The Group's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit pension obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit pension obligation. In addition to the inflation and discount rate estimates, a key estimation relates to the expected availability of future accounting surpluses under IFRIC 14. In the annual report and financial statements for the year ended 31 March 2022, note 27 provided a sensitivity analysis of the Group's defined benefit pension schemes.
- **The carrying value of goodwill:** Goodwill is tested annually for impairment based on assumptions in relation to the cash flows expected to be generated by cash generating units, together with appropriate discounting of the cash flows. The assessment of the carrying value of goodwill is included as a critical accounting estimate given the significance of the remaining carrying value of goodwill and the inherent level of estimation uncertainty required to undertake impairment testing. In the annual report and financial statements for the year ended 31 March 2022, note 12 provided a sensitivity indicator regarding the impairment of goodwill.
- **Inflation:** The level to which the Group's revenue and cost for each contract will be impacted by inflation is a key accounting estimate, as this could cause the cost of contract delivery to be greater than was expected at the time of contracting. The Group's contracts are exposed to inflation due to rising employment costs, as well as increased costs of raw materials.

Critical accounting judgements

Critical accounting judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below:

- **Revenue and profit recognition:** A number of the Group's contracts include promises in relation to procurement activity undertaken on behalf of customers at low or nil margin, sub-contractor arrangements, and other pass-through costs. Management is required to exercise judgement on these revenue streams in considering whether the Group is acting as principal or agent. This is based on an assessment as to whether the Group controls the relevant goods or services under the performance obligations prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Group has under the contract for the provision of the goods or services, the extent to which the Group is incentivised to fulfil orders on time and within budget, either through gain share arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Group exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the Group then comes to a judgement as to whether it acts as principal or agent on a performance obligation-by-performance obligation basis. Note that any changes in this judgement would not have a material impact on profit, although there may be a material impact to revenue and cost of revenue.
- **Determining the Group's cash generating units:** Management exercises judgement in determining the Group's operating segments. This determination is generally straightforward and factual, however in some cases judgement is required. There have been no changes to the operating segments in the current period.

Identification of prior period restatements

The results of the Group have been restated where practicable by retrospectively restating the Group's prior period results for the affected periods. Any restatements identified relating to reporting periods before 1 April 2021 have been corrected by cumulatively restating the impacted balance sheet line item, including retained earnings, at 1 April 2021.

2. Adjustments between statutory and underlying information

Definition of underlying measures and exceptional items

The Group provides alternative performance measures, including underlying operating profit, to enable users to better understand the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. They are used by management to assess operating performance and as a basis for forecasting and decision-making, as well as the planning and allocation of capital resources. They are also understood to be used by investors in analysing business performance.

The Group's alternative performance measures are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies and they are not intended to be a substitute for, or superior to, measures defined under IFRS. The Group's alternative performance measures are consistent with the year ended 31 March 2022.

Underlying operating profit

Underlying operating profit excludes certain specific adjusting items that distort the reporting of underlying business performance measures if they are not adjusted for. Underlying operating profit eliminates potential differences in performance caused by purchase price allocations on business combinations in prior periods (amortisation of acquired intangibles), business acquisition, merger and divestment related items and large, infrequent restructuring programmes. Transactions such as these may happen regularly and could be lumpy and may be profits or losses. specific adjusting items include:

- Amortisation of acquired intangibles;
- Business acquisition, merger and divestment related items (being acquisitions and gains or losses on disposal of assets or businesses);
- Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography, including closure costs, severance costs, the disposal of assets and termination of leases;
- The costs of large restructuring programmes that significantly exceed the minor restructuring which occurs in most years as part of normal operations. Restructuring costs incurred as a result of normal operations are included in operating costs and are not excluded from underlying operating profit;
- Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes;
- Fair value gain/(loss) on open forward rate contracts that will be settled in future periods; and
- Exceptional items that are significant, non-recurring and outside of the normal operating practice. These items are described as exceptional in order to appropriately represent the Group's underlying business performance. Exceptional items are set out in the Exceptional items section below.

Income statement including underlying results

	Six months ended 30 September 2022			Six months ended 30 September 2021 (restated)		
	Underlying £m	Specific Adjusting Items £m	Statutory £m	Underlying £m	Specific Adjusting Items £m	Statutory £m
Revenue	2,144.0	–	2,144.0	2,126.1	–	2,126.1
Operating profit/(loss)	121.7	(48.9)	72.8	115.3	(39.9)	75.4
Other income	–	–	–	6.2	–	6.2
Share of results of joint ventures and associates	6.6	–	6.6	9.6	–	9.6
Net finance costs	(22.7)	(5.5)	(28.2)	(32.4)	–	(32.4)
Profit/(loss) before tax	105.6	(54.4)	51.2	98.7	(39.9)	58.8
Income tax (expense)/benefit	(23.1)	8.9	(14.2)	(19.6)	15.0	(4.6)
Profit/(loss) after tax for the year	82.5	(45.5)	37.0	79.1	(24.9)	54.2

2. Adjustments between statutory and underlying information (continued)

Earnings per share including underlying measures

	Six months ended 30 September 2022			Six months ended 30 September 2021 (restated)		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Profit/(loss) after tax for the year	82.5	(45.5)	37.0	79.1	(24.9)	54.2
Amount attributable to owners of the parent	80.1	(45.5)	34.6	77.1	(24.9)	52.2
Amount attributable to non-controlling interests	2.4	–	2.4	2.0	–	2.0
Weighted average number of shares (m)	505.3		505.3	505.0		505.0
Effect of dilutive securities (m)	9.9		9.9	6.3		6.3
Diluted weighted average number of shares (m)	515.2		515.2	511.3		511.3
Basic EPS	15.8p	(9.0)p	6.8p	15.3p	(5.0)p	10.3p
Diluted EPS	15.5p	(8.8)p	6.7p	15.1p	(4.9)p	10.2p

Details of specific adjusting items

The impact of specific adjusting Items is set out below:

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 (restated) £m
Amortisation of acquired intangibles	(8.1)	(10.6)
Business acquisition, merger and divestment related items	(12.1)	(21.1)
Fair value loss on forward rate contracts to be settled in future periods	(28.7)	–
Derivative fair value movement and foreign exchange retranslation in respect of leases	(5.5)	–
Restructuring	–	(9.4)
Exceptional items	–	1.2
	(54.4)	(39.9)
Income tax benefit		
Amortisation of acquired intangibles	2.1	2.6
Business acquisition, merger and divestment related items	1.7	–
Fair value loss on forward rate contracts	5.1	–
Restructuring	–	1.7
Tax on exceptional items	–	(0.5)
Exceptional tax items – change in UK tax rate	–	11.2
	8.9	15.0

Explanation of specific adjusting items

Amortisation of acquired intangibles

Underlying operating profit excludes the amortisation of acquired intangibles. This item is excluded from underlying results as it arises as a result of purchase price allocations on business combinations, and is a non-cash item which does not change each year dependent on the performance of the business. It is therefore not considered to represent the underlying activity of the Group. Intangible assets arising as a result of the purchase price allocation on business combinations include customer lists, technology-based assets, order book and trade names. Amortisation of internally generated intangible assets is included within underlying operating profit.

Fair value loss on forward rate contracts to be settled in future periods

These are open forward currency contracts, taken out in the ordinary course of business to manage foreign currency exposures, where the transaction will occur in future periods. On maturity the currency contract will be closed, and recognised in full within underlying operating profit at the same time as the hedged sale or purchase. The net result, at that time, will then more appropriately reflect the related sales price or supplier cost being hedged (which is fixed to ensure ultimately profitable outcomes). Gains or losses in the meantime are only timing related. There is no prior period comparator given the movement in market values in that period were small.

2. Adjustments between statutory and underlying information (continued)

Derivative fair value movement and foreign exchange retranslation in respect of leases

The fair value movement on lease-related derivatives and foreign exchange movements on lease liabilities are presented as a specific adjusting item. This is caused by market imperfections, as it is not possible to match the full lease term with readily available forward rate contracts due to the length of the leases.

Business acquisition, merger and divestment related items

Transaction related costs and gains or losses on acquisitions, mergers and divestments of businesses are excluded from underlying operating profit as business combinations and divestments are not considered to result from underlying business performance. The total loss relating to business acquisitions, mergers and divestment related items was £12.1 million. This is comprised of professional fees and other related costs, including foreign currency movements on transaction related funding arrangements, incurred for transactions which are expected to complete during FY23.

The prior period included a total net loss relating to business acquisition, merger and divestment related items of £21.1 million. Of this, £16.3 million related to the disposal of the Group's Oil and Gas business. Further detail is included in note 15. The remaining £4.8 million related to professional fees and other related costs incurred in relation to the Group's divestment programme for transactions which were not completed at 30 September 2021.

Restructuring

In the prior period the Group incurred £10.8 million of charges in relation to the new operating model programme. This was offset by the release of restructuring provision totalling £1.4 million.

Exceptional items

Exceptional items are those items which are significant, non-recurring and outside the normal operating practice of the Group.

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 (restated) £m
Operating costs		
Onerous contracts	–	0.6
Other	–	0.6
Exceptional items – Group	–	1.2
Tax on exceptional items	–	(0.5)
Exceptional items – net of tax	–	0.7

3. Prior period restatements

In the year ended 31 March 2022, the Group restated the prior period financial information. The impact of these restatements on underlying operating profit for the six months ended 30 September 2022 was £nil million. The restatements are summarised below:

Impact on the income statement for the six months ended 30 September 2021

	Six months ended 30 September 2021 (previously published)	(i) Principal vs agent	Six months ended 30 September 2021 (restated)
Group income statement			
Revenue	2,223.0	(96.9)	2,126.1
Cost of revenue	(1,986.1)	96.9	(1,889.2)
Administration and distribution expenses	(145.2)	–	(145.2)
Loss from divestments	(16.3)	–	(16.3)
Other income	6.2	–	6.2
Share of results of joint ventures and associates	9.6	–	9.6
Finance income	5.6	–	5.6
Finance costs	(38.0)	–	(38.0)
Profit before tax	58.8	–	58.8
Income tax expense	(4.6)	–	(4.6)
Profit for the period	54.2	–	54.2
Impact on basic earnings per share (pence)	10.3p	–	10.3p
Impact on diluted earnings per share (pence)	10.2p	–	10.2p

3. Prior period restatements (continued)

Six months ended 30 September 2021 – Group statement of other comprehensive income (extract)

	Six months ended 30 September 2021 (previously published	(ii) Pensions	Six months ended 30 September 2021 (restated)
Other comprehensive income/(loss)			
Remeasurement of retirement benefit obligations	168.0	(54.3)	113.7
Tax, including rate change impact, on remeasurement of retirement benefit obligations	(27.1)	13.6	(13.5)

31 March 2022 – Group statement of financial position (extract)

	31 March 2022 (previously published)	(iii) Acquisition accounting adjustment	31 March 2022 (restated)
Assets			
Non-current assets			
Goodwill	782.4	0.5	782.9
Other intangible assets	175.7	1.6	177.3
Deferred tax asset	47.0	0.3	47.3
Total non-current assets *	2,461.1	2.4	2,463.5
Liabilities			
Current liabilities			
Provisions	(53.2)	(2.4)	(55.6)
Current liabilities *	(2,480.3)	(2.4)	(2,482.7)
Equity			
Retained earnings	1,241.4	–	1,241.4
Total equity *	(701.5)	–	(701.5)

* The table above includes only those financial statement line items which have been restated. The total non-current assets, non-current liabilities, and equity do not therefore represent the sum of the line items presented above.

i. Principal versus agency assessment

The Group has re-examined the presentation of revenue and cost of revenue in relation to pass-through revenue on three of the Group's contracts. The Group had previously taken the judgement that it acted as a principal in these arrangements, informed by the contractual terms and practical delivery of the contract to the customer. Following the transition to the Group's new auditors, this has been further considered and the Group has reassessed this judgement, which had always been a finely balanced one. This change of judgement, and the resultant accounting policy, means that revenue and cost of revenue are now presented net for these contracts. Restatement of the financial information in accordance with the new accounting policy results in a decrease in revenue and cost of revenue of £96.9 million in the six months ended 30 September 2021. There is no impact to reported profit or cash flow as a result of this adjustment.

ii. Pensions

Allowance for the 2021 pension increases in the 31 March 2021 benefit obligation

Furthermore, a refinement in the calculation of the value of defined benefit obligation for the principal schemes now allows for the inclusion of the actual known rate of the next pension increase, rather than using the longer-term assumed inflation rate of pension increases. This approach was not followed in the six months ended 30 September 2021. Application of the correct methodology at 31 March 2021 results in a reduction to the Remeasurement of retirement benefit obligations through the statement of other comprehensive income of £54.3 million, due to actual inflation being lower than assumed long-term inflation as at 30 September 2021.

This approach was followed for the year ended 31 March 2022, therefore there is no impact on the comparative statement of financial position.

iii. NSM – acquisition accounting

Under IFRS 3, the Group is required to adjust amounts recognised through the acquisition accounting for new information obtained about facts and circumstances that existed at the acquisition date. Post-acquisition, we have determined that assumptions used to calculate a pain/gain share provision did not reflect the facts and circumstances at the acquisition date. This has resulted in an increase to provisions of £2.4 million at 31 March 2022. The reduction in net assets acquired has increased the goodwill by £0.5 million, increased acquired intangibles by £1.6 million, increased deferred tax assets by £0.3 million at 31 March 2022.

4. Segmental information

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

Marine – through-life support of naval ships, equipment and marine 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.

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

Six months ended 30 September 2022	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	666.4	558.2	478.2	441.2	–	2,144.0
Underlying operating profit	47.3	30.1	38.0	6.3	–	121.7
Specific adjusting items						
Amortisation of acquired intangibles	(5.1)	–	(0.6)	(2.4)	–	(8.1)
Business acquisition, merger and divestment related items	–	–	(0.3)	(11.8)	–	(12.1)
Fair value (loss)/gain on forward rate contracts	(37.8)	0.1	–	9.0		(28.7)
Operating profit	4.4	30.2	37.1	1.1	–	72.8
Share of results of joint ventures and associates	0.2	0.7	–	5.7	–	6.6
Net finance costs	–	–	0.4	–	(28.6)	(28.2)
Profit/(loss) before tax	4.6	30.9	37.5	6.8	(28.6)	51.2

Six months ended 30 September 2021 (restated *)	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	627.4	516.3	510.1	472.3	–	2,126.1
Underlying operating profit	38.9	36.2	29.8	10.4	–	115.3
Specific adjusting items						
Acquired intangible amortisation	(0.1)	–	(0.6)	(9.9)	–	(10.6)
Business acquisition, merger and divestment related items	–	–	–	(16.3)	(4.8)	(21.1)
Restructuring costs	(1.7)	1.5	(4.7)	(1.4)	(3.1)	(9.4)
Exceptional items	–	0.6	0.3	0.3	–	1.2
Operating profit/(loss)	37.1	38.3	24.8	(16.9)	(7.9)	75.4
Other income	–	–	–	–	6.2	6.2
Share of results of joint ventures and associates	2.0	–	2.1	5.5	–	9.6
Net finance costs	–	–	0.4	–	(32.8)	(32.4)
Profit/(loss) before tax	39.1	38.3	27.3	(11.4)	(34.5)	58.8

5. Net finance costs

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 (restated) £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	22.5	23.0
Lease interest and associated hedges	13.1	10.1
Retirement benefit interest	–	2.6
Other	2.7	2.3
Total finance costs	38.3	38.0
Finance income		
Bank deposits, loans and leases	6.1	5.2
IFRIC 12 investment income	0.4	0.4
Retirement benefit interest	3.6	–
Total finance income	10.1	5.6
Net finance costs	28.2	32.4

6. Income tax expense

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 £m
Taxation expense	(14.2)	(4.6)
Calculation of effective tax rate		
Profit before tax	51.2	58.8
Deduct: Equity accounted investments	(6.6)	(9.6)
Add back specific adjusting items	54.4	39.9
Other income	–	(6.2)
Adjusted profit before tax	99.0	82.9
Tax charge	14.2	4.6
Exclude one-off tax benefits	–	11.2
Exclude tax adjustments in respect of specific adjusting items	8.9	3.8
Adjusted tax charge	23.1	19.6
Effective tax rate	23.3%	23.6%

The tax charge has been calculated by applying the effective rate of tax which the Group expects to incur for the year to 31 March 2023 in each jurisdiction in which it operates.

As at 30 September 2021, an increase in the UK rate of corporation tax had been substantively enacted, from 19% to 25%, with effect from 1 April 2023. An adjustment was made in the financial statements for the six months ended 30 September 2021 to reflect the fact that a portion of UK deferred tax balances were expected to unwind at 25%. This adjustment was recorded as a non-recurring gain of £11.2 million in the group income statement within specific adjusting items together with a non-recurring gain of £6.5 million in the group statement of comprehensive income.

7. Goodwill

	30 September 2022 £m	31 March 2022 (restated) £m
Cost		
At 1 April	2,312.2	2,487.3
On disposal of subsidiaries	–	(197.9)
Additions	–	21.8
Exchange adjustments	0.2	1.0
At 30 September / 31 March	2,312.4	2,312.2
Accumulated impairment		
At 1 April	1,529.3	1,531.0
On disposal of subsidiaries	–	(8.9)
Impairment	–	7.2
Exchange adjustments	–	–
At 30 September / 31 March	1,529.3	1,529.3
Net book value at 30 September / 31 March	783.1	782.9

Goodwill is allocated to the operating segments as set out in the table below:

	30 September 2022 £m	31 March 2022 £m
Marine	297.5	297.2
Nuclear	233.1	233.1
Land	218.6	218.6
Aviation	32.0	32.0
Africa	1.9	2.0
	783.1	782.9

Goodwill is stated at cost less any provision for impairment and is compared against the recoverable amount at least annually. The recoverable value of each cash generating unit was assessed at 31 March 2022 by reference to value-in-use calculations. The value-in-use calculations were derived from risk-adjusted cash flows from the Group's five-year plan and nominal growth rates between 1.8% and 2.5% were used to establish terminal value assessments. There have been no changes to the Group's key assumptions in the six months ended 30 September 2022 since the published annual report and financial statements for the year ending 31 March 2022. The key assumptions can be found in note 12 of that report. The process by which the Group's budget is prepared, reviewed and approved benefits from historical experience, visibility of long–term work programmes in relation to work undertaken for the UK Government, available government spending information (both UK and overseas), the Group's contract backlog, bid pipeline and the Group's tracking pipeline which monitors opportunities prior to release of tenders. The budget process includes consideration of risks and opportunities at contract and business level and considered matters such as COVID-19, climate change and inflation.

Goodwill is required to be tested for impairment at least once every financial year, irrespective of whether there is any indication of impairment. The Group's annual impairment review typically occurs at year end. However, if indicators of impairment are present, an earlier review is also required. The Group has assessed the goodwill balance for both internal and external impairment indicators and no impairment indicators were identified. Management will prepare a full goodwill impairment assessment in the final quarter of the year.

8. Property, plant and equipment

In the six months ended 30th September 2022 the Group made the following significant additions to property, plant and equipment:

- £15.1 million investment into site improvements at Devonport Royal Dockyard;
- £12.7 million investment into purchase of CNC machines and other site improvements at Rosyth; and
- £5.9 million investment into fit out and site improvement at Bristol Technology Centre.

9. Trade and other receivables and contract assets

	30 September 2022 £m	31 March 2022 £m
Non-current assets		
Costs to obtain a contract	5.8	8.9
Costs to fulfil a contract	2.2	0.8
Other debtors	2.8	–
Non-current trade and other receivables	10.8	9.7
Current assets		
Trade receivables	267.8	311.5
Less: provision for impairment of receivables	(12.9)	(14.6)
Trade receivables – net	254.9	296.9
Retentions	4.6	4.4
Amounts due from related parties (note 16)	2.7	2.0
Other debtors	147.0	106.2
Prepayments	86.7	71.1
Costs to obtain a contract	1.7	7.6
Costs to fulfil a contract	12.5	0.6
Trade and other receivables	510.1	488.8
Contract assets	406.3	299.3
Current trade and other receivables and contract assets	916.4	788.1

Trade and other receivables are stated at amortised cost less expected credit loss.

10. Trade and other payables and contract liabilities

	30 September 2022 £m	31 March 2022 £m
Current liabilities		
Trade creditors	212.6	164.7
Amounts due to related parties (note 16)	0.7	1.5
Other creditors	38.5	26.9
Other taxes and social security	68.9	76.6
Accruals	682.4	618.4
Trade and other payables	1,003.1	888.1
Contract liabilities	493.1	518.3
Trade and other payables and contract liabilities	1,496.2	1,406.4
Non-current liabilities		
Other creditors	1.1	1.0

Included in creditors is £19.5 million (31 March 2022: £6.7 million) relating to capital expenditure which has therefore not been included in working capital movements within the cash flow.

11. Financial instruments

The following table presents the Group's assets and liabilities:

30 September 2022 (£m)	Financial assets at fair value	Financial assets at amortised cost	Financial liabilities at fair value	Financial liabilities at amortised cost	Total carrying amount	Fair value
Non-current financial assets						
Investment in joint ventures and associates	–	58.7	–	–	58.7	58.7
Loans to joint ventures and associates	–	10.1	–	–	10.1	10.1
Financial assets	11.1	9.5	–	–	20.6	20.6
Lease receivables	–	23.2	–	–	23.2	23.2
Current financial assets						
Trade and other receivables *	–	314.3	–	–	314.3	314.3
Lease receivables	–	22.2	–	–	22.2	22.2
Derivatives	32.2	–	–	–	32.2	32.2
Cash and cash equivalents	–	1,137.9	–	–	1,137.9	1,137.9
Non-current financial liabilities						
Bank and other borrowings	–	–	–	(963.8)	(963.8)	(817.7)
Trade and other payables	–	–	–	(0.9)	(0.9)	(0.9)
Derivatives	–	–	(46.0)	–	(46.0)	(46.0)
Current financial liabilities						
Bank and other borrowings	–	–	–	(805.7)	(805.7)	(805.7)
Trade and other payables *	–	–	–	(545.3)	(545.3)	(545.3)
Derivatives	–	–	(60.4)	–	(60.4)	(60.4)
Net financial assets / (financial liabilities)	43.3	1,575.9	(106.4)	(2,315.7)	(802.9)	(656.8)

* Trade and other receivables and trade and other payables only include balances which meet the definition of a financial instrument.

31 March 2022 (£m)	Financial assets at fair value	Financial assets at amortised cost	Financial liabilities at fair value	Financial liabilities at amortised cost	Total carrying amount	Fair value
Non-current financial assets						
Investment in joint ventures and associates	–	54.3	–	–	54.3	54.3
Loans to joint ventures and associates	–	12.1	–	–	12.1	12.1
Financial assets	–	10.0	–	–	10.0	10.0
Lease receivables	–	24.1	–	–	24.1	24.1
Current financial assets						
Trade and other receivables *	–	335.3	–	–	335.3	335.3
Lease receivables	–	23.3	–	–	23.3	23.3
Derivatives	11.4	–	–	–	11.4	11.4
Cash and cash equivalents	–	1,146.3	–	–	1,146.3	1,146.3
Non-current financial liabilities						
Bank and other borrowings	–	–	–	(847.7)	(847.7)	(819.6)
Derivatives	–	–	(59.3)	–	(59.3)	(59.3)
Current financial liabilities	–	–				
Bank and other borrowings	–	–	–	(863.4)	(863.4)	(833.1)
Trade and other payables *	–	–	–	(460.0)	(460.0)	(460.0)
Derivatives	–	–	(34.8)	–	(34.8)	(34.8)
Net financial assets / (financial liabilities)	11.4	1,605.4	(94.1)	(2,171.1)	(648.4)	(590.0)

* Trade and other receivables and trade and other payables only include balances which meet the definition of a financial instrument.

12. Provisions for other liabilities

	Contract/ warranty (a) £m	Employee benefits and business reorganisation costs £m	Property (b) £m	Other (c) £m	Total provisions £m
At 31 March 2022 as previously stated	51.1	39.7	21.0	1.7	113.5
Prior period restatement (note 3)	2.4	–	–	–	2.4
At 31 March 2022 restated	53.5	39.7	21.0	1.7	115.9
Net charge to income statement	2.9	1.4	4.2	0.2	8.7
Utilised in year	(4.3)	(7.5)	(1.1)	(0.9)	(13.8)
Foreign exchange	1.1	0.2	0.6	–	1.9
At 30 September 2022	53.2	33.8	24.7	1.0	112.7

Provisions are analysed between current and non-current as follows:

	30 September 2022 £m	31 March 2022 £m
Current	73.4	55.6
Non-current	39.3	60.3
	112.7	115.9

(a) The contract/warranty provisions relate to onerous contracts and warranty obligations on completed contracts and disposals. Warranty provisions are provided in the normal course of business and are recognised when the underlying products and services are sold. The provision is based on an assessment of future claims with reference to historical warranty data and a weighting of possible outcomes against their associated probabilities.

(b) Property and other provisions primarily relate to dilapidation costs and contractual obligations in respect of infrastructure.

(c) Other provisions include provisions for insurance claims arising within the Group's captive insurance company, Chepstow Insurance Limited. They relate to specific claims assessed in accordance with the advice of independent actuaries. Also included in other provisions is £0.3 million relating to the Italian Anti-Trust fine.

Included within provisions is £7.1 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. Changes in net debt excluding loans to joint ventures and associates and lease receivables

	31 March 2022 £m	Cash flow £m	Additional leases £m	Other non-cash movement £m	Re-designation of derivative £m	Changes in fair value £m	Exchange movement £m	30 September 2022 £m
Cash and bank balances	1,146.3	(9.5)	–	–	–	–	1.1	1,137.9
Bank overdrafts	(389.8)	67.0	–	–	–	–	–	(322.8)
Cash, cash equivalents and bank overdrafts	756.5	57.5	–	–	–	–	1.1	815.1
Debt	(1,321.3)	(92.6)	–	(1.6)	–	–	(31.2)	(1,446.7)
Lease liabilities	(434.1)	54.2	(37.0)	0.8	–	–	(13.5)	(429.6)
Derivative designated as hedge of Group debt	(29.3)	–	–	–	(36.1)	31.7	–	(33.7)
Changes in liabilities from financing arrangements	(1,784.7)	(38.4)	(37.0)	(0.8)	(36.1)	31.7	(44.7)	(1,910.0)
Lease receivables	47.4	(14.0)	14.3	–	–	–	(2.3)	45.4
Net debt before loans to joint ventures and associates	(980.8)	5.1	(22.7)	(0.8)	(36.1)	31.7	(45.9)	(1,049.5)
Loans to joint ventures and associates	12.1	(2.0)	–	–	–	–	–	10.1
Net debt excluding loans to joint ventures and associates and lease receivables	(968.7)	3.1	(22.7)	(0.8)	(36.1)	31.7	(45.9)	(1,039.4)

14. Retirement benefits and liabilities

The fair value of the assets and the present value of the liabilities of the Group pension schemes at 30 September were as follows:

	30 September 2022 £m	31 March 2022 £m
Fair value of plan assets		
Growth assets		
Equities	30.8	76.5
Property funds	367.4	369.2
High yield bonds/emerging market debt	17.6	44.5
Absolute return and multi-strategy funds	221.5	260.7
Low-risk assets		
Bonds	1,842.2	2,078.8
Matching assets*	1,210.4	2,197.1
Longevity swaps	(207.8)	(293.7)
Fair value of assets	3,482.1	4,733.1
Percentage of assets quoted	100%	100%
Percentage of assets unquoted	–	–
Present value of defined benefit obligations		
Active members	533.4	857.5
Deferred pensioners	855.2	1,292.4
Pensioners	1,946.1	2,391.6
Total defined benefit obligations	3,334.7	4,541.5
Net (liabilities)/assets recognised in the statement of financial position	147.4	191.6

* A number of the Group's pension schemes invest in segregated portfolios, pooled investment vehicles and derivatives contracts, commonly known as Liability Driven Investments (LDI's). The trustees have authorised the use of derivatives by the investment managers for efficient portfolio management purposes including to reduce certain investment risks such as interest rate risk and inflation risk. The principal investment in derivatives are gilt repurchase agreements, interest rate and inflation swaps in the liability matching portfolio and total return swaps in the return seeking portfolio. These derivatives are included within the matching assets and equities classifications. The matching assets category includes gross assets of £3,012 million (March 2022: £3,966 million) and associated repurchase agreement liabilities of £1,873 million (March 2022: £1,872 million). Repurchase agreements are entered into with counterparties to better offset the schemes exposures to interest and inflation rates, whilst remaining invested in assets of a similar risk profile.

Analysis of movement in the Group statement of financial position.

	30 September 2022 £m	31 March 2022 £m
Fair value of plan assets (including reimbursement rights)		
At 1 April	4,733.1	4,623.6
Interest on assets	63.2	92.2
Actuarial (loss)/gain on assets	(1,262.6)	88.4
Employer contributions	92.7	190.2
Employee contributions	0.1	0.2
Benefits paid	(144.4)	(261.5)
As at period end	3,482.1	4,733.1
Present value of benefit obligations		
At 1 April	4,541.5	4,902.5
Service cost	13.1	31.1
Incurred expenses	3.4	7.4
Interest cost	59.6	95.9
Employee contributions	0.1	0.2
Experience losses	171.7	54.0
Actuarial loss/(gain) – demographics	10.3	(15.0)
Actuarial (gain)/loss – financial	(1,320.6)	(273.1)
Benefits paid (including transfers)	(144.4)	(261.5)
As at period end	3,334.7	4,541.5
Net asset at period end	147.4	191.6

14. Retirement benefits and liabilities (continued)

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

	30 September 2022 £m	30 September 2021 £m
Current service cost	13.1	15.8
Incurred expenses	3.4	3.7
Total included within operating profit	16.5	19.5
Net interest (credit)/cost	(3.6)	2.6
Total included within income statement	12.9	22.1

As at 30 September 2022 the key assumptions used in valuing pension liabilities were:

Discount rate 4.7% - 5.1% (31 March 2022: 2.7%)

Inflation rate (RPI) 12.2% for one year and long-term rates of 3.5% - 3.7% (31 March 2022: 3.7%)

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

On 11 March 2021, the Group announced that it had entered into a sale and purchase agreement to dispose of the Oil and Gas business, which provides offshore Oil and Gas crew transportation services in the UK, Denmark and Australia. The disposal was made as part of the Group's targeted disposals programme. The disposal completed on 1 September 2021, on which date control of the Oil and Gas business passed to CHC Group LLC. The Group received consideration of £10 million.

	Six months ended 30 September 2021
	Oil & Gas £m
Goodwill	0.7
Property, plant and equipment	15.1
Right-of-use assets	125.8
Deferred tax asset	23.2
Inventory	3.6
Current assets	48.3
Lease liabilities	(129.7)
Deferred tax liabilities	(13.4)
Current liabilities	(40.7)
Provisions for other liabilities and charges	(1.3)
Net assets disposed	31.6
Disposal costs	2.0
Cumulative currency translation gain	(7.3)
Loss on disposal	(16.3)
Sale proceeds	10.0
Less costs paid in the year	(2.0)
Net cash inflow	8.0

16. Related party transactions

Related party transactions for the six months ended 30 September 2022 are: sales to joint ventures and associates of £18.8 million (six months ended 30 September 2021: £18.8 million) and purchases from joint ventures and associates of £nil million (six months ended 30 September 2021: £0.1 million).

For annualised key management compensation, please refer to note 7 and the Remuneration Report in the annual report and financial statements for the year ended 31 March 2022.

For transactions with Group defined benefit pension schemes, please refer to note 14 above and note 27 in the annual report and financial statements for the year ended 31 March 2022.

30 September 2022	Revenue to (£m)	Purchases from (£m)	Period end receivables balance (£m)	Period end payables balance (£m)
Alert Communications Limited	4.7	–	0.8	–
Babcock Mission Critical Services Limited	–	–	–	–
AirTanker Services Limited	4.9	–	–	–
Advanced Jet Training Limited	1.0	–	0.2	–
Rear Crew Training Limited	0.3	–	–	–
Ascent Flight Training (Management) Limited	0.6	–	0.1	–
Fixed Wing Training Limited	1.5	–	0.4	–
Rotary Wing Training Limited	1.9	–	–	–
First Swietelsky Operation and Maintenance	3.9	–	1.2	(0.7)
	18.8	–	2.7	(0.7)

30 September 2021	Revenue to (£m)	Purchases from (£m)	Period end receivables balance (£m)	Period end payables balance (£m)
Alert Communications Limited	2.8	–	0.9	–
Babcock Mission Critical Services Limited	–	(0.1)	–	–
AirTanker Services Limited	6.0	–	–	–
Advanced Jet Training Limited	0.7	–	0.2	–
Rear Crew Training Limited	1.2	–	–	–
Ascent Flight Training (Management) Limited	1.0	–	–	–
Fixed Wing Training Limited	1.4	–	–	–
Rotary Wing Training Limited	2.0	–	–	–
First Swietelsky Operation and Maintenance	3.7	–	1.5	(1.1)
	18.8	(0.1)	2.6	(1.1)

17. Contingent liabilities

A provision is recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of economic benefits will occur and the amount can be reliably estimated. A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. The Group does not recognise contingent liabilities. There are a number of contingent liabilities that arise in the normal course of business, including:

a) 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.

b) The nature of the Group's long-term contracts means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, including liabilities that arise on completion of contracts and on conclusion of relationships with joint ventures and associates. The Group takes account of the advice of experts, both internal and external, in making judgements on contractual issues and whether the outcome of negotiations will result in an obligation to the Group. The Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position.

c) As a large contracting organisation, the Group has a significant number of contracts with customers to deliver services and products, as well as with its supply chain, where the Group cannot deliver all those services and products itself. The Group is involved in disputes and litigation, which have arisen in the course of its normal trading in connection with these contracts. Whilst the Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position, it is possible that, if any of these disputes come to court, the court may take a different view to the Group.

d) The Group is subject to corporate and other tax rules in the jurisdictions in which it operates. Changes in tax rates, tax reliefs and tax laws, or interpretation of the law, by the relevant tax authorities may result in financial and reputational damage to the Group. This may affect the Group's financial condition and performance.

e) Corporate rules in those jurisdictions may also extend to compensatory trade agreements, or economic "offset" rules, where we may have to commit to use local content in delivering programmes of work. Delivery of offset is also subject to interpretations of law and agreement with local authorities, which we monitor closely but may give rise to financial and reputational damage to the Group if not undertaken appropriately.

18. Events after the reporting period

On 6 October 2022 the Group repaid a €550 million Eurobond from available cash resources, being the first tranche under the Eurobond programme. Future repayment dates for future tranches fall due in 2026 and 2027.

Interim financial information

Having on-boarded a new external auditor in the year ended 31 March 2022 and embarked on a wide-ranging internal controls improvement plan, we intend in future to ask our external auditors to perform an Interim Review. For this current Interim Statement we decided, rather than prioritise an Interim Review, we should invest our time and resource and that of Deloitte, to complete the detailed planning of the audit for the year ending 31 March 2023 and to progress further the controls improvement plan, as well as filing all of the Group's subsidiary statutory accounts for the year ended 31 March 2022. This should enable a more timely publication of our results for the year ending 31 March 2023.

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 United Kingdom adopted IAS 34 (Interim Financial Reporting); 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

David Mellors
Chief Financial Officer

22 November 2022